Deloitte.

Intercompany accounting and process management

Survey results

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Intercompany insights

Deloitte Advisory is pleased to report the results of our intercompany accounting and process management survey.

Why strong intercompany accounting practices are so important

Recent headlines have highlighted several instances of companies restating prior year financial statements due to errors and fraud discovered within the intercompany accounts. As such, regulators have responded by focusing on intercompany transactions and accounts, such as the Public Company Accounting Oversight Board (PCAOB) amending Audit standard No.18—Related Parties.

Remarkably, given the environment, many organizations view the intercompany process as something that just needs to "get done."

As detailed within the report, this has created an environment in which organizations struggle with the time-intensive requirements to manage an effective and strategic intercompany program that is driven by inefficient processes and systems that have been pieced together and neglected over time.

What the marketplace is demanding to understand

Even as challenges persist, there is a minimal amount of information available in the marketplace that provides insights into intercompany leading practices and what other companies are doing.

Our survey was designed to provide insight and perspectives on the current environment of intercompany accounting practices and the barriers to optimal performance. A primary goal in preparing the intercompany survey was to close the knowledge gap of common and leading practices across a diverse group of companies by looking to understand:

- What challenges exist in the intercompany environment?
- How have enabling technologies affected the intercompany process?
- What are the leading companies doing that others should be considering?

What is intercompany accounting?

Intercompany accounting refers to the processing and accounting for internal financial activities and events that cross legal entities, branches, or national borders including, but not limited to, sales of products and services, fee sharing, cost allocations, royalties, and financing activities. It is a broad area that, while rooted in accounting, has extensions into various functions, including tax, treasury, and finance.

Many companies are looking to overcome key challenges

Many companies have been actively assessing ways to optimize their intercompany process through leveraging an internal center of excellence, increasing automation, and improving organizational alignment between accounting, tax, and treasury. However, despite these efforts, several key challenges continue to persist:

- **50%** of the respondents noted a **lack of defined ownership** of the intercompany process and challenges with visibility by management into the process and key activities
- **54%** have **manual intercompany processing** with limited counterparty visibility to support reconciliation and elimination
- **47%** indicated only **ad hoc netting capabilities** with no defined calendar
- **30%** of all respondents noted **significant out-of- balance positions** that require frequent use of “plugs” to balance
- Many noted significant manual **top-side adjustments** during period-end close

Technology is only part of the solution

Many of the companies that responded to the survey told us they remain challenged in maximizing the total potential of their intercompany program, despite having sophisticated enterprise resource planning (ERP) landscapes supported by many capable financial systems.

The top three challenges cited by surveyed organizations for intercompany were:

1. Lack of/poor use of technology
2. Nonstandardized processes
3. Transaction matching/account reconciliation

Key causes may include the following:

- Intercompany not viewed as a critical finance activity
- Rapid growth due to acquisition leading to disparate systems and processes
- Multiple disparate legacy systems
- Multiple charts of accounts that have not been standardized
- High volume of disorderly transactions

Many have consistent goals with similar challenges

As many organizations are actively striving to optimize their intercompany program, several of the previously mentioned challenges were noted by the respondents as being common issues preventing optimization.

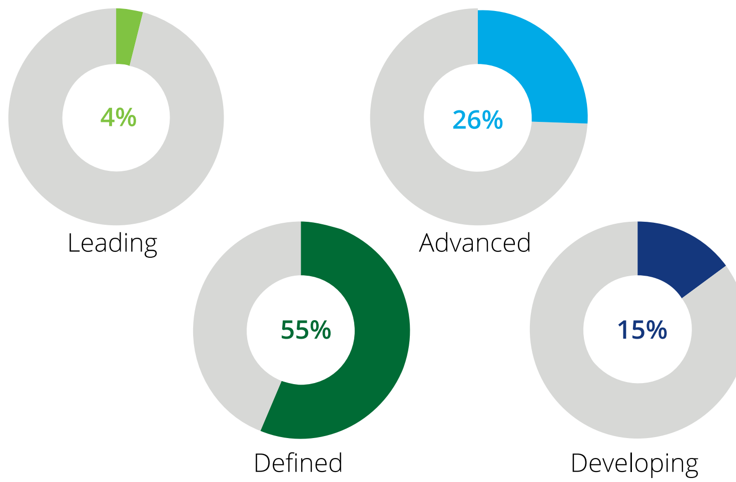
This is consistent with our findings on the overall intercompany maturity as 70% of responding organizations fall into the Developing and Defined maturity levels, whereas **26%** are Advanced and only **4%** are Leading (see page 5 for definitions).

