REVVING UP FOR THE NEW REGS

Regulatory compliance means financial and accounting systems users are busy buying software – as cheaply as possibly. Pat Sweet has more from our latest survey.

Scandals such as the collapse of Enron and other dotcom disasters have turned the spotlight on the quality and reliability of companies' financial systems, putting a sharper focus on the way final accounts are compiled. The result has been an array of additional regulatory requirements designed to ensure organisations can demonstrate exactly how their numbers add up.

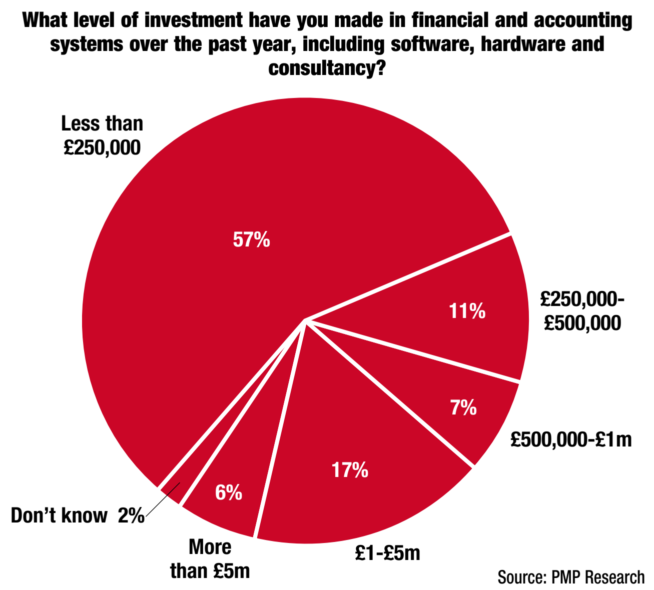
This year's PMP Research survey of financial, accounting and reporting systems shows that many companies are starting to recognise that their existing financial systems require updating to meet these new demands, even if the cash to do so is often limited. Indeed, 30% of our sample report that they have either replaced or significantly upgraded their financial and accounting systems within the past year – 15% doing so within the last six months, and the remainder over a 7-12 month period (see Figure 1).

FIGURE 1: Lifespan of financial and accounting systems

A quarter (26%) reckon to have made big changes in the last one or two years, and 22% say they have made upgrades within a three to five-year timeframe. The proportion who have left systems alone for longer than that is much smaller, with only 9% last making a substantial upgrade as long as 10 years ago. The picture which emerges is one of almost ceaseless striving to keep systems up-to-date. Indeed, although more than half of the sample (58%) maintain that the typical lifecycle of a financial and accounting system is anything from six to 10 years, three-quarters accept that, in practice, systems are much more likely to last little more than two years.

However, it would be wrong to assume that all this activity equates to a bonanza for specialist accounting software vendors. Half of those IT buyers we polled (57%) admit to having spent less than £250,000 on their financial systems over the past year, including hardware, software and consultancy (see Figure 2). Going up the scale, 11% have invested between £250,000 and £500,000, and 7% have put in between £500,000 and £1 million.

FIGURE 2: Spending levels



However, there are some big spenders around, since 17% reckon to have put between £1 million and £5 million into their accounting systems in the same period, with 6% ploughing in more than £5 million. One reason for this continuing investment may be that, quite simply, companies remain disappointed with the performance of their original purchase. While none of them label their existing choice a complete failure, only a quarter (25%) feel that their software has completely met their original objectives and just 4% say these objectives have been exceeded.

