STATUTORY REPORTING IN SHARED SERVICE CENTRES – SEE THE WOOD FOR THE TREES

While there are obvious advantages to harmonising certain steps in the statutory reporting process through SSCs, there are also many questions that CFOs should ask, writes Pavlo Boyko, TMF Global Solutions Architect.

“Do more with less” is a common demand of senior business leaders these days, and finance leaders are no exception. Establishing or expanding the finance shared service centre (SSC) is a common solution for CFOs to examine.

A recent SSON (Shared Service & Outsourcing Network) study shows that vast the majority – 72% – list control, standardisation and optimisation as key benefits driving the SSC model. How applicable however, are these to ‘last mile’ statutory reporting?

To paraphrase a well-known adage: you cannot standardise what you don’t control. What is the level of control finance can exercise over a company’s choice of countries to expand to, given industry pressure? Or over local governments introducing a new format of reporting with short notice?

TMF Group’s recent Global Business Complexity Index report shows that many countries are moving closer to a ‘live reporting’ model that requires online submission of data on a transactional level, and at increased frequency.

As the saying goes – sometimes we don’t see the wood for the trees. If we’re too preoccupied with minor details, we cannot see the bigger picture.

Let’s take a closer look at statutory reporting in SSCs and whether the ‘wood’ (the cost saving effort) is visible enough among the ‘trees’ (specific local compliance issues in various countries).

- **Process**

Historically, transaction-intensive processes such as order-to-cash and bookkeeping have been immediate candidates for cross-border centralisation. Doing so allows you to capitalise on process standardisation, transactional excellence and technology advancements. Statutory reporting however, is from a different cohort – it’s a judgement intensive process.

While there are obvious advantages in harmonising certain steps in the statutory reporting process, there are also many questions to ask. For example:

“Does it make sense to centralise the statutory financial statements process in an offshore SSC, given the language differences and dynamic regulatory environments?”

Another study from SSON highlights the main reasons for companies to not extend their SSC processes to statutory reporting. About a third of respondents said it's mainly due to the SSC being 'out of touch' with country-specific knowledge and with the local authorities.

Critical mass

The economies of scale are the cost advantages that enterprises obtain due to their scale of operation. Economies of scale exist where volume-driven processes like bookkeeping and procure-to-pay are moved to an SSC. Consider however, the direct tax process – with just one annual tax return to be submitted in most jurisdictions. Are the economies of scale applicable in that case? Do other local taxes qualify for a separate process map? Should a marketing-only branch be serviced by the SSC in the same way as the operational entities in other countries?

Technology

Advancements made in recent years by major ERP (Enterprise Resource Planning) and RPA (Robotic Process Automation) players are breath-taking indeed. A purchase invoice can be read, recognised and booked to the right GL accounts and tax codes with little or no manual intervention. Though it hardly astonishes any expert these days, the pace of legislative change is hard to replicate. A telling example in this regard is TMF Group's proprietary list of COVID-19 government support schemes across the globe, which now number more than a thousand.

No ERP can cover all statutory requirements in all countries from day one. For example – can your global ERP used in a SSC cover the SAF-T (Standard Audit File for Tax) requirements in Europe or ECD (Accounting Electronic Filing) in Brazil? Do the benefits outweigh the costs of ERP localisation for each country?

When considering the statutory reporting construct, each company with a finance SSC faces the same old 'buy or build?' choice. The 'buy' option involves outsourcing, while the 'build' alternative may have two flavours – with in-house capacity created in local offices or centrally in a SSC.

Each of the buy-or-build options has pros and cons revolving around cost, control, flexibility, knowledge retention and people risks.

My recommendation is to run the 'three no' test.

- No control
- No critical mass, or
- No technology.

This will help you to identify processes and areas that require more focus and potentially some non-standard decisions.

Finance leaders should take a pragmatic approach on a tactical level when assessing their 'buy or build' options. Scrutinise each sub-process with a 'more with less' lens and be ready for hybrid solutions – should they fit into the overall picture.

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