Organizations with Leading or Advanced programs cited having the following qualities:

- 71% have standard intercompany policies and procedures that are supported by a center of excellence that clearly defines ownership and accountability across the organization

More detailed information about the survey results is found on the following pages

Marketplace intercompany maturity*



*See maturity definitions on page 5

- A majority have systems-based pricing element controls that support intercompany transaction reporting and analytics
- 82% have deployed an integrated transaction flow across multiple platforms supported by a standardized chart of accounts
- Many have implemented an automated and dynamic settlement and clearing of intercompany transactions
- 46% have fully automated transaction-level matching, reconciliation, and elimination processes
- Reporting capabilities support financial, tax, statutory, and regulatory requirements with minimal manual intervention

Conclusion

We would like to extend a sincere thank you to the 81 companies that responded to our survey. Their willingness to take the time to answer our questions has provided great insights into issues with which many companies are struggling.

Intercompany accounting will continue to be a big focus area for many organizations. We hope that the information learned in this survey will help you set the path forward. If you would like additional information, please reach out to one of the contacts listed on page 11.

Intercompany maturity analysis

Elements and maturity of intercompany

Based on our experience, we have developed an intercompany capability maturity model that helps organizations understand their current capabilities and target improvements across the seven key elements of the end-to-end intercompany process. These seven elements were the key focal points for which the survey results are presented on the following pages.

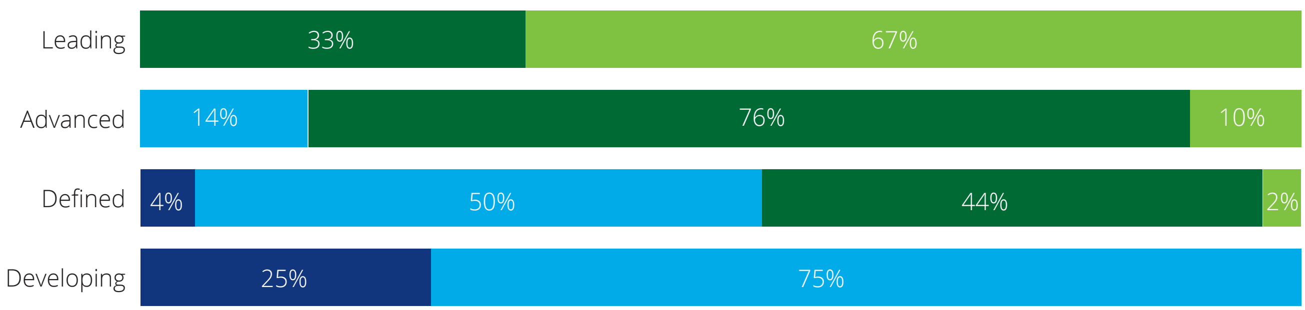
	Developing	Defined	Advanced	Leading
Governance and policies	Reactive approach to monitor or detect intercompany out-of-balance positions	High-level policy, some global consistency, escalation processes, trade/service agreements in place	Regular policy compliance monitoring, clear ownership, and accountability supported by a center of excellence	Timely execution of global policy, with appropriate mix of preventive/detective controls
Intercompany pricing	Ad hoc, retroactive, manual transfer pricing application	Some transaction-level pricing policy defines cost elements and application procedures	Global policy adoption, system-based pricing element controls	Global policy adoption, system-based pricing element controls
Data management	No cross-platform knowledge of transaction-level data elements	Limited transaction-level data element definition and high-level mapping across subsystems	Integrated transaction flow across platforms with common charts of accounts	Master data management to support tax, statutory, and finance requirements
Transaction management	Manual transaction processing with limited counterparty visibility	Some standard processes and workflow enable controlled intercompany booking	Ability to match counterparty transactions across technology platforms	Automated processing and balanced counterparty transactions
Netting and settlement	Uncertain tax positions and unexpected profit/loss volatility	Bilateral settlement on a specified calendar	Bilateral settlement on a specified calendar	Bilateral settlement on a specified calendar
Reconciliation and elimination	Bilateral settlement on a specified calendar	Bilateral settlement on a specified calendar	Transaction-level reporting and reconciliation; reliable profit elimination	Fully automated transaction-level matching, reconciliation, and elimination
Internal and external reporting	Significant top-side adjustments drive reporting risk	Reporting focused solely on financial requirements and exception management	Financial, tax, statutory, and regulatory reporting capabilities	Integrated reporting and analytics; dashboard visibility to performance metrics

