KPMG

System Survey

Commercial and Industrial Companies 2016

Preamble

We are proud to publish the first ever edition of our IT System Survey for commercial and industrial (hereafter 'C&I') companies in Luxembourg. The survey is aiming to review the core IT systems these companies use within their finance functions and to identify the ongoing trends driving this sector.

The analyses and conclusions set forth in this report are based on data gathered via online surveys, which were sent to companies with finance and accounting activities.

We would like to take this opportunity to thank all the participants who took the time to respond to this survey. Their participation allows us, for the first time in Luxembourg, to offer you insights into the latest IT systems, processes, and developments amongst C&I companies, as well as their main achievements and challenges.

We hope that you will find this survey both interesting and informative.

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Executive summary

Highlights

In this survey, we chose to focus on finance and accounting activities of commercial and industrial companies based in Luxembourg.

We look closely at the various sub-activities and features within finance departments, at the IT systems in use, and at the latest trends in the marketplace, offering explanations and contextualisation where possible.

Nowadays, more than ever before, the rapidly evolving IT landscape requires organisations to be vigilant in updating their systems to reflect the unique needs of their industry.

To that end, we hope that this survey proves to be an informative tool in providing an overview of what the non-financial sector looks like in 2016, and of the direction in which it is heading.

Typology and administration

System typology varies significantly across the different finance sub-functions. Sub-functions such as accounting, fixed assets, costing, and consolidation rely heavily (over 70%) on specific software packages, while others choose either systems developed in-house or traditional Microsoft end-user computing tools. Furthermore, the standard choice of delivery model is usually installed software, as opposed to other models such as software as a service (SaaS) or hybrid solutions.

Satisfaction and integration

Our panel of respondents expressed an overall average level of satisfaction with their current capabilities. There are certain weaknesses regarding system integration, and many organisations rely extensively on the use of end-user computing tools. However, relatively few have expressed an intention to implement major changes in the near future.

Quality, controls and safety

Generally speaking, controls are considered to be effective; however, there is still room for improvement, particularly given the heavy focus on regulations (FAIA, …) and compliance and the increasing frequency of new kinds of risks such as cyber attacks.

IT priorities

The top three IT priorities identified by this survey are business process improvements supported by IT solutions, data management and analytics, and enhanced security. These are affected by several trends including mobile and apps, big data, digitalization and cloud computing.

Past and future challenges

The majority of our respondents have experienced significant changes in their finance department over the past three years, with the implementation of new systems and the outsourcing and/or standardisation of their processes. This journey will continue for most over the coming three years, with a focus on change management, data and analytics, and business process improvements, including system standardisation and integration.

Approach and demographics

The figures and analyses presented in this report pertain exclusively to the results of the 2016 Luxembourg C&I System Survey, conducted via an online questionnaire.

Twenty-five respondents took part in our survey. These respondents operate in Luxembourg and represent various industries and services; they furthermore encompass a wide range of sizes, processes, and employee numbers.

Profile of respondents

12%
16%
40%
32%
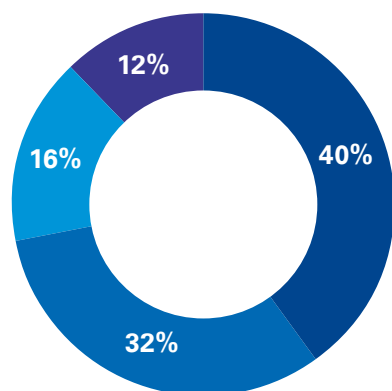
■ **Finance Manager**
■ **CFO**
■ **Other**
■ **ICT Manager**

◀ More than two thirds of our respondents work in financial functions, in both middle management and C-level positions. Furthermore, 12% of our respondents hold an ICT managerial position.
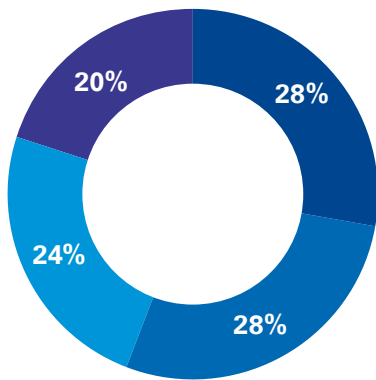
Company size
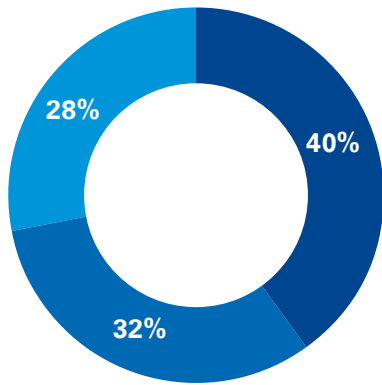
■ Between 50 and 500
■ More than 500
■ Less than 50

We have therefore decided to split the results into the following three categories, where deemed useful:

/ Small-sized companies:
  fewer than 50 employees (28%)

/ Medium-sized companies:
  between 50 and 200 employees (40%)

/ Large-sized companies:
  more than 500 employees (32%)

■ Between 1 and 100 million
■ More than 500 million
■ Between 100 and 500 million
■ Less than 25 million

The sample shows a wide and well-distributed range of companies in terms of annual turnover generated in Luxembourg. While 20% of them generate less than €25 million, 28% generate over €500 million in turnover.

