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Centralization for global statutory reporting

A closer look

Following an overwhelming response from our clients to our recent POV, "Finance and system transformation: Centralizing global statutory reporting"—which examines centralization as a more efficient, lower risk, cost-effective way to streamline global statutory reporting—the following article takes a closer look at initiatives companies should consider to standardize, automate, and effectively manage their internal processes in reaction to the ever-changing global regulatory environment.

The current state of global statutory reporting (GSR) continues to be largely decentralized with controllership teams using manual and complex processes, inconsistent policies, and perpetual changes in financial reporting disclosure requirements—posing data risks and inconsistencies. Not to mention drying up the time, energy, and budget of an entity's finance function. Many traditional reporting systems are inefficient across the board, providing lack of visibility into local data and offering inadequate mechanisms for coordinating cross-functional teams. The disaggregated, inefficient, and inconsistent processes may leave room for human error and could cause reputational harm to companies. In addition to the reputation risk, there are potentially significant internal and external costs tied up in the process.

The responsibility for solving this problem falls squarely on controllers, whose job is to find ways to proactively transform their global statutory reporting. With a centralized delivery model, controllers can create an opportunity to harmonize data coordination, unlock efficiencies throughout the finance organization, and standardize financial disclosures to drive compliance and transparency.

Global statutory reporting involves the preparation and filing of local financial statements and nonfinancial information at an individual legal-entity level. This reporting process presents complexities as each financial statement should be submitted in the local language and meet local accounting standards and report formats. As companies expand in scale and geographical footprint, implementing an efficient and effective statutory reporting process can become increasingly challenging. Even with finance teams leaning on modern enterprise resource planning (ERP) systems, the manual preparation of statutory reporting often leads to errors and inefficiencies.

With additional requirements on the horizon—including Pillar Two global minimum tax rules, sustainability reporting, and the Corporate Sustainability Reporting Directive (CSRD)—statutory reporting should not be viewed as a stand-alone compliance exercise. Leading companies are transforming how local reporting is completed by aligning skilled personnel, transforming inefficient processes, and leveraging new digital platforms to suggest many types of reporting.

Through conversations with our clients following our previous article, we have taken a deeper dive into specific areas of centralization as it relates to integrated data coordination, standardized financial disclosures, and the use of artificial intelligence (AI) and advanced key performance indicators (KPIs).