Intercompany governance and policies

A primary theme noted amongst the Advanced/Leading organizations is that each has, at a minimum:

- Standard policies, processes, and an intercompany center of excellence (COE)
- Trade/service agreements in place
- Clearly defined and communicated roles and responsibilities

Conversely, organizations that indicated having a high-level intercompany policy but lack overall process ownership, regardless of leading technologies, continued to have very limited visibility into global intercompany process.

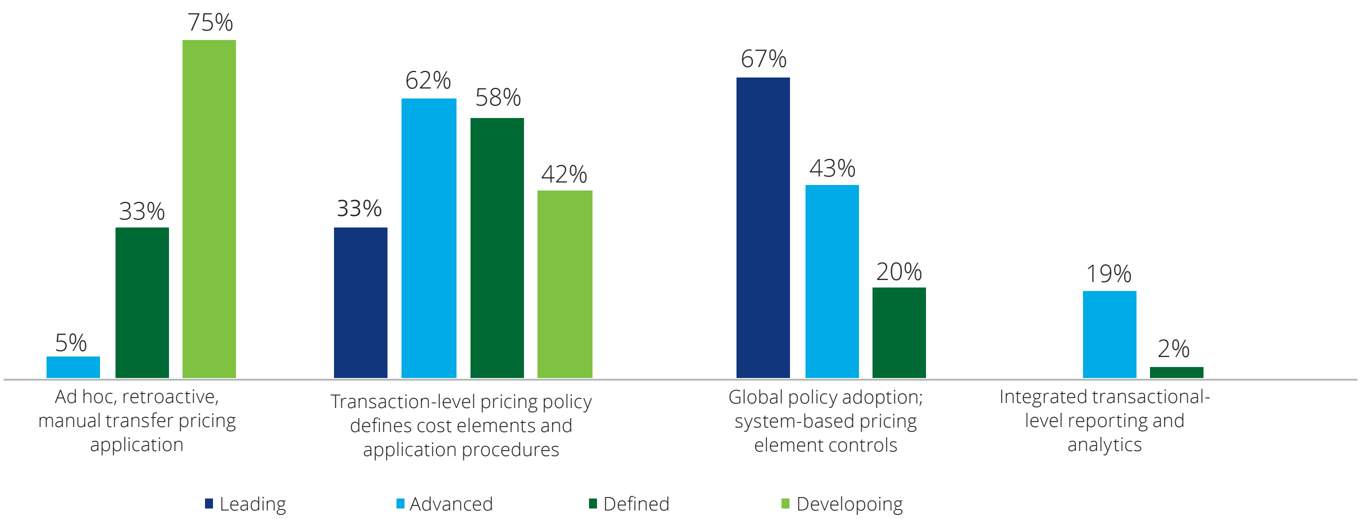


- No defined policy and supporting standards. Lack of visibility into processes and "due to/due from" positions. Reactive approach to monitor/detect intercompany
out-of-balance positions and compliance matters.
- High-level intercompany policy exists. Lack of overall process ownership. Inconsistent application and compliance. Limited visibility into global inercompany process.