Number of finance employees using IT systems
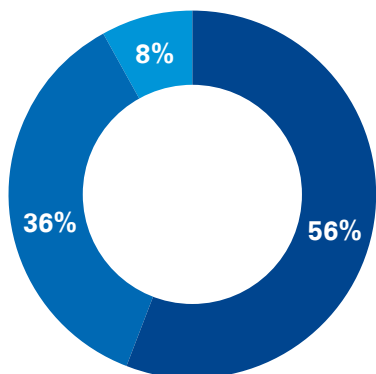
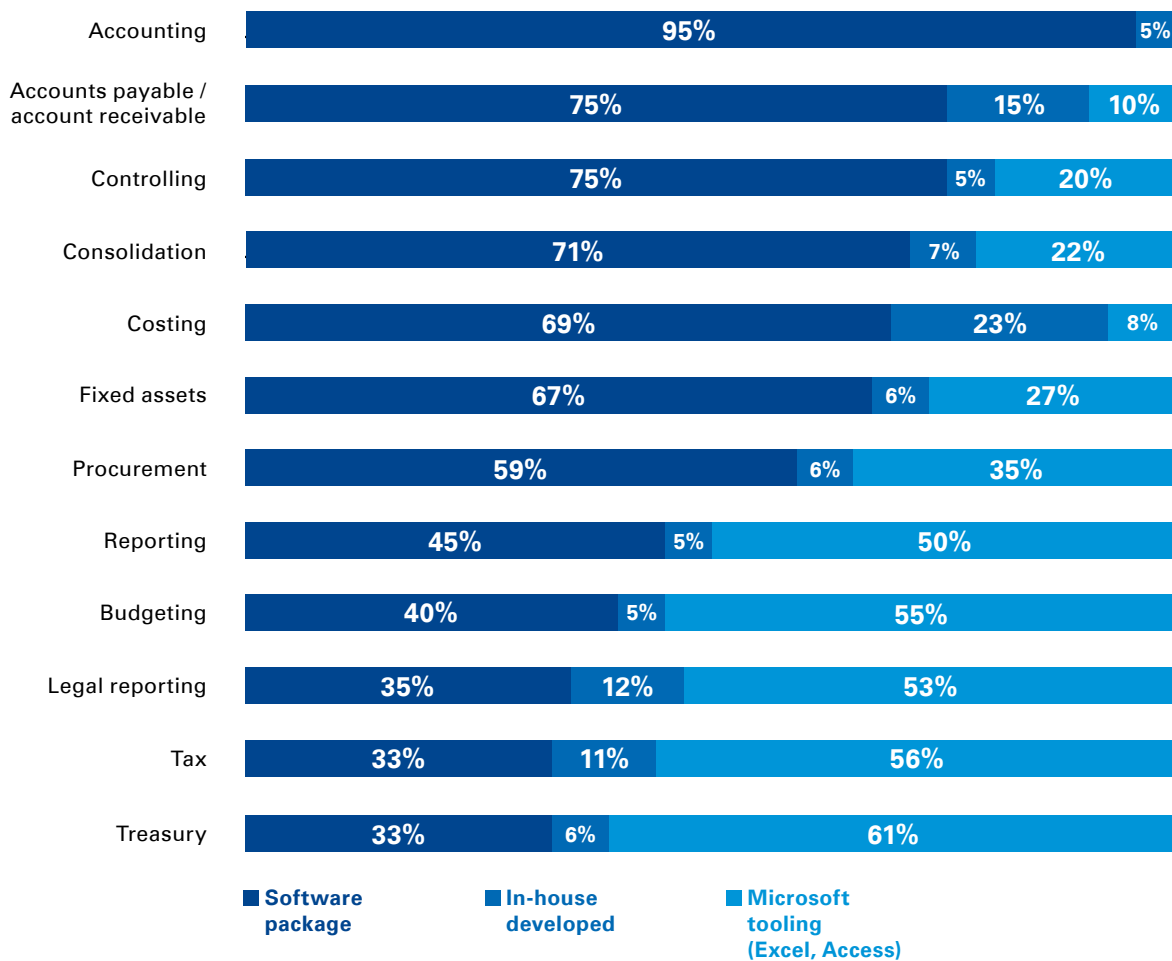

■ Less than 10
■ Between 10 and 100
■ More than 100

Lastly, it is interesting to note the number of finance and accounting employees within a given organisation. Only a few of the organisations in our sample have more than 100 finance employees using the IT system, whilst the majority have fewer than ten doing so. Thirty-six percent have between 10 and 100 employees in this role.

Typology and administration

IT solutions in use

	Software package	In-house developed	Microsoft tooling (Excel, Access)
Accounting	95%		5%
Accounts payable / account receivable	75%	15%	10%
Controlling	75%	5%	20%
Consolidation	71%	7%	22%
Costing	69%	23%	8%
Fixed assets	67%	6%	27%
Procurement	59%	6%	35%
Reporting	45%	5%	50%
Budgeting	40%	5%	55%
Legal reporting	35%	12%	53%
Tax	33%	11%	56%
Treasury	33%	6%	61%

■ Software package   ■ In-house developed   ■ Microsoft tooling (Excel, Access)

