



How To Minimise Spreadsheet Inaccuracy



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As the current economic crisis continues to deepen there has never been a more important time to take a good long hard look at the Business Intelligence your business employs. BI or “decision support” as it is also known, allows organizations to better understand, analyse and predict what’s occurring in their company and, as importantly, the impact the outside world is likely to have on their business in the future. Businesses can no longer rely purely on intuitive managers and overworked and flawed IT.

Flawed Technology

A survey in 2004 by the International Data Corporation interviewed 118 business leaders and found that 85% of them still relied upon spreadsheets for budgeting and forecasting and a survey by the Hackett Group in 2003 found that 47% of companies still used stand alone spreadsheets for planning and forecasting.

A few years on and it is still clear that the vast majority of small and medium sized businesses continue to employ spreadsheets; this is particularly true within Finance Departments. Yet there is irrefutable evidence stretching back to the early 1990’s to as recently as 2007 that 95% of all spreadsheets contain information that is fundamentally flawed or inaccurate.

In a report originally written in 1998 but updated in 2008 Professor Ray Panko of the University of Hawaii highlights that these errors go far beyond simple human entry errors and are rooted in the bespoke and erratic spreadsheet development within organizations and a poor detection rate for logic errors. As worryingly a report from Rabbit and Vyas indicates that in most cases errors are made “below the level of awareness” or in other words people don’t even know they are making errors. This is of particular concern when one considers the amount of formulas that are hard-wired into spreadsheets and the weight many companies give to the reports they generate.

Serious Implications

If forecasting accuracy is put to one side for a second, and the financial reporting of a business is considered, then the results take on an even greater significance. In the UK, Tax Collection agencies commissioned a report from Ray Butler which illustrated that 6 out of 7 spreadsheets contained “actionable errors”. Surveys in Australia in 2004 have replicated the results.

In the current “clean accounting” climate there has never been a greater need for financial reporting accuracy.

Judge and Jury

One of the other key areas that need to be focused on in relation to spreadsheet development is that in the majority of cases the spreadsheets are developed by the individuals responsible within the given department, and often in isolation. Tests have also shown that errors are more likely to be detected when spreadsheets are developed by a group and where there is a pre-determined development strategy.

In many small and medium sized companies these disciplines are simply not considered and there is no formal “enforcement” or checking programme in place.

Blind Over-Confidence

Perhaps the most worrying element of all the data collected are the statistics for over-confidence in the spreadsheets those companies develop. Professor Panko and a colleague Professor Halverson found in controlled experiments that the predicted confidence in the inaccuracy of spreadsheets ran at a mean of 18% in two control groups, as opposed to the actual figures for inaccuracy which ran at 86%.

How You Can Minimise Spreadsheet Inaccuracy

- ▶ Only build spreadsheets after agreeing a detailed specification
- ▶ Make sure that new spreadsheets go through a design phase
- ▶ Impose formal project management and planning techniques
- ▶ Have an assumptions section for all input
- ▶ Think through and test formulas before inputting into the sheet
- ▶ Instigate a rigorous testing stage after the sheet has been developed
- ▶ Inspection should be conducted in teams not by individuals
- ▶ Don't punish errors as this will stop them being reported in the future
- ▶ Identify “critical” sheets and put them through the most rigorous testing
- ▶ Remember the error rates are not inconsistent with any other form of Human entry error rates

Conclusion

Don't assume that one of the most critical areas of your business is functioning correctly in fact assume the opposite and either start a programme of rigorous testing now or look at alternative forms of Business Improvement or Modeling Software.

If you are using a spreadsheet based reporting system to run your business it is likely that you are operating to a variance of up to 5%, consider very carefully if your business could survive if the estimates and projections were inaccurate by 5%.

What are the alternatives to Spreadsheets

A major part of any Directors or Managers job is to make decisions. If you can improve the overall quality of the decision making process you'll improve the overall effectiveness of your business. If your business is built on sand then you're more likely to fall victim to the current economic climate.

MXI are happy to have a free, informal and impartial discussion with you about the quality and reliability of your data and systems you currently use.

MXI specialise in the supply and support of Business Improvement software. We help our clients select, install and most importantly optimise our software solutions.

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