- Standard policy, processes, COE; trade/service agreements in place. Ownership team clearly defined with roles and responsibilities clearly communicated regularly.
- Timely execution of global policy, with appropriate mix of preventive/detective controls. Global standardized chart of accounts supported by an integrated operating model with dashboard reporting.

Intercompany pricing procedures

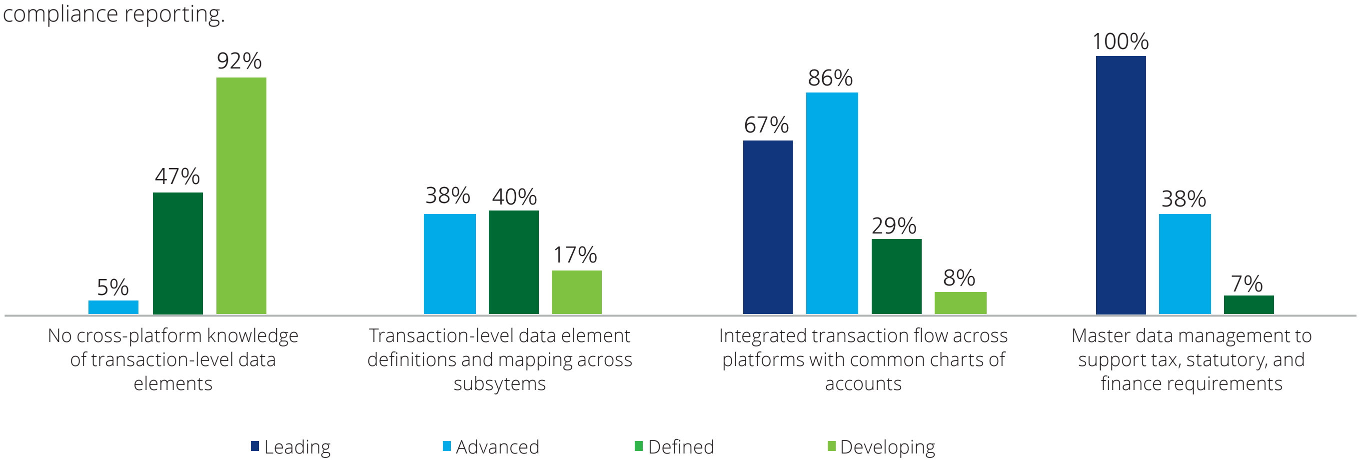
A very small portion of organizations, mostly in the Advanced group, indicated having integrated transaction-level reporting and analytics. A majority of organizations noted that they have transaction-level pricing policies with defined cost elements and application procedures that support accounting, tax, treasury analytics, and compliance reporting.

The majority of respondents noted the pricing process is ad hoc and retroactive in application of transfer pricing.