Our survey shows which solutions are favoured by each of the finance sub-functions. We found wide variation in the use of software packages, solutions developed in-house, and Microsoft tools across the different sub-functions.
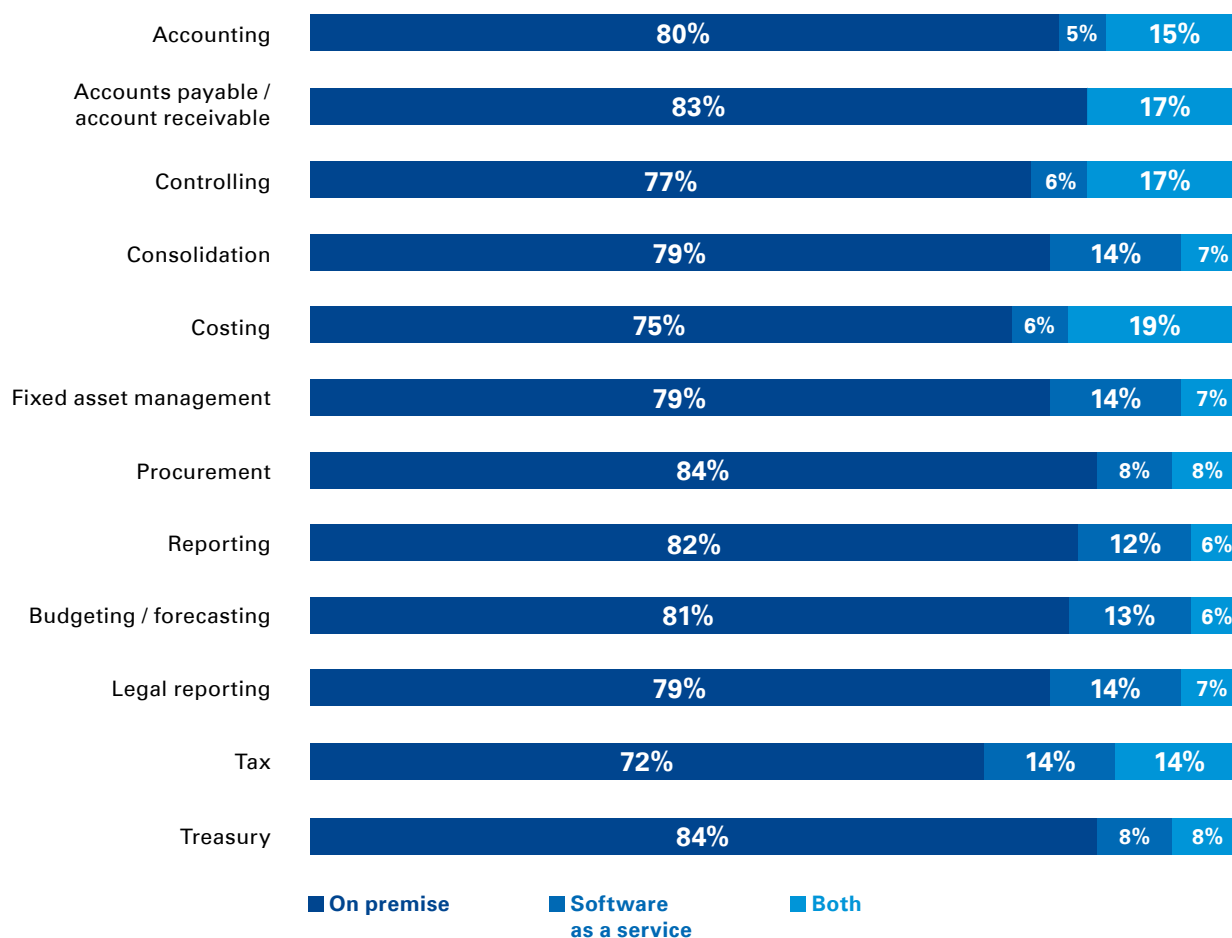
/ Accounting, fixed assets, and costing: SAP emerges as the leading vendor with more than 50% of our respondents opting for this solution. It may be coupled with other systems. Other popular solutions are Microsoft AX, Oracle, and EASI.

/ Reporting and controlling: SAP BW is a popular package in these fields, used in parallel with Excel for reporting and analysis purposes. Some respondents opt for more advanced business intelligence solutions offering 'slice and dice' and 'drilldown' features such as Qlik.

/ Consolidation: software packages with specific features that are tailored to statutory consolidation and management reporting are used by 75% of our panel, with a clear preference for SigmaConso, followed by HFM and Cognos. Those are often used in parallel with SAP.

/ Budgeting and forecasting: the use of spreadsheets is widespread across our panel (55%); 40% use software packages such as SAP, Oracle, or Microsoft AX; and 5% have developed their own solutions in order to meet specific needs.

/ Treasury, tax, and legal reporting: these sub-functions report the lowest levels of use of software packages and specialist suppliers.

Current administration patterns by field

On premise solutions are clearly the primary and standard delivery method used by our panel of respondents (over 71% across all sub-functions).

SaaS and hybrid systems remain less common approaches in Luxembourg. ▼

Field	On premise	Software as a service	Both
Accounting	80%	5%	15%
Accounts payable / account receivable	83%		17%
Controlling	77%	6%	17%
Consolidation	79%	14%	7%
Costing	75%	6%	19%
Fixed asset management	79%	14%	7%
Procurement	84%	8%	8%
Reporting	82%	12%	6%
Budgeting / forecasting	81%	13%	6%
Legal reporting	79%	14%	7%
Tax	72%	14%	14%
Treasury	84%	8%	8%