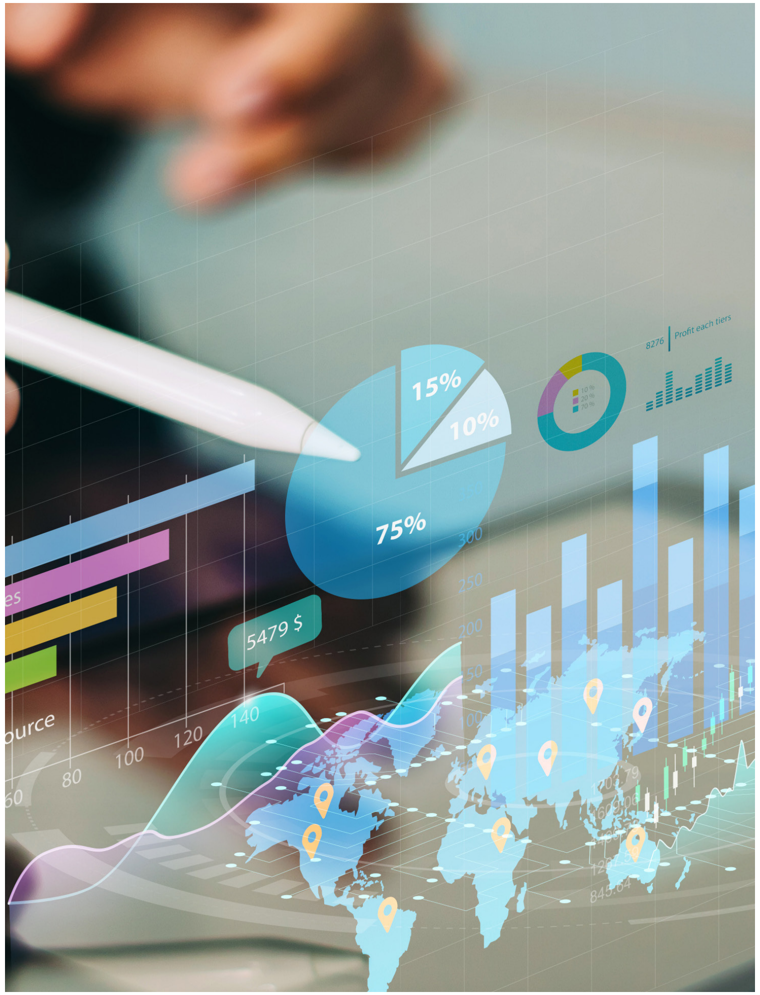
Integrated data coordination

What we heard from our clients is that they find instances where journal entries are being made that have no net impact on financial statements. Transactions are being accounted for that are so small they could never have a material impact on financial reporting. These are often symptoms of an outdated and decentralized data model that lacks a common strategy. When considering which trending transformation initiatives will provide the greatest impact to current statutory reporting processes in terms of cost and efficiency, companies are seeing a return through a refresh of the data model.

The data model is simply the flow of how transactions are recorded and ultimately reported. Through the deployment of a common data strategy and the use of common accounting policies, there is greater transparency into status, data accuracy, and consistency of data inputs across entities. Not only can teams feel immediate time savings over traditionally administrative tasks, such as data gathering and tracking, but teams also may have increased visibility into data inputs where future standardization could be applied.

Standardized financial disclosures

The adoption of standardized financial disclosures can streamline reporting processes and determine global consistency and transparency. This can be facilitated by a centralized model, where the centralized disclosure owner can prepare the global disclosure one time and deploy globally. This leads to recurring reductions in required reviews and chances of error or misstatement. This tactic can be further enhanced through the use of automated reporting tools, which maintain the final standardized disclosure and automatically connect to many global reports.



Leveraging AI and advanced KPIs

Throughout finance departments, leaders are assessing the future of finance landscapes and determining how they can leverage AI in their processes to enable efficiencies. The potential use of AI within statutory reporting processes is no exception. Overall, multinational corporations (MNCs) are implementing AI-driven tools to enhance reporting accuracy and data analysis.

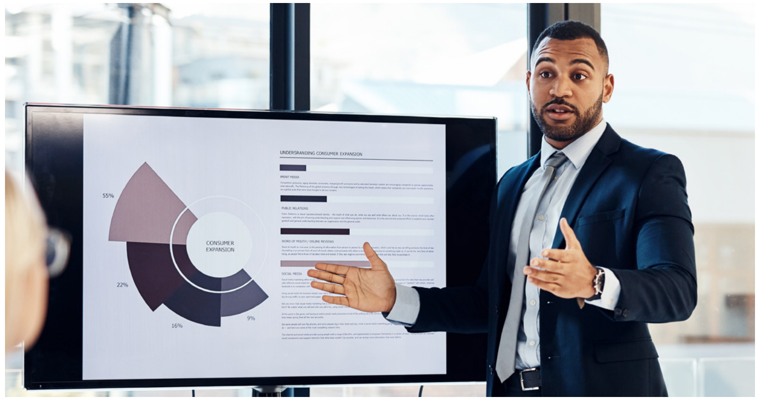
Specifically, Generative AI (GenAI) tools can draft footnote disclosures. Coupled with the standardized disclosure approach discussed above, teams are experiencing greater efficiency and accuracy, which is impacting an expansive amount of users and entities, through only a few operational changes. To illustrate, there can be time savings due to GenAI tools preparing the disclosure draft, which allows teams to spend their time focusing on the review of the disclosure. An additional feature that cannot be overstated enough is that AI tools can assist with language translation. This further supports a centralized delivery and standardized disclosure model. With the use of AI, the competency and location requirements of teams can be reimagined. AI can reduce the need for local in-country resources with native language understanding. Instead, teams can sit anywhere globally and leverage automatic translation tools to assist in converting the statutory reporting financial statements from the working language to the local language. It should be highlighted that AI language tools are not perfect and do not always capture conversational elements or local nuances. However, it can still be advantageous for teams to enable the tools to support overall reporting goals and identify where additional top-level reviews from outside parties (including local external auditors or outsourced support) may be required.

Throughout a transformation journey, it is important to identify specific KPIs and track progress against the original baseline metrics. This not only supports overall business case tracking, but can provide leaders with timely insights into improvement benefits and where initiatives may need additional support. AI and other technology tools can assist in the KPI data tracking and analysis, to enable real-time status.