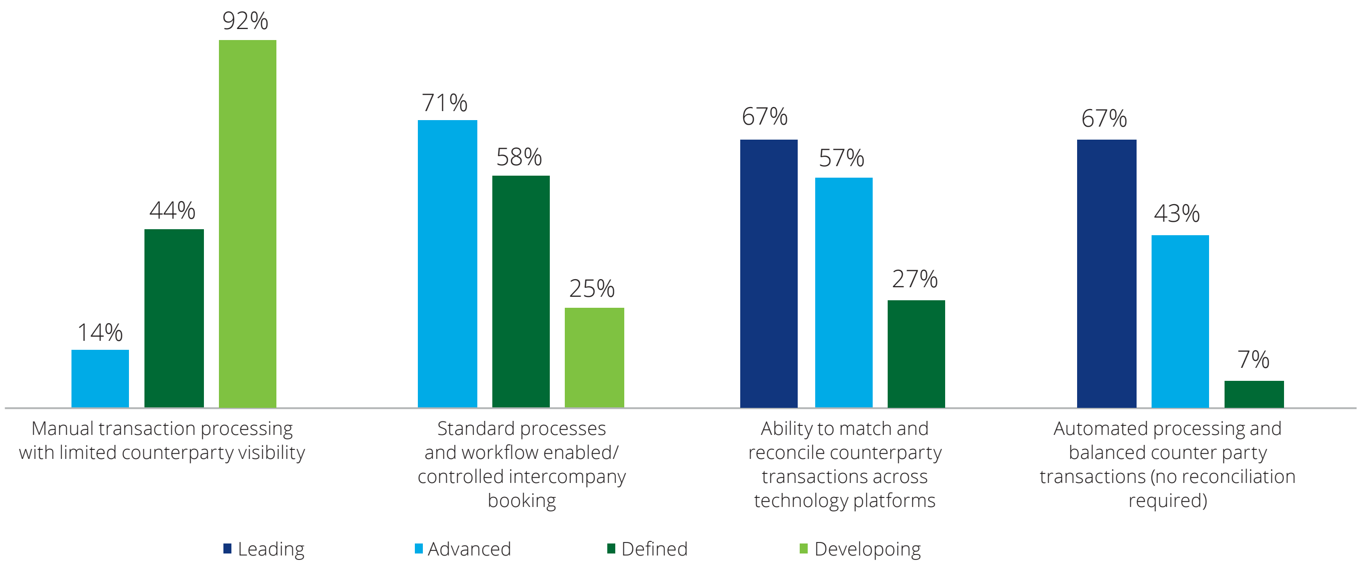
Intercompany data management

Of those Advanced/Leading organizations, a significant majority have indicated an integrated transaction flow of data across platforms with common charts of accounts that are supported by integrated reporting capabilities to support tax, statutory, and finance requirements. On the other hand, well over 50% of all the organizations cited challenges with cross-platform transaction communication and support of compliance reporting.



Intercompany transaction management

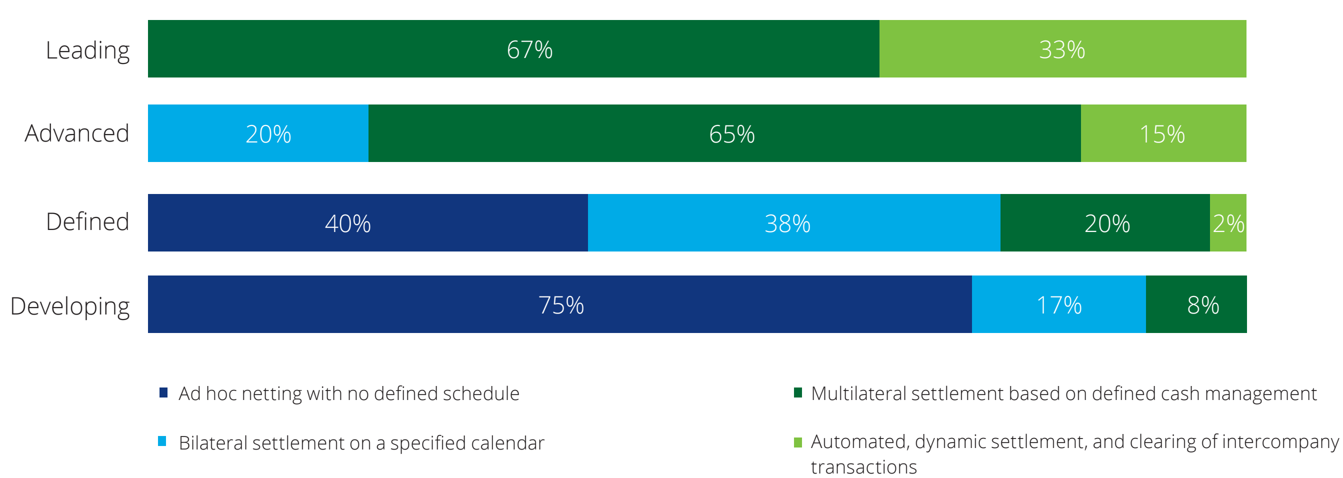
A majority of respondents have indicated that they have standard processes and workflow-enabled/controlled intercompany booking. A majority of Advanced/Leading organizations noted having automated transaction processing and automated counterparty reconciliation.