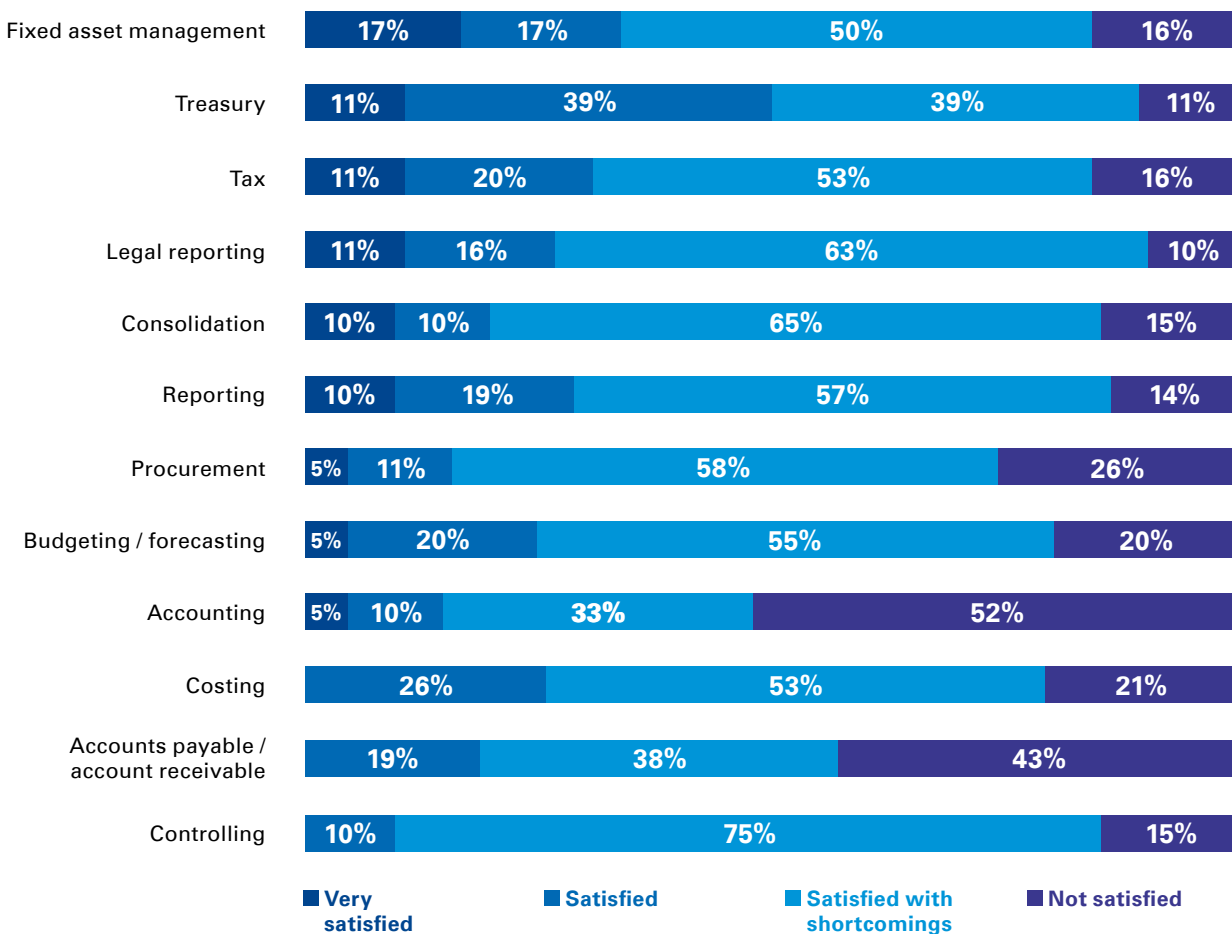■ **On premise**   ■ **Software as a service**   ■ **Both**

Satisfaction and integration

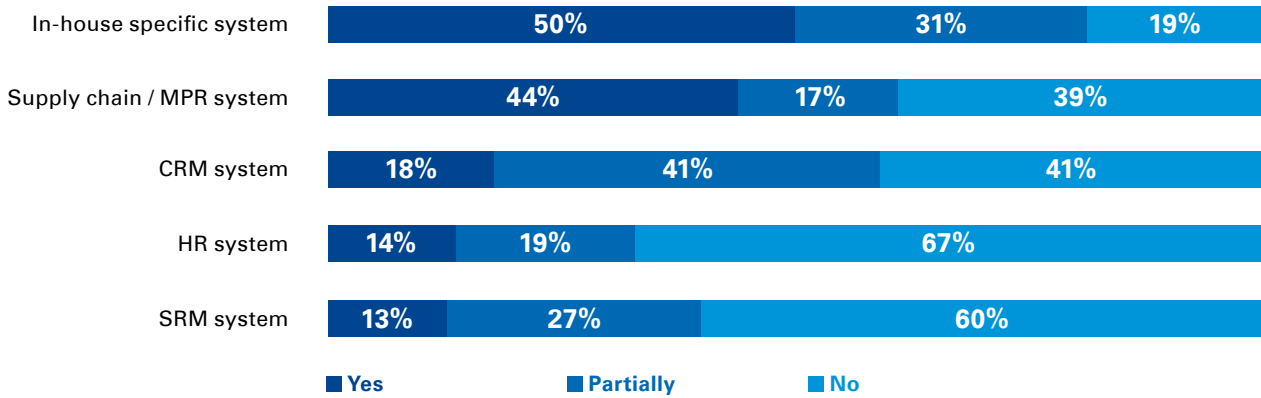## Level of satisfaction with current capabilities

Overall, the respondents tend to report an average to low level of satisfaction with the current capabilities of their systems. In this section and those following we will investigate possible explanations for this. ▼

Category	Very satisfied	Satisfied	Satisfied with shortcomings	Not satisfied
Fixed asset management	17%	17%	50%	16%
Treasury	11%	39%	39%	11%
Tax	11%	20%	53%	16%
Legal reporting	11%	16%	63%	10%
Consolidation	10%	10%	65%	15%
Reporting	10%	19%	57%	14%
Procurement	5%	11%	58%	26%
Budgeting / forecasting	5%	20%	55%	20%
Accounting	5%	10%	33%	52%
Costing	26%		53%	21%
Accounts payable / account receivable	19%		38%	43%
Controlling	10%		75%	15%

