Spreadsheet management

Background:
Spreadsheets have become an integral part of organizations’ infrastructure because of the efficiency and flexibility they offer. They serve a wide array of purposes that drive critical business processes including, but not limited to:

- Producing financial reports
- Supporting business strategies and decision making
- Preparing bills
- Rationalizing and preparing budgets
- Determining appropriate pricing
- Supporting general accounting entries.

What makes spreadsheets exceptional is that they allow individual users to easily create personalized tools that serve their specific needs. Spreadsheets replace manual calculations and can provide more flexibility than more complex programs or models.

As spreadsheets become increasingly used in everyday business practices, they are becoming more and more complex. As the complexity of spreadsheets increases by the use of tools such as macros, formulas, Visual Basic, etc., so does the risk of errors in the spreadsheets if not properly reviewed and maintained.

Due to the potential impact that spreadsheets can have on an organization’s business processes, spreadsheets are often included in audit procedures as part of compliance with the Sarbanes-Oxley (SOX) Act of 2002. Under SOX – Section 404 (SOX 404) organizations are required to maintain effective controls over significant processes that feed into the organization’s financial statements. These controls are a significant input into the governance, design, implementation, and use of spreadsheets.

Many organizations, however, do not have adequate controls or formal spreadsheet management governance to effectively manage spreadsheet risk and comply with SOX 404. Additionally, many organizations do not focus on spreadsheets that do not directly impact financial statements; however, output from spreadsheets may have a direct impact on operations and many other key business decisions.

Leveraging our experience advising organizations, KPMG has identified a number of questions that organizations should ask when looking to develop and refine their spreadsheet management and controls:

<table>
<thead>
<tr>
<th>Documentation</th>
<th>Governance</th>
<th>Controls</th>
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<tbody>
<tr>
<td>Is there adequate documentation around spreadsheets. Is there a spreadsheet management policy in place?</td>
<td>Is there an adequate governance structure around spreadsheet management and who is responsible?</td>
<td>Are the controls functioning as intended?</td>
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<td>Is documentation sufficient to support the spreadsheet being used?</td>
<td>Do rationales exist for the use of each spreadsheet output used in financial reporting?</td>
<td>Do the controls and spreadsheet designs allow for an accurate outputs?</td>
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<td>Is documentation operationally effective (i.e., are employees well-versed on the spreadsheets being used, is further training needed, etc.)?</td>
<td>Does management have a complete inventory of critical spreadsheets used in the organization and their functionality?</td>
<td>Is there documentation around the functions of each control used in each spreadsheet tool?</td>
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Are controls being regularly reviewed by the appropriate personnel to help ensure continued functionality?

Does the organization regularly assess the continued viability of each spreadsheet used for financial reporting?

Does the organization regularly benchmark its spreadsheet tools and controls against current regulatory guidance and industry trends?
**Risks:**
Well-designed and implemented spreadsheet management achieves many benefits for organizations. Some of the risks associated with ineffective controls in spreadsheet management include:

- In cases where there are not thorough policies in place, there is an increased risk of manual overrides and other undocumented or unsupported changes.
- Inadequate controls over spreadsheets may constitute a violation of SOX 404.
- Undocumented assumptions and static formulas may not be properly changed.
- Unreliable data or inconsistent results within spreadsheets may be difficult to identify.
- A lack of controls over spreadsheets impedes verification of the functionality and accuracy of spreadsheet output.

**Approaches:**
KPMG has assisted numerous organizations to help address spreadsheet management, controls, and related governance. Our main service offerings include:

- **Spreadsheet policy and governance assessment:** A spreadsheet policy and governance assessment includes a review of the organization’s existing spreadsheet management policies, identification of missing policies, and an assessment of the design and documentation of policies in place. This assessment includes a review of the design of the policy, the documentation around the implementation of the policy, as well as a review of the operational effectiveness of the policy. The scope of this assessment includes all policy and governance documents for spreadsheets used by the organization. The final deliverable is a report that summarizes the results of the assessment and recommendations for potential improvements.

- **Spreadsheet management policy and governance build:** KPMG has assisted a wide variety of organizations in developing wide-ranging policies and governance programs around spreadsheet management. KPMG can assist organizations by developing a sound set of policies and a governance structure for spreadsheet management. Additionally, KPMG may assist organizations with development of a spreadsheet inventory which outlines key uses and owners of spreadsheets as well as functionality.

- **Spreadsheet assessment:** A spreadsheet assessment includes a review of the controls currently in place for the spreadsheets used by organizations. By leveraging KPMG’s spreadsheet review tool (MRT), KPMG is able to quickly and accurately identify any shortcomings in an Excel®-based spreadsheet including, but not limited to: broken links, hardcoded values, and inconsistent formulae. The final deliverable includes a report that summarizes the findings from the use of KPMG’s MRT as well as recommendations for potential improvements.

**KPMG’s Credit Risk practice:**
KPMG is a leader in the credit risk management space, working with various organizations from financial institutions, diversified industries, power and utilities companies, and government agencies. Our strength in the marketplace is why 73 of the top 100 financial services companies have chosen KPMG as their auditor or professional services advisor. During the past five years, we have added a substantial number of Credit Risk Advisory professionals to our practice and are committed to continuing this growth. We currently have over 300 Credit Risk professionals working in the United States.

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