Application in a changing landscape

Pillar Two

Another area our clients were eager to look at more closely was managing the impacts of Pillar Two across the global financial framework. As companies begin to evaluate and account for the impacts of the Pillar Two global minimum tax rules in relation to the parent company's financial statements, often companies are not considering the complexity associated with the data-gathering and reporting process for the statutory financial statements of its subsidiaries. Here are some specific considerations that companies should consider as it relates to their statutory financial statements:



Data coordination for country-by-country reporting

Country-by-country reporting should consider utilizing the trial balance under the reporting framework of the parent entity (e.g., international subsidiaries of a US parent should consider assessing the impact of Pillar Two utilizing a US GAAP trial balance as the starting point). It's critical for companies to manage the data-gathering process for international subsidiaries and to account for US GAAP items that may be traditionally excluded from the US GAAP financials based on size (e.g., accounting conventions, statutory timing differences for intercompany transactions, revenues or expenses that get rebilled out to other entities within the group structure), as these items could materially alter the conclusions on a jurisdiction-by-jurisdiction basis.

Allocation methodologies at the jurisdiction level down to the entity level

It's important to note that top-up tax is assessed at the jurisdictional level, which is at a higher level than statutory reporting purposes. For example, company X may have a $5 million top-up tax liability in Spain, with five Spanish entities. As the top-up tax is calculated at the jurisdiction level, application of an appropriate allocation methodology should be considered, to push the expense down to the entity level for statutory reporting purposes.

Disclosure standardization

Companies should consider standardizing disclosures, regardless of whether a liability is recorded, to streamline their global reporting processes.

CSRD reporting

In addition, many statutory reporting teams are considering the new sustainability disclosure requirements, as required by the CSRD, and noting how this may increase their inter-business collaboration, may necessitate the review of available data, and may require proactive integration of reporting requirements into existing timelines.

Many companies are assigning sustainability tracking and oversight responsibilities to dedicated sustainability teams. This results in new stakeholders and data types in which statutory reporting teams should consider, when planning their reporting cycle roles and responsibilities and disclosure inputs. Clear communication and timing expectations are important to align all stakeholders toward the common goal of compliant and timely reporting. This exercise can be simplified through the use of technology tools, such as a consolidated calendar. As well, by clearly defining roles and responsibilities over new sustainability disclosures, there can be positive downstream impacts over reporting accuracy as the work step prioritizes the alignment of proper skills and experience to the review and holds the high ownership of sustainability disclosures.

MNCs should consider the ability to centralize and standardize the data collection of sustainability inputs across entities, through a centralized data management system. Not only can this provide efficiencies over data aggregation, as discussed above, but there are also additional efficiencies in other reporting cycle steps, including traceability. Through a standardized approach, there can be synergies for similar auditors across jurisdictions to gain comfort and understanding over the input data. The centralized delivery model also promotes a synergistic culture in which data and disclosures can be efficiently leveraged throughout the company, such as for supplemental investor presentations.

Centralized roads lead to increased efficiency

No matter which path your company chooses, transforming your global statutory reporting process will likely result in opportunities for efficiencies. With each model's core focus in governance and compliance, your company can move toward a harmonized accounting process that centralizes delivery and connects reporting platforms.

Through connected and automated global statutory reporting, companies can link to existing source systems and provide careful, real-time data inputs within their reports. But to start transforming your statutory reporting process, you'll need to consider the possible insights to get you there.

Simplified and standardized processes can create efficiencies at the end of the reporting process as well as when preparing for the audit. Because many statutory reports carry an audit requirement, implementing consistent accounting policies and disclosures may lead to increased efficiencies throughout the audit process, especially when the same audit organization is used across jurisdictions. When these standardized processes are supported by a digital platform, companies can gain real-time visibility into the reporting process from start to finish and can enable centralized teams to manage regional or global processes.

Deloitte can advise you on the path forward on global statutory reporting and provide end-to-end insights that fit your company's different circumstances. From finding the specialized accounting, tax, and audit professionals, to connecting you with our trusted alliances for software automation, you can count on us for insights and experience regarding global statutory reporting transformation.

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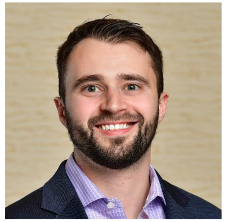

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