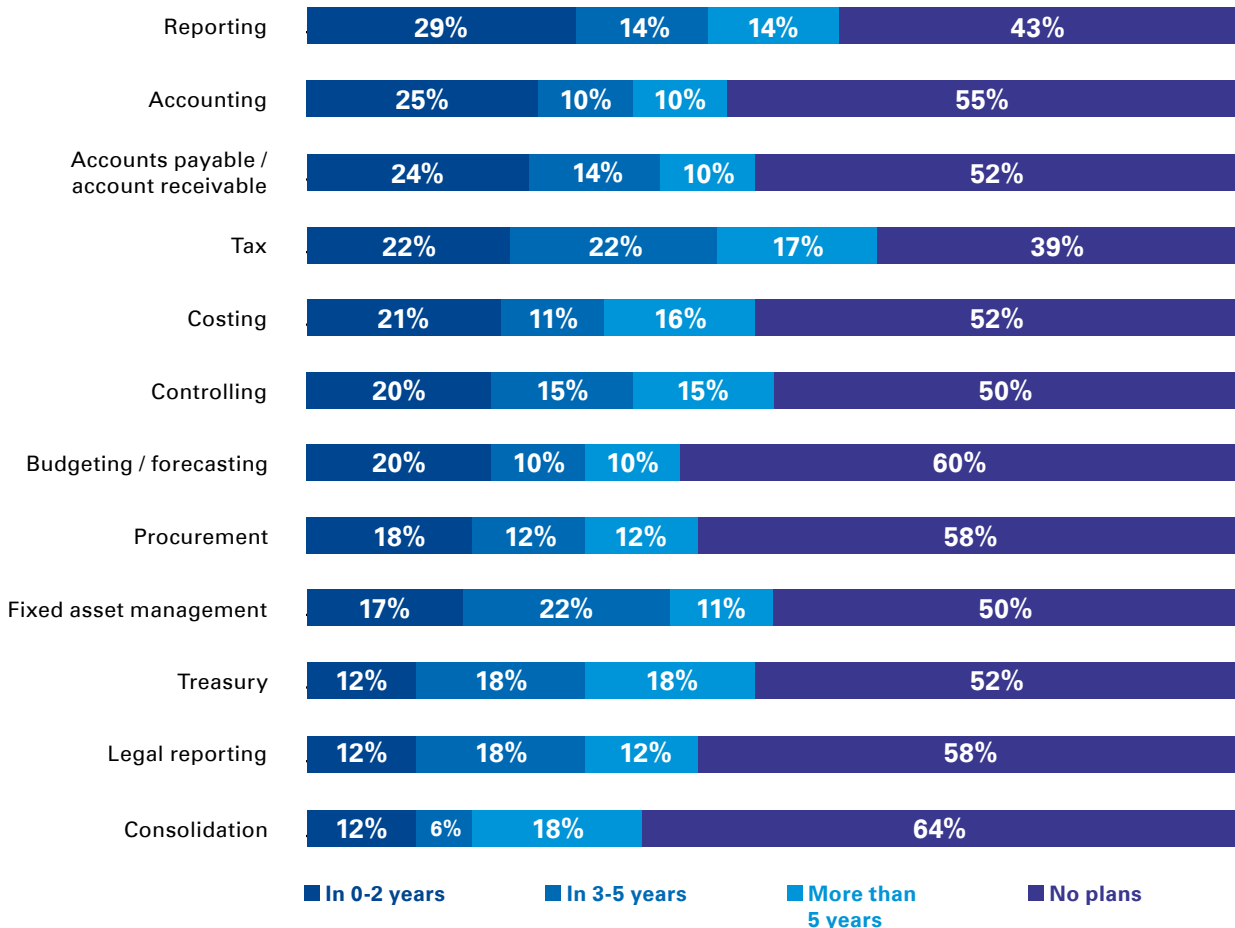■ Very satisfied ■ Satisfied ■ Satisfied with shortcomings ■ Not satisfied

Integration with other systems

Overall, the results show a low degree of integration between finance systems and other systems, with the exception of some in-house-specific systems (50%) and supply chain/MRP systems (44%). This could be one explanation for the low level of satisfaction expressed by our panel. ▼

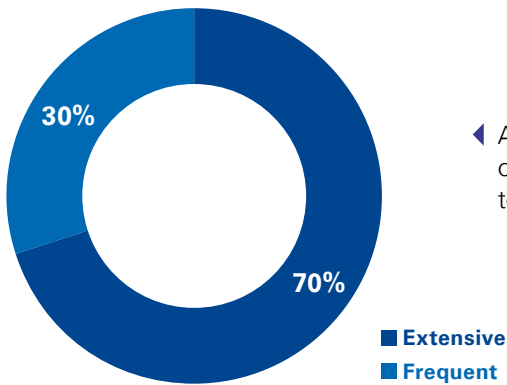|	Yes	Partially	No
In-house specific system	50%	31%	19%
Supply chain / MPR system	44%	17%	39%
CRM system	18%	41%	41%
HR system	14%	19%	67%
SRM system	13%	27%	60%