FIGURE 3: Capability of current financial package

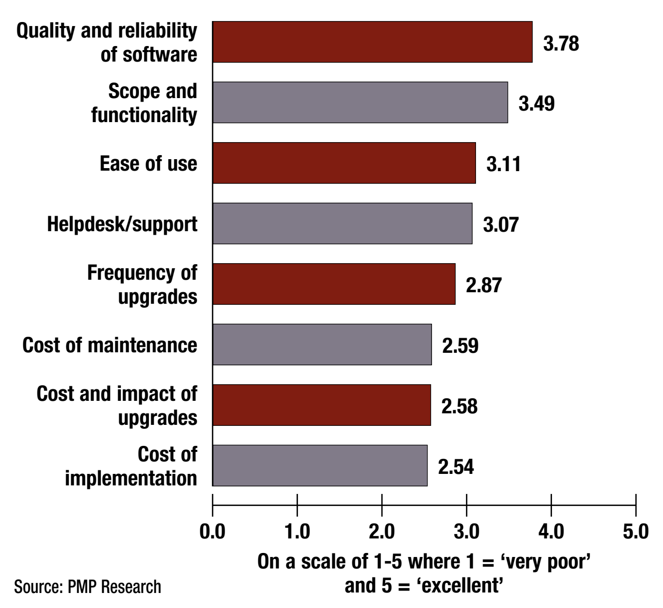
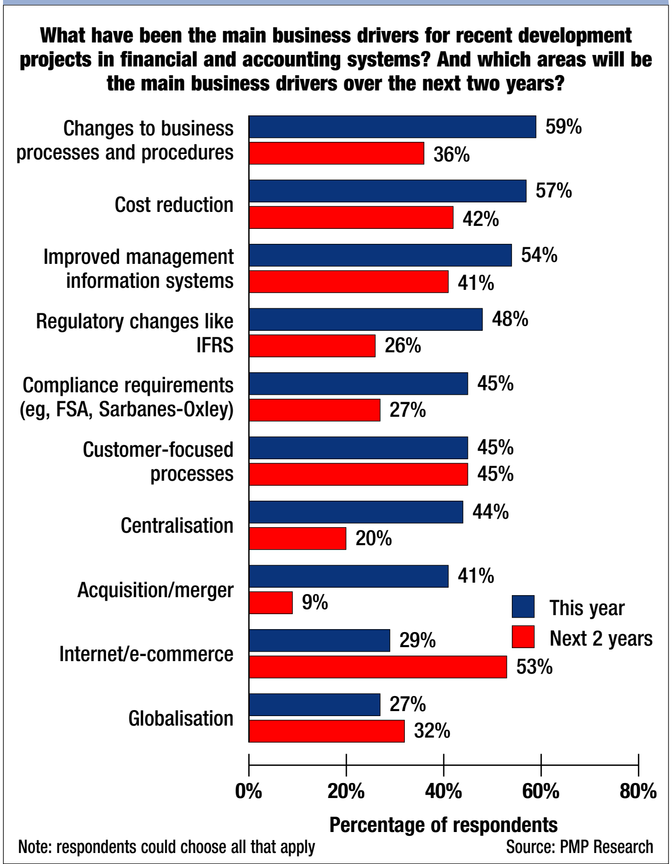


FIGURE 4: Key drivers for investment



The majority (69%) concede that their original objectives have been met 'to some extent'. But companies accept that a large part of the reason for this may lie within themselves, as failure to change internal processes ranks first in the list of reasons why financial systems have not delivered benefits as anticipated (cited by 56%). However, organisations do point the finger at the technology as well, with 40% claiming systems do not operate in the way their company wants to operate and 38% reporting problems with the software.

Poor or inadequate implementation approaches are viewed as another hazard to achieving full benefits (33%), as well as a lack of training (25%) and the fact that benefits are often not adequately assessed in the first place (14%). Looking at the software issues in more detail, it seems that a real difficulty for many companies remains the need to keep refreshing financial systems. We asked our sample to rate their current financial package in a number of key areas using a scale of 1 to 5, where 1 is 'very poor' and 5 is 'excellent'.

