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Beware of the spreadsheet

“INHERENTLY INSECURE”, “DIFFICULT TO MAINTAIN” AND EVEN “DANGEROUS” ARE JUST SOME OF THE CRITICISMS BEING THROWN AT THE HUMBLE SPREADSHEET. IS THIS BACKLASH REALLY JUSTIFIED? **LIZ FISHER** WRITES

An accountant and his spreadsheet are not easily separated. The spreadsheet is the foundation for many accounting processes and the domination of Microsoft means that Excel rules the accounting world. Excel is widely available, as cheap as chips and, most important of all, extremely familiar to anyone with more than a basic interest in book-keeping. But that does not mean that the spreadsheet is always the best tool for the job. Questioning the profession’s reliance on spreadsheets, though, is akin to asking why the British drink so much tea.

Over recent weeks, however, spreadsheets have come under attack once again. At the front line is FMIS, the developer of the Asset Intelligence system for fixed asset registers. At the end of last year, FMIS released the results of a survey which suggested that spreadsheets were seriously flawed when applied to the management of fixed asset registers. The survey, of companies using spreadsheets to manage 1,000 or more fixed assets, showed that only 11% of organisations had complete confidence in the data produced by their spreadsheets. In particular, 82% of companies questioned said that the spreadsheets had produced incorrect depreciation calculations and 48% of those errors were only picked up after the year-end, a third of them by the external auditor.

FMIS maintains that spreadsheets are particularly dangerous when applied to the fixed asset register because their use leaves no clear audit trail. Spreadsheets tend to be highly individual and allow very little control over changes that are made to the

data. External auditors can find it impossible to track when and why changes were made. Post-Enron, a clear audit trail has become even more important and companies such as FMIS are predicting a strong growth in dedicated fixed asset management software as a result.

But the argument is not entirely about auditing. There is also a danger that the spreadsheet becomes too closely associated with the person responsible for its maintenance. Individual users have their own preferences and quirks and FMIS’ statistics suggest that only 10% of spreadsheet formulae and references are properly logged. If the designated staff member leaves the company, management are left with a complicated document that contains all the necessary information, but which is almost impossible to read accurately.

FMIS also argues that spreadsheets are an unwieldy and inflexible tool to apply to the fixed asset register. 75% of companies questioned for its survey said that they found spreadsheets complex to set up (7% described the process as “a nightmare”) and companies with even a relatively small asset register were spending a disproportionate amount of time and energy simply maintaining the spreadsheet. According to the survey, 60% of companies spent more than three hours a month maintaining the register—and 80% of those owned fewer than 5,000 assets.

“The spreadsheets we examined had four main problems,” said Martin Hakes, managing director of FMIS. “They were expensive, not only in terms of the



time invested in setup, but also in the amount of time required each month to maintain the data and calculate depreciation. They failed to deliver the correct results or adhere to accounting standards in 80% of cases. They were almost impossible to integrate with other systems and most were not auditable, often because they contained calculation formula and functions that were only known to the person responsible for maintaining the spreadsheet.”

FMIS, of course, does have something to gain from its argument in that it has developed and is selling a fixed asset management system of its own. Nevertheless, its findings are backed by ongoing research being carried out by KPMG into the use of spreadsheets. FMIS’ findings also seem to have struck a nerve with many spreadsheet users. A brief summary of FMIS’ survey on AccountingWeb, for instance, prompted a number of comments. Daniel Clark, a former FD in control of 10,000 assets, said that he would not consider using a spreadsheet-based register. “In the end most users cannot build a spreadsheet that would stand a third party review,” he wrote. Another reader added that spreadsheets were “inherently insecure”.

Industry analyst, Dennis Howlett, agrees, and has been campaigning against the widespread use of spreadsheet-based software for years. “Spreadsheets are simply not designed to be used for critical business applications,” he says. “In fact, I’d go so far as to say that using a spreadsheet for anything that is business-critical is crass stupidity. They are difficult to maintain and don’t register changes that have been made. I’ve

seen many examples of cases where spreadsheets have caused problems—such as a brewery, for instance, that made a £48m mistake in its reporting because it was keeping its monthly reports on spreadsheets and no-one noticed the error.”

This is not the first time that spreadsheets have come under fire. A similar debate raged briefly over the use of spreadsheets for budgeting in 2001, when research carried out by KPMG suggested that over 90% of spreadsheet systems contained undetected errors. Users then complained about a number of difficulties with Excel, including it occasionally treating numbers as text. Defenders of spreadsheets pointed out that the problems were often caused by user error and not by flaws in the program itself.

It is the emergence of intelligent software—such as FMIS’ asset intelligence—that has marked the end of the widespread and indiscriminate use of spreadsheet-based systems. Or, at least, it should have marked the end. Too many accountants, FMIS and others argue, are holding on to their familiar spreadsheets when there is a much better, more accurate option available.

Generally, all sides agree that spreadsheets, such as Excel and its rivals, are useful analysis tools but are less reliable when it comes to data maintenance. The problem seems to be that people tend to fall back on the familiar and end up applying a tool that is ill-suited to the job in hand. “I would always recommend that you use software that is specially built for critical applications,” says Howlett. “People like to use spreadsheets because they are free, but there’s no such thing as a free lunch.”

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