■ Yes ■ Partially ■ No

Intentions to make changes in the near future

Relatively few respondents plan to make significant changes to their finance systems over the next two years, despite the generally low level of satisfaction with current capabilities identified earlier in the survey. ▼
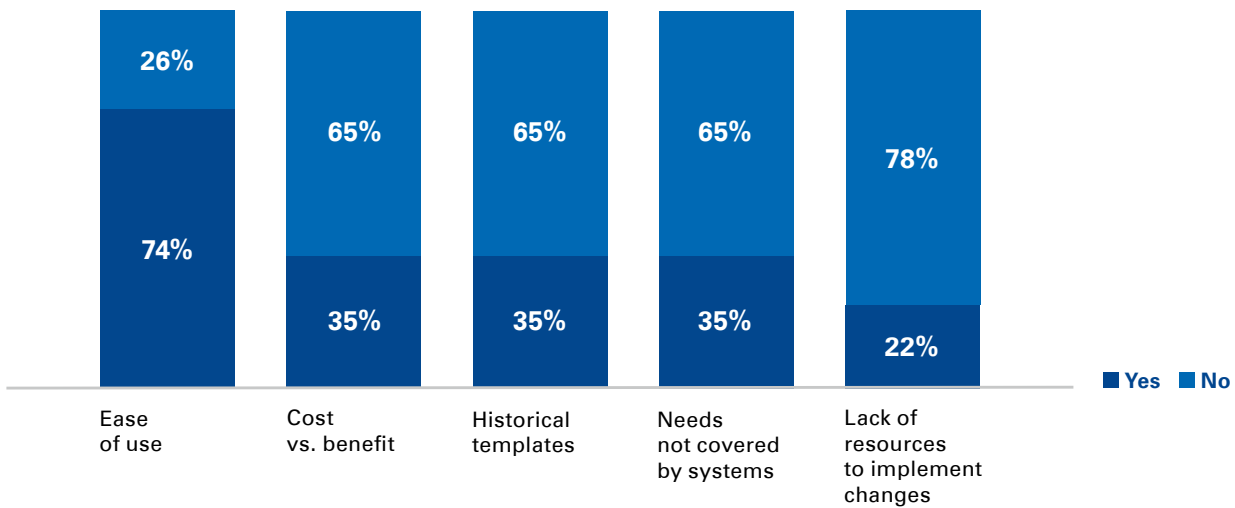
	In 0-2 years	In 3-5 years	More than 5 years	No plans
Reporting	29%	14%	14%	43%
Accounting	25%	10%	10%	55%
Accounts payable / account receivable	24%	14%	10%	52%
Tax	22%	22%	17%	39%
Costing	21%	11%	16%	52%
Controlling	20%	15%	15%	50%
Budgeting / forecasting	20%	10%	10%	60%
Procurement	18%	12%	12%	58%
Fixed asset management	17%	22%	11%	50%
Treasury	12%	18%	18%	52%
Legal reporting	12%	18%	12%	58%
Consolidation	12%	6%	18%	64%

■ In 0-2 years ■ In 3-5 years ■ More than 5 years ■ No plans

Use of end-user computing (Excel, Access, etc.)

30%

70%

◀ All of our respondents rely either extensively (70%) or frequently (30%) on various end-user computing tools to perform critical finance activities.

■ **Extensive**
■ **Frequent**

Main reasons for using end-user computing

Ease of use	Cost vs. benefit	Historical templates	Needs not covered by systems	Lack of resources to implement changes
26%	65%	65%	65%	78%
74%	35%	35%	35%	22%

■ Yes ■ No

▲

This graph shows the reasons behind the extensive use of end-user computing tools such as Excel and Access.

The most-reported reason is the ease of use of these tools (74%), followed by their cost (35%), the use of historical templates (35%), an absence of satisfactory solutions on the market (35%), and the lack of resources to implement change (22%).

KPMG View

End-user computing is a necessary complement to F&A packages. However, it requires strong governance to make it effective and to mitigate related operational risks.
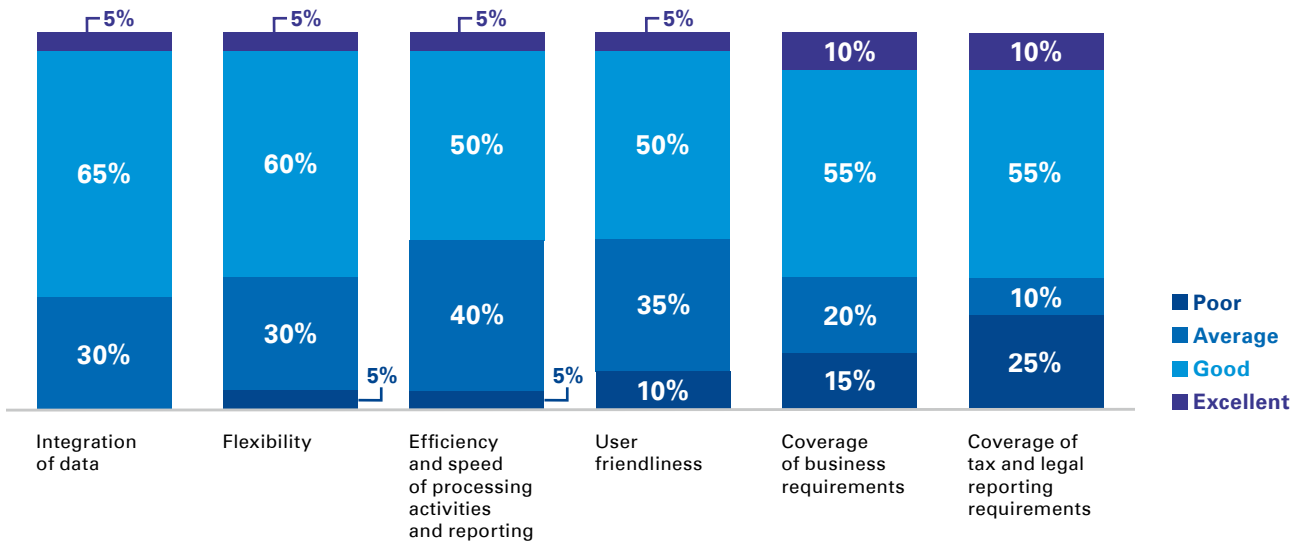
Quality, controls and safety

Rating the quality of financial data

Good | **Excellent** | **Average**
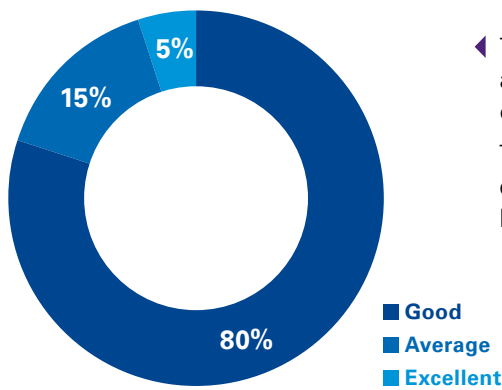
- 71%
- 19%
- 10%
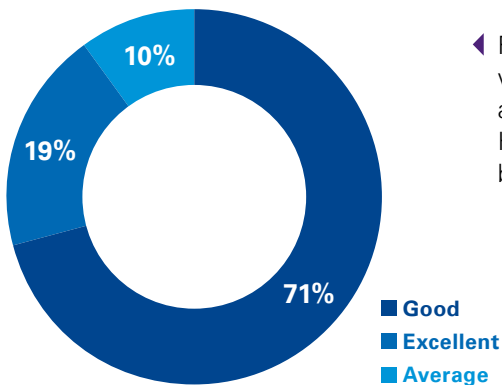
◀ For the most part, our respondents are highly satisfied with their financial data, with 71% rating the quality as excellent, 10% as good, and 19% as average. High-quality data is widely accepted today as a major business asset.