Intercompany netting and settlement mechanism

A clear majority, about 66%, of Advanced/Leading organizations cited having multilateral settlement based on a defined cash management strategy, with some of the more leading organizations supported by automated dynamic settlement and clearing of intercompany transactions.

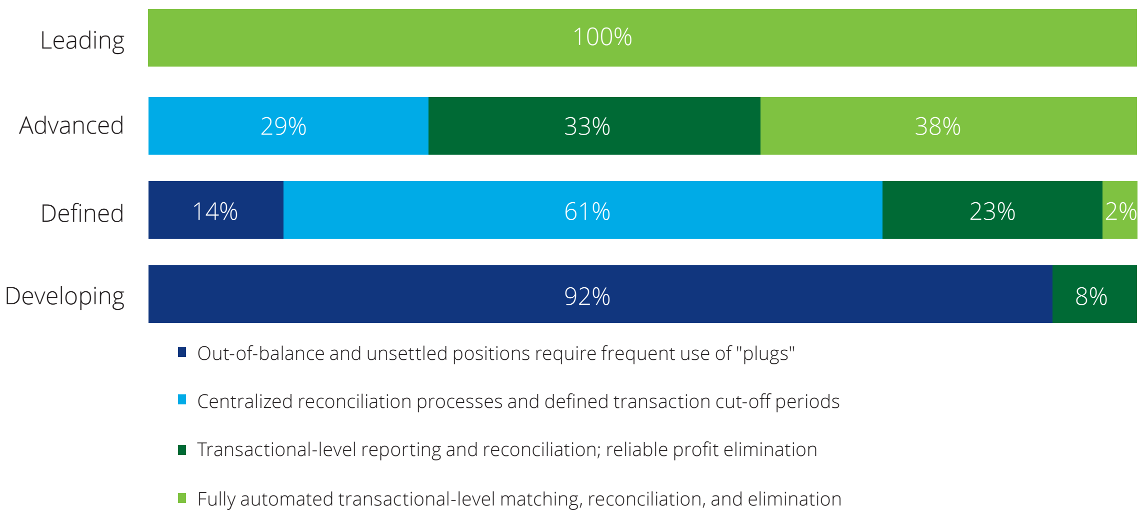
Many of the Developing/Defined organizations have indicated that they only have ad hoc netting with no defined schedule of transaction netting and settlement.



Intercompany reconciliation and elimination

In the case of intercompany reconciliation and elimination, 46% of respondents in the Advanced/Leading organizations have indicated having fully automated transaction-level matching, reconciliation, and elimination.

