

The Modern Financial Close Process- Five Ways to Transform Your Finance Function

Chief Financial Officers (CFOs) are feeling pressure to report on more financial data in a shorter period to fit multiple purposes. This pressure stems from new accounting standards, increased regulation, a volatile business environment and heightened stakeholder demands. It has been a challenge for finance organizations to answer this call due to a financial close process that is belabored with decentralized, nonstandard manual processes forced to occur in a certain time period and an over-reliance on spreadsheets and workbooks.

Even organizations that have made an investment in technology are generally underutilizing the solutions and are leveraging basic capabilities (i.e., utilizing solutions as more of a document repository or workflow tool versus unleashing the technology's true power to work smarter and increase productivity). To begin bridging this gap, CFOs and their respective finance organizations should take a holistic approach to the financial close process where finance is in a mode of "continuous accounting." There is a focus on automation and high value activities (e.g., forecasting or data visualization that improve business decision-making) in order for accurate financial records to be readily available. Below we will discuss five ways a modernized financial close process can answer the call and provide value to an organization.



1. LOOKING FOR SERVICE: FINANCIAL CLOSE STRATEGY

As the expectations of finance organizations shift to better support business challenges and growth, having a clear strategy that outlines the vision of the controllership function is paramount. A clear, defined strategy allows the finance department to have the capabilities required to meet the ever-changing requirements and reduce complexities within the financial close process.

It is extremely important to understand the overall vision and functionality of the finance organization and to clearly define those strategies. That vision should incorporate business perspective, stakeholder expectations and an evaluation of its own performance and capabilities to focus on value-added opportunities. The finance organization should clearly define supported business objectives, such as cash management, raising capital and sources of funds, long-term financial planning, capital structuring, etc.

Once a business strategy is developed, finance organizations should consider how these objectives are achieved while making sure there are accurate results from the financial close process. Asking such questions as listed below can help the controllership function understand the key drivers to executing a quality close.

- Who are the key stakeholders? Do they understand the importance of an efficient turnaround? Are they included in discussions around the close process to voice constraints in delivering deliverables to finance?

- What tasks can be completed in advance of the close? Identifying tasks (such as certain accrual journal entries and other estimates) that can be moved up prior to close can balance the workload and lead to fewer errors and reduced stress for finance personnel.
- How is the concept of materiality utilized to determine accrual amounts? Are estimates only being booked during quarterly close versus month close? Are accruals or prepaids added to the overall financial statements and do they require a journal entry?
- What is the frequency of conducting balance sheet reconciliations? Can criteria be established to limit the preparation and review of reconciliations on low risk accounts?
- Are finance personnel cross trained on tasks to ensure no disruption to the financial close process due to vacations, illness or resignations?
- What technology solutions should be put in place to automate tedious, manual tasks? If technology exists, is the solution being used efficiently to realize its full return on investment (ROI) potential?
- Do your finance personnel have the skills and aptitude for the ever-changing business environment? What capabilities are needed to meet the demands of the business?

2. DIALING IT IN: PROCESS AND PROCEDURES

Processes and procedures are at the forefront of an organization's journey to modernize their financial close process. Many organizations struggle with decentralized, nonstandard and manual processes that do not allow for synergies across the organization. It is a challenge for finance organizations to deliver business insights through real-time data visualization if they are working with disparate systems. The development of consistent and defined process and methodologies allows the capture of key performance indicators and monitoring to allow them to achieve internal targets faster. Finance should be following a strategy of continuous accounting but also remember to continuously improve processes and procedures to prevent them from becoming outdated, inefficient and ineffective.

Those organizations that have developed and documented standard processes and related procedures in precise detail at the task level are already ahead of the game. These procedures act as a guide to promote a fast and accurate close. They can also provide organizations a clear understanding of dependencies, bottlenecks, durations and resource needs. This exercise also allows an organization the opportunity to analyze gaps around their processes and focus on improving what does not work or does not work well. It also helps organizations answer the question, "How does this task or process add value?" and, "How is it connected to the business strategy?" By breaking down a process into its inputs and outputs, organizations can identify potentially duplicative work, low value activities, automation opportunities and process bottlenecks.

3. READY FOR UPGRADE: OPTIMIZATION & AUTOMATION

As organizations begin the journey of digital transformation across finance, attention should be turned to determining what manual tasks can be automated. It is important for organizations to understand that jumping to automation without investing the time to improve their processes will not lead to the expected ROI. However, automation can be used as a catalyst to facilitate centralization and standardization, and technology solutions are only as good as their inputs.

Most companies have historically managed their close processes through manual spreadsheets. These inherently lead to differences in what is tracked and a lack of leadership visibility. Tracking a close process and completing close tasks through spreadsheets slows down the timeliness of the close, potentially erodes the accuracy of the data being prepared and lacks an appropriate audit trail for changes. Luckily, there are many technology tools that organizations can implement to assist in achieving their goals of a more efficient, accurate close. Such a toolkit may include a variety of solutions such as record-to-report (R2R), visualization, robotics process automation, ERP integration, workflow, artificial intelligence, etc.

4. TURN UP THE BRIGHTNESS: REAL-TIME DATA

Historically, finance organizations have not had visibility into real-time, accurate data until month end. This timing generally does not support the business needs to make timely decisions. By optimizing and automating tasks and processes and re-thinking the timing of tasks, finance organizations can spend more time focused on data visualization and forecasting. Instead of simply “closing the books,” the controllership function can transform into true business partners to other areas of the organization by not just focusing on “what happened” but on “what is possible” to help drive business performance.

5. DEFINE THE PASSCODE: SET CONTROLS

An effective controls framework underlines the whole financial close process. As tasks are examined and automated, finance organizations should focus their efforts on the most appropriate controls within the financial close process. Integrating compliance directly with tasks within the financial close process allows critical issues to be identified in real-time so finance organizations can focus on solutioning and prioritizing remediation. Through this integration, finance organizations can enable a clear audit trail for internal, external and regulatory compliance.

Answering the call for a modernized financial close process requires a multi-faceted approach. Finance organizations do not need to choose between cost, quality and speed – instead, through process optimization enabled by technology, finance organizations can work toward having the best of all three.

HOW DHG CAN HELP

DHG’s process-first approach informs clients on best-in-class capabilities while leveraging the latest smart workflows and automation technologies. We work to help improve productivity, efficiencies and customer experiences through innovative solutions such as automation maturity assessments and rapid process re-engineering.

If you are beginning or in the midst of your financial close modernization, reach out to us at dhgadvisory@dhg.com.

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