Quality of finance IT framework

	Integration of data	Flexibility	Efficiency and speed of processing activities and reporting	User friendliness	Coverage of business requirements	Coverage of tax and legal reporting requirements
Excellent	5%	5%	5%	5%	10%	10%
Good	65%	60%	50%	50%	55%	55%
Average	30%	30%	40%	35%	20%	10%
Poor		5%	5%	10%	15%	25%

**Poor** **Average** **Good** **Excellent**

Ratings of the overall controls in place for finance systems

◀ The results show a high level of confidence in and satisfaction with the controls in place, with only 5% of our panel rating their overall controls as average.

The past decade has brought greater awareness of controls and compliance, with many initiatives being led by finance sections.

- **Good** 80%
- **Average** 15%
- **Excellent** 5%

Vulnerability of systems to fraud
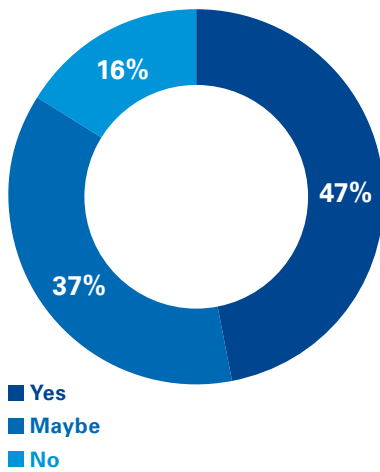
◀ There are mixed feelings amongst our panel of respondents with regard to their vulnerability to fraud:

- **/** 16% believe their systems are vulnerable to fraud
- **/** 47% believe their systems may be vulnerable to fraud
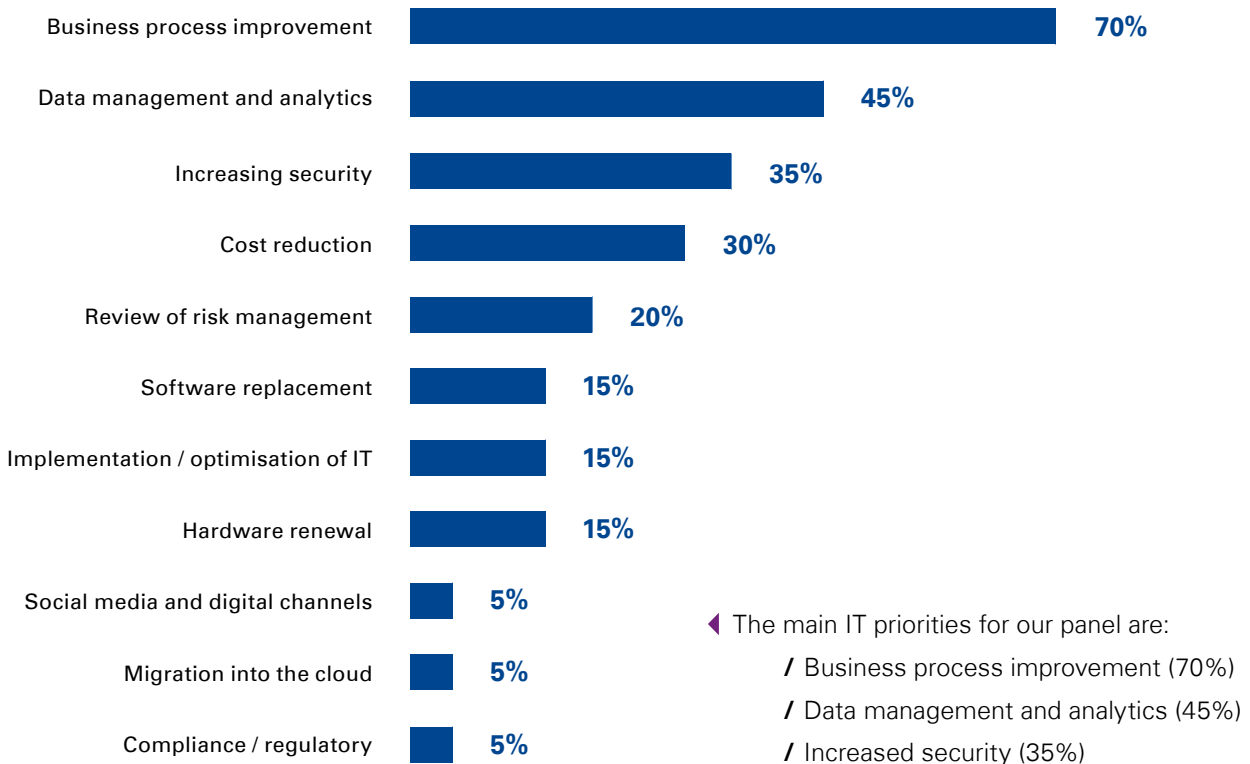- **/** 37% believe their systems are not vulnerable to fraud

These results suggest that there is room for improvement in the area of fraud prevention measures, despite the tight controls mentioned previously.