The aggregated results (see Figure 3) show that while companies are largely pleased with the quality and reliability of their software, which is reflected in a score of 3.78, they are much less happy about the frequency of upgrades (2.87), the cost of maintenance (2.59), and the cost and impact of upgrades (2.58). The cost of implementation is another major bugbear (2.54). In contrast, organisations find their financial packages have good scope and functionality (3.49) and are easy to use (3.11). Indeed, the majority are convinced that their current software is doing pretty much as expected, since 33% maintain that their package meets all of their functionality requirements and a further 47% believe their software matches somewhere between 60% and 80% of their requirements.

The pattern seems to be that while companies are broadly content with what their packages have to offer, getting the software to deliver and to keep on delivering what they want is much more of a challenge. This situation is certainly not helped by the constant round of legislative changes which have a direct impact on the performance of financial systems. This is particularly the case this year, as became clear when we asked the respondents to list their main business drivers for accounting systems development projects in 2005.

The two key objectives, perhaps not surprisingly given the current economic situation, are the need to accommodate changes to business processes and procedures (59%) and cost reduction (57%), closely followed by the desire to

FIGURE 5: One version of the truth?

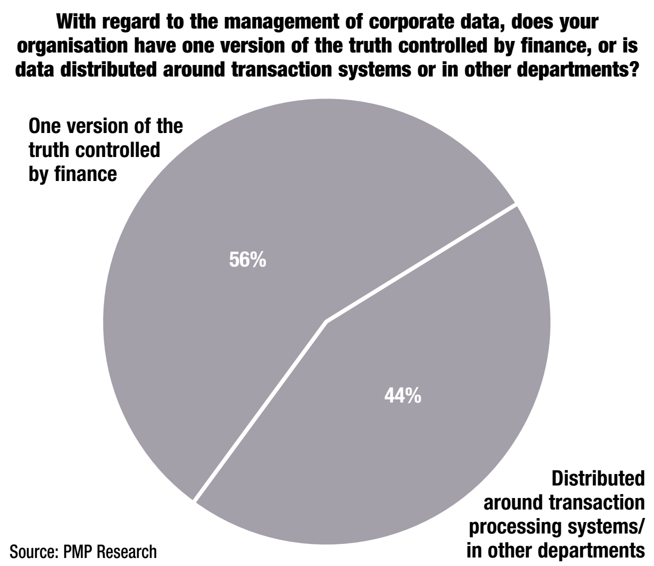
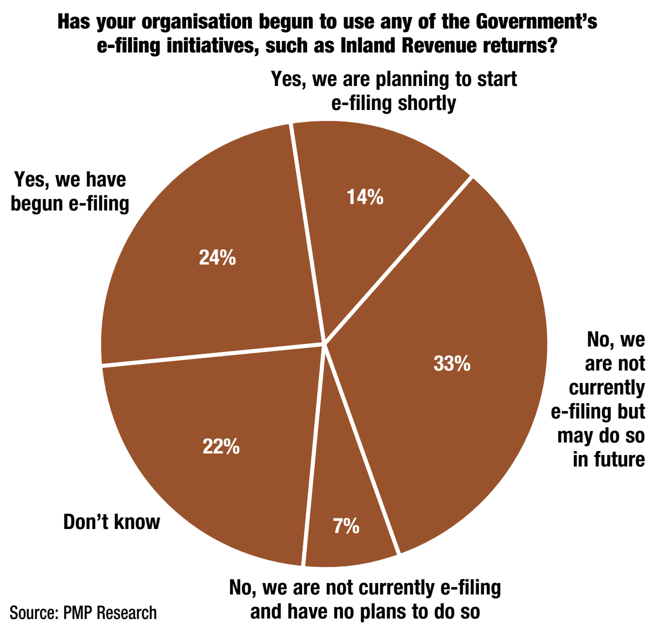


FIGURE 6: Take-up of government initiatives



improve management information systems (54%) – as shown in Figure 4. Significantly, however, 48% of companies also identify regulatory changes such as IFRS as a critical driver for development activity and 45% also cite compliance requirements such as Sarbanes-Oxley, Basel II and the demands of the FSA.