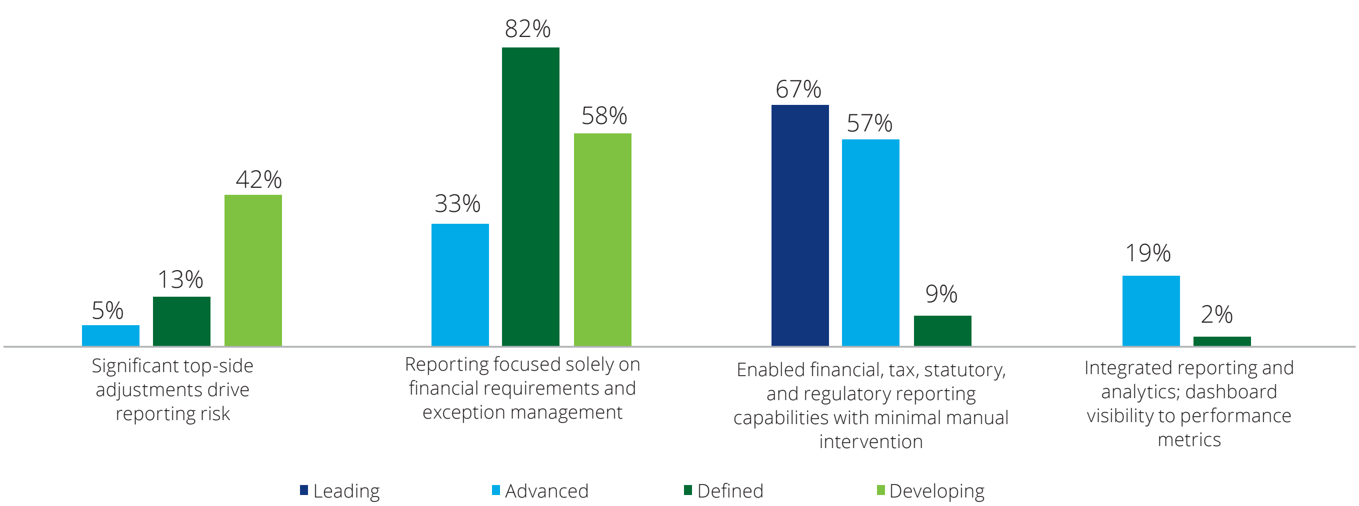
48% of the Developing/Defined organizations indicated that they have centralized reconciliation processes and defined transaction cutoff-off periods, with just 2% of them having fully automated transaction-level matching, reconciliation, and elimination.



Intercompany internal and external reporting

The majority of Advanced/Leading companies have indicated they have enabled financial, tax, statutory, and regulatory reporting capabilities with minimal manual intervention.

Whereas, the Defined/Developing companies seem to have their reporting focused solely on financial requirements and exception management.



Demographics

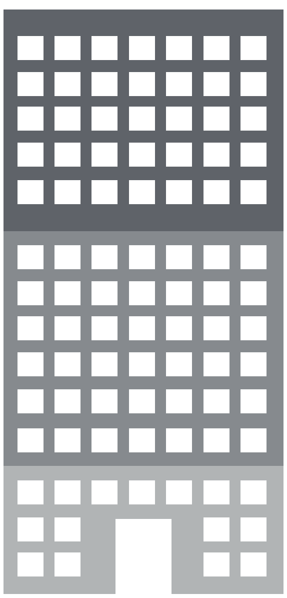
Survey process

- Survey responses were received from October through December 2014
- Analysis and results were compiled by Deloitte’s Accounting & Reporting Transformation practice and Deloitte Consulting LLP's Global Benchmarking Center

Participating executives

- Chief Financial Officer
- Director of Finance
- Controller/Assistant Controller
- ...or equivalent roles

Annual revenue breakdown for the respondents—81 companies replied



38% >$5B

40% $1B–$5B

22% less than $1(B)illion

Participating industries

17.3% Financial Services

43.2% Consumer & Industrial Products

7.4% Life Sciences & Health Care Providers

17.3% Technology, Media & Telecommunications

9.9% Energy & Resources

4.9% Other

Additional information

Working with Deloitte Advisory

Deloitte Advisory's Center for Controllership provides management and risk consulting services that help our clients deliver world-class controllership. We deliver end-to-end services that help the controller and chief accounting officer transform their organizations to be more proficient, effective, and insightful. We build capabilities within accounting operations and reporting, accounting regulatory compliance, and strategic finance support. Our competencies comprise designing, implementing, and assessing controllership capabilities and enablers, including organization and people, policy, process and controls, and information and systems.

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