- **Yes** 47%
- **Maybe** 37%
- **No** 16%

KPMG View

Fraud prevention is a hot topic on the agenda of CFOs. It appears that 'good controls' are not sufficient to prevent fraud and its new patterns (e.g. cyber-fraud), hence CFOs' concern about their vulnerability and the urge to keep their control framework up to date vis-à-vis the threats.

IT priorities

Top three IT priorities for 2016

Priority	
Business process improvement	**70%**
Data management and analytics	**45%**
Increasing security	**35%**
Cost reduction	**30%**
Review of risk management	**20%**
Software replacement	**15%**
Implementation / optimisation of IT	**15%**
Hardware renewal	**15%**
Social media and digital channels	**5%**
Migration into the cloud	**5%**
Compliance / regulatory	**5%**

◀ The main IT priorities for our panel are:

/ Business process improvement (70%)

/ Data management and analytics (45%)

/ Increased security (35%)

Business process improvement supported by IT solutions is the hottest topic on the agenda for many finance functions. It has been established that efficient business processes are fundamental to every company's performance and ability to successfully execute business strategy, with technology considered to be a key enabler.

This result is in line with earlier findings in this survey, which revealed a relatively low degree of satisfaction with current capabilities as well as limited integration between different systems.

The second priority centres around data management and analytics, which are the two core components for big data. Many organisations are starting to leverage big data to reveal new insights and to strengthen business decisions in an increasingly volatile and complex environment.

Lastly, a focus on increased security is essential with enhanced data management and analytics, particularly given the growing frequency of cyber attacks.

Main focus areas for the coming years

Combined, the business trends with the highest impact on the IT departments of the companies in our sample are:

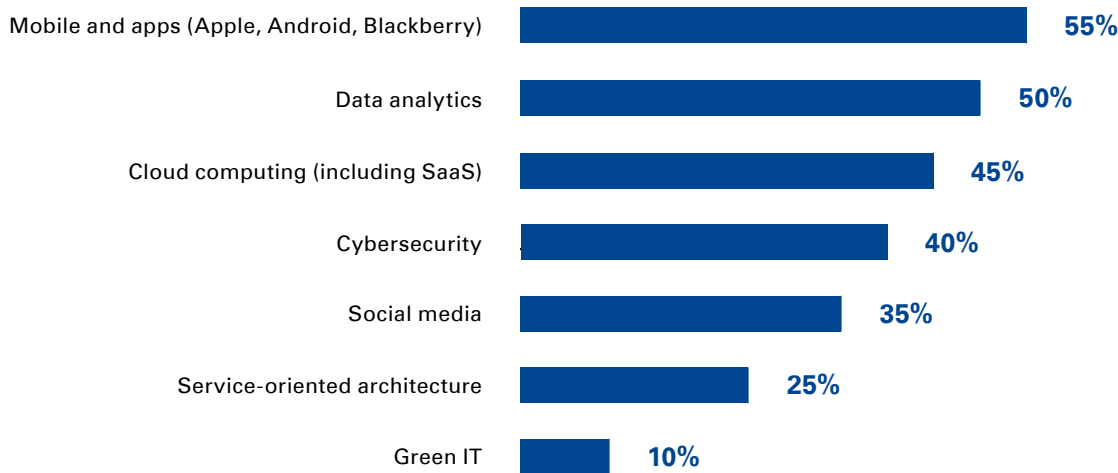/ Mobile and apps (55%)

/ Data analytics (50%)

/ Cloud computing (including SaaS) (35%)

/ Cybersecurity (40%)

/ Social media (35%)

/ Service-oriented architecture (25%)

/ Green IT (10%)

Mobile and apps (Apple, Android, Blackberry)	**55%**
Data analytics	**50%**
Cloud computing (including SaaS)	**45%**
Cybersecurity	**40%**
Social media	**35%**
Service-oriented architecture	**25%**
Green IT	**10%**

KPMG View

IT systems are still a means to structure, stabilise and streamline the processes and activities of the finance function. Although the impact of hot topics and key developments in this area such as cloud computing, mobility, big data, and cybersecurity are definitely on the agenda, the actual launch of related initiatives is, for the most part, yet to come.

Past and future challenges

Main achievements in the area of finance IT systems over the last three years

The common achievements identified in our panel's responses are:

/ IT transformation, including the outsourcing and implementation of new systems such as:

/ Consolidation tools

/ Treasury management systems

/ CRMs

/ Business intelligence tools

/ System upgrades:

/ Process optimisation

/ Upgrading certain systems to enhance functionalities

/ System standardisation

Main challenges in the area of finance IT systems for the next three years

The common challenges identified in our panel's responses are:

/ Completion of IT transformation strategies, including change management programs: the implementation of new systems to respond to market trends such as digitalisation will remain a challenge for the coming three years. Attention will also be focused on change management programs, which are an integral part of successful transformation strategies.

/ Compliance with new European audit regulations: Luxembourg's authorities require the implementation of the FAIA system. Compliance with FAIA may still involve adjustments to certain systems.

/ Business process improvements: system integration, automation, digitalisation, enhanced security, and tighter controls are amongst the many business process improvements our panel expects to address in the coming three years.

/ Data management and big data: as mentioned earlier in this survey, many organisations are using big data to deepen their business understanding and to strengthen business decisions in an increasingly volatile and complex environment.

The future of finance functions

Expectations of finance functions are constantly changing, their role and scope being continually redefined. Finance is no longer viewed as a back-office role; rather, it is now expected to add value and drive performance across the business. Common systems, processes, and data, alongside talent development, are the key enablers in allowing finance professionals to develop into efficient business partners. Luxembourg is no exception to this shift in mindset, and most organisations are well on their way to successfully completing their journey of transformation.

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for this survey

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