



# The evolution programme

## Management reporting – timely information to control and drive the business

All businesses rely on timely and accurate information to track their performance, identify potential problem areas such as falling profit margins or unproductive staff, and make good decisions quickly.

But small and medium-sized businesses are more vulnerable than their larger competitors to the impact of changes in the marketplace, the behaviour of their customers, or even an increase in interest rates, so their need for timely and accurate management information is even greater.

Whilst most businesses will be able to identify basic information such as turnover and cash at bank, businesses should be producing management information that relates directly to the key performance indicators (KPIs) identified in the business plan - the key drivers of the business.

These will obviously vary from business to business but typical KPIs include the net profit margin, the revenue and profit generated by each employee and customer, the stock value, etc.

In other words, your management reporting system needs to be set up by someone who understands the key drivers of the business and can answer the question “what do you need to know that you don’t know now?”. Without this information, it will simply take too long to find out about problems that could seriously undermine your performance, your profitability and, possibly, your ultimate survival.

### Are you passing on the costs of customer service to the customer?

A company imports high value goods with high shipping and insurance costs. The original customer contract included carriage costs that were based on package numbers at the time. However, the element of processing had changed over time and the number of packages shipped out had increased.

Because there was no system of reviewing costs on a contract/customer basis, the “cost creep” had been undetected and the time lag made it difficult to renegotiate contract price at a realistic level in the short term.

The data generated by any management reporting system should focus on providing the business with the right information to take the business forward in terms of sales forecasting, production planning and resource requirement. It should not be focused on historical information that will only satisfy the bank manager and HM Revenue & Customs, but should enable the business to plan ahead and react quickly to emerging problems and opportunities.

### So what should your management reporting system do?

Since setting up the business, you have probably installed a number of different programmes and systems such



as accounting software, a customer relationship management (CRM) database, production planning software, and a time recording programme for selected staff. They will all help to run the business but because they aren’t part of an integrated system, valuable time could be wasted inputting the same data into two or three of these programmes. Another problem will be their differing report formats which will reduce the ability to take an overview of what is really happening in the business.

So the first priority is to review what you currently have - this is something that your accountant can undertake for you - and to agree what you want so that a single, totally integrated system can be developed to match the demands of your business for data.

This may include some or all of the following modules depending on the nature of your business: financial, project costing, reporting, resource utilisation, staff evaluation, stock control, and e-business to support online business-to-business trading.

**PKF Top Tip** – To enable constant access to the accounts system and the current bank balance from anywhere in the world, your accounting system and banking arrangements should be web enabled.

At the most basic level, a good management reporting system should include the following:

## General ledger and cash book

The general ledger should automatically update itself, in real time, to provide up-to-the-minute information on the business's precise financial position.

The system should be able to drill down from an individual account to display double entry details, allocation history and source documents (such as sales invoices) for every transaction.

The cash book should be able to give instant access to the bank balance and should be able to have an unlimited number of multi-currency bank, credit card and petty cash accounts.

## Sales and purchase ledgers

You need to be able to check that the invoices received match the order, and monthly reports should show the value of supplies ordered but not invoiced so that accruals can be easily calculated.

Sales and purchase ledger records should be able to hold an unlimited number of contacts, addresses and attached documents such as contract agreements and terms and conditions.

Turnover data for current and prior-year transactions should be easily accessible and, on the purchases side, remittance advice notes, cheques and BACS payments should be fully automated.

## Job costing

This module should be updated every time a transaction is entered so that managers can view every activity as a project and control it accordingly. This will help you to meet deadlines, stay within budgets and cost out new jobs with increased confidence and accuracy.

## Timesheets

In an office environment, all staff should be able to enter their timesheets using email so that staff utilisation and non-chargeable time such as illness, holidays, training and administration can be tracked. This enables employee productivity to be measured and any issues such as high levels of sickness absence to be tackled.

## Management reporting

A fully integrated and easy-to-use system will greatly enhance the ability for non-accounting staff to extract the data that they need to make business decisions. Most of the management reporting systems available on the market now provide an automated link between the accounts software or modules and Microsoft Excel, so trends, graphs and statistics can be transformed into interactive business summaries.

## Frequently asked questions

Q. How often should we produce management reports?

A. These should be produced monthly and should be available by the end of the first week of the month. The longer it takes to produce the information, the less time you have to act on it to take remedial action on projects that are slipping, or customers who have not paid, or seize new market opportunities.

Q. Should management reports only be available to the management team?

A. Not necessarily, the relevant knowledge should be shared with every member of the relevant department. For example, sales information such as the top performing customers, the best performing representatives and the most profitable territories should be available to the whole sales team. Systems are now available which remove the need for month end

accounting. Users should expect accurate balance sheets to be real-time.

A culture of cost-consciousness is also more likely to flourish if the responsibility for managing costs is allocated to a number of budget holders. Consider giving the responsibility for managing costs such as stationery, fleet, telephony, utilities, etc. to different members of staff to heighten their awareness of the impact of costs on a business.

Timely and accurate management reporting should not be regarded as a time-consuming chore to be performed under duress at the end of month, but as the engine of information that helps to control and monitor the performance of the business.

Good strategic decisions can only be made if they are based on accurate and up-to-date business information. By harnessing technologies such as Object Linking and Embedding (OLE) and email-based alerts, businesses can easily set, monitor and report on their performance targets through an integrated management reporting system.

Effective management reporting can only be achieved if you also use the information available. So take time to decide what information you want to review each month – and which support your KPIs – so that you are not delayed in reports at the end of each reporting period.



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