Developing systems which meet these regulatory requirements is currently deemed more important than exploring what web or e-commerce based systems could do to improve company performance. Only 29% of organisations have run development projects in this area in the past 12 months. But looking to the future, the situation is likely to reverse. The proportion who feel their development projects over the coming two years will be dictated by the demands of regulatory or compliance legislation drops to around a quarter (27% in the case of compliance demands and 26% in the case of regulatory changes).

Over the same period, almost twice as many (53%) expect that their development projects will be driven by the opportunities offered by the internet and e-commerce. This suggests that many companies expect to add the requisite regulatory or compliance functionality to their systems shortly, if they have not already done so. Yet virtually none say they will be buying new software to do this. Some, of course, will be addressing their needs internally. It is, however, significant that when asked to assess the impact of new regulations like IFRS on their existing financial system, a third (33%) say they do not know and only 5% rate the impact as substantial.

It may be that many companies are still finding out just how to meet these new demands. For some there may be considerable work involved – while 56% of our sample claim to have 'one version' of corporate data which is controlled by the finance department, the remaining 44% concede that much corporate data is distributed around transaction processing systems and in other departments, which will make creating a clear audit trail a major challenge (see Figure 5). As it is, the biggest slice of our sample (44%) agree that this situation gives rise to significant business control issues and risks; 23% deny that this is the case and the remaining third (33%) do not have a view on this question.

Organisations seem on surer ground when it comes to considering online working. The majority (60%) have implemented some form of website, e-business or e-procurement application. The most popular choice is online payment, cited by 53%, coupled with the facility to send or receive orders and/or invoices electronically (49%). The key benefit of such an approach is identified as no longer having to re-key transaction data, cited by 53%. Improved office efficiency (44%) is another plus, along with lower transaction costs (36%) and better management information (33%).

Based on their experiences so far, the majority (69%) plan to introduce more e-business enabled functionality into their financial systems, with only 6% ruling this out completely. The remaining quarter (25%) declare themselves undecided. E-procurement, electronic catalogues, e-tendering, self-service HR and internet expenses are just some of the online initiatives our respondents have under consideration.

The participants also show themselves to be enthusiastic about the Government's current crop of e-filing initiatives, such as the requirement for larger companies to file PAYE year-end information online to the Inland Revenue. A quarter (24%) have already begun e-filing with 14% intending to so do shortly (see Figure 6). A third (33%) are not currently e-filing but may consider this option in the future and just 7% have decided against this approach.

Overall, the findings of this year's survey suggest that many companies are at a crossroads with their financial systems. While internet and e-business applications have taken something of a back seat over the past year, most companies are quietly confident of doing more in this area. However, while regulatory and compliance issues have come to the fore, many companies are less sure about how to tackle these.

In order to get ready for major new legislation, and to take advantage of what new technology can offer, organisations have to look at the bigger picture rather than simply concentrate on one corner. This year's survey suggests that some have still not faced up to this challenge. While many recognise the importance of new legislative requirements and the potential offered by online working, there is much less enthusiasm for getting on with the developments which will turn those aspirations into reality.

SURVEY STATISTICS

We spoke to a wide cross-section of organisations for this year's survey into financial, accounting and reporting systems. Around a quarter (24%) have a turnover of between £10 million and £50 million, while 7% have turnovers of £50 million to £100 million, and 16% come into the £100 million to £150 million bracket. At the top of the range, 40% of our sample report an annual turnover of between £150 million and £1 billion, with 2% in the £1 billion to £5 billion slot and another 5% topping the £5 billion mark. We also sought the views of companies at the other end of the spectrum – 2% of our respondents have a turnover of less than £5 million and 4% have turnovers ranging between £5 million and £10 million.

The industry backgrounds of the companies are equally varied. A quarter are drawn from the public sector, where financial accountability has always been a key issue and 10% are from the financial services sector, which faces similar pressures for accurate disclosure. Other respondents are drawn from areas such as the chemical & pharmaceutical industry (7%), education (7%), manufacturing (6%), retail (6%), telecoms (4%) and automotive (2%), among others..

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