

viewpoint

SPREADSHEET GOVERNANCE

In the current economic environment, the automotive industry is facing growing risk across the enterprise. In the ongoing series of Ernst & Young Global Automotive Center Viewpoints, this installment focuses on spreadsheet risk that results from thousands of department-level spreadsheets that organizations create on an as-needed basis to run their business.



Dan Smith

These spreadsheets often start as simple documents. But if deemed useful, they become embedded in business processes and are frequently expanded over time. Eventually they can support large financial processes and even become major IT applications, but without the usual IT controls. When that happens, there is a danger that a spreadsheet may not work correctly or may lead to costly errors for the company. Dan Smith, Advisory Services Partner in Ernst & Young's Detroit office, explains the risks and important steps to mitigate them.

What risks do spreadsheets represent?

Although the use of spreadsheets increases a user's flexibility, risk exists with data entry, calculations and how the data are used. Spreadsheet formulas and computations often work incorrectly as calculations and data inputs have changed. Spreadsheet mistakes usually are not detected until analytical procedures are performed during a company's financial reporting processes. The larger and more difficult exposure to quantify is the impact of business decisions based on inaccurate spreadsheet data and results.

Should organizations avoid using spreadsheets?

No, spreadsheets are an essential tool for quick analysis and to automate manual workpapers and routine calculations. The use of spreadsheets will likely grow even more rapidly, and management often requests quick answers that existing financial systems cannot support. The challenge is to properly manage the risk they represent.

How does the auto industry rate in terms of spreadsheet risk?

The auto industry is in the center of myriad risk factors. The industry is undergoing extreme financial stress and change. In addition, the industry has a large base of legacy mainframe systems that are often costly to maintain and update. These factors encourage the use of spreadsheets to bridge

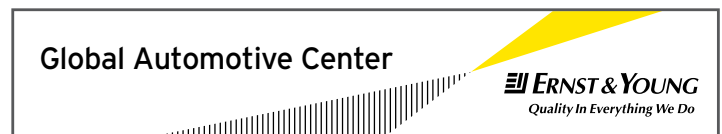
the gaps between the reporting and analysis functionality of disparate legacy IT systems.

What does Ernst & Young recommend?

First, understand your organization's business objectives and users of spreadsheets. Then undertake a reasoned approach to decrease the number of spreadsheets used to support critical operational and financial functions, while more actively managing the risk associated with remaining and future spreadsheets. Factor in the cost of making business changes in the course of reducing or consolidating spreadsheets. Most spreadsheet reduction opportunities can be grouped into three major categories:

1. Consolidate: Multiple spreadsheets can be consolidated into a single spreadsheet or workbook.
2. Replace: A group of spreadsheets that function as an IT system can be replaced with a formal IT application or database with built-in controls.
3. Leverage: An already-installed IT solution, such as a report writer, can eliminate the need for a spreadsheet.

The second objective is to design and implement the



appropriate governance structure based on the organization's culture, the nature of spreadsheet usage and other similar factors. These components can be grouped into four areas:

1. Who "owns" the spreadsheet and what are their related responsibilities?
2. Which spreadsheets do you really need to monitor?
3. How are spreadsheets managed and secured?
4. How is data input, calculation and output controlled?

Management should assign the responsibility for the regular review of the inputs, calculations and reasonableness of outputs. Ernst & Young will help companies assess the relative risk in their spreadsheet population and focus on the most important risk factors that should guide their decisions and policies.

How big a priority is this for companies?

Out-of-period adjustments, accounting errors and privacy leaks have resulted from inadequately controlled use of spreadsheets. It is among many companies' priority initiatives in the current year.

To learn more about spreadsheet governance, contact Dan Smith at +1 313 628-8328 or Kristen Michalik at +1 313 628-8326.