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FSN Executive Briefing

How can CFOs move to a Continuous Close?

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How can CFOs move to a Continuous Close?

The Continuous Close, i.e. the ability to retrieve a company's results on-demand (not just at the month end) has been a corporate ambition for many years but has remained stubbornly elusive. Fractured systems, lack of process support, cultural impediments and the increasing globalisation of business operations have all contributed to the difficulty of marshalling transactions from their inception in reporting entities through to a final and complete consolidation. As a result, the finance function lives in a 'pressure cooker' environment in which the whole burden of reporting falls on just a few days at the month end.

But the advent of cloud computing, coupled with the emergence of new applications designed to fill the process gaps between ERP and performance management systems is turning the tide, liberating enterprises from the rigidity of the accounting calendar and enabling CFOs to view business performance in real-time.

Why is a Continuous Close important?

The trend towards more broadly based performance reporting, both for internal and external reporting purposes, requires management to have its 'finger on the pulse' of the business all of the time, rather than just at quarterly intervals or at the year end. Narrative reporting regimes in Europe and elsewhere point to the need to disclose material matters affecting performance soon after they arise, as well as to achieve a balance when commenting on trading performance.

It is clear that the efficient collection and consolidation of financial performance on a regular basis lies at the heart of business performance management. The close process is the 'engine room' of performance management. Monthly actuals provide the baseline for comparisons against budgets and forecasts, enabling business management to use forecasting applications to turn passive historic data into actionable information about likely future performance. No matter what methodology is used for budgeting and forecasting, score-carding, dash-boarding and reporting, the efficient delivery of actuals remains a constant requirement of an effective performance management regime.

A point in time close enables management to turn its attention to measuring progress at any moment, remedying underperformance and achieving goals. In a nutshell, it reduces 'time to insight' and accelerates 'time to decision'.

How near are we to a Continuous Close?

According to the EPMi Close Cycle Rankings 20151, the average number of days to close and report for the 20 largest companies in the world, dominated by US Corporates, has slumped by an average of 24% over 11 years - the elapsed time for the Top 20 to announce their results in 2015 was 14 to 22 days. The average elapsed time to report for the Global 500 is nestling around 41 days.

But it's important to distinguish a statutory close from a normal monthly management accounting close. The statutory close has been worn down by increasingly onerous compliance regimes, complex (and changeable) accounting standards together with voluminous disclosure requirements. The situation before Sarbanes Oxley regulation came into effect was one of steadily improving reporting timescales and indeed, countries that are not caught in the Sarbanes Oxley 'net' often show a year on year improvement compared with (largely) US corporations.

So there have been improvements in the close process it's just that this is sometimes masked by regulation. What this tells us is that the monthly close process is amenable to change and that lessons learnt from the statutory close can usefully inform improvements in the management close.

But for the moment, many close tasks are bunched up around the year-end requiring CFOs to staff up for the peaks as well as 'burning the midnight oil'. A core advantage of a Continuous Close is the smoothing of the peaks and troughs in workload. Rather than the bunching of activities around the period

end, a Continuous Close automates crucial activities and takes them off the critical path. This allows them to be tackled earlier in the month, when there is less pressure on the organisation – helping to reduce errors and the likelihood of, for example, unreconciled items being carried over to the next period.

Process standardisation and automation hold the key for CFOs

The main obstacles to a close at any point in time relate to inconsistent accounting policy, lack of process support and automation. Matters such as non-standard group depreciation policies, inconsistent approaches to intercompany agreement, incomplete ownership information and a misguided obsession with accuracy all weigh heavily on the ability to close quickly, as do inconsistent charts of account at a summary level with no supporting data dictionary (description of each account line). Yet all of these matters are within the grasp of the finance function and relatively easy to 'repair'.

Less amenable to improvement is the reliance on manual interfaces in vital areas such as data capture from subsidiaries' ERP systems and the lack of process support and visibility for key tasks such as intercompany agreement, group journal entries and balance sheet reconciliations.

For historic reasons, principally systems performance and high data volumes, it has been common practice to distribute consolidation systems, often on a regional basis but this results in a fractured infrastructure that creates institutional delay and makes a Continuous Close impractical.

Companies that perform the best in terms of speed of reporting have standardised and integrated corporate data models and charts of accounts, exploit common ERP and performance management systems and ideally a single instance of the ERP solution.[1]

Despite this, many vital tasks lie outside the scope of automation and are frequently managed in a patchwork quilt of spreadsheets and manual workarounds with little process support. Chief amongst these is task management, intercompany reconciliations, balance sheet reconciliations and journal entries. These crucial and labour intensive parts of the process fall in the cracks between ERP and Corporate Performance Management (CPM) systems. But a newly emerging category of software, such as BlackLine's 'Extended Financial Controls and Automation' in the cloud is transforming the close process by enabling automation of the parts of the process that would otherwise be neglected.

Complementary technology enables a Continuous Close in the cloud

Positioned in the cloud, EFCA provides platform capability that can profoundly transform the Record-to-Record process from a series of 'lumpy' tasks into a continuous stream of activity. The immediacy, accessibility and scalability of the cloud ensures that all of the participants in the close process, (wherever they reside physically), have compete visibility of the process and can collaborate more effectively.

This allows the finance function to take care of, for example, a significant number of account reconciliations outside of the critical path of the close, rather than in the middle of it, which is traditional – and problematic – way to handle reconciliations.

And it's not just balance sheet account reconciliations that can be shifted off the critical path. It is also possible to bring forward detailed transaction matching and journal entries which form an essential part of close tasks in subsidiaries and the corporate centre.

Furthermore, task management in the cloud allows the tasks and issues that are intrinsic to the financial close such as audit evidence, management commentaries, externally generated documents such as balance confirmations, compliance sign-offs, checklist of close tasks and instructions to be maintained in a central and secure environment. And embedded workflows allows tasks to be routed between the different users in a process chain. This may be to obtain a compliance approval, to escalate an issue to a supervisory level or simply to invoke the next stage of the process. Linked to email and alerting systems including mobile devices, this provides the means to expedite the close process whilst maintaining appropriate levels of control.

Summary

Despite the large sums of money that have been lavished on the Record-to-Report process it remains a significant burden on the finance function, especially at month-end. Management teams have to wait at least a month to see the accounting information they need and this seems at odds in an era in which so much information can be consumed on-demand.

Some of the difficulties can be blamed on inconsistent accounting policies and incomplete information but the primary cause of the problem is a lack of automation. Traditional approaches using ERP and performance management systems provide insufficient support leaving large tracts of the process dependant on manual workarounds which are costly and inefficient.

The Continuous Close leverages modern cloud-based technology and EFCA applications such as BlackLine to bridge this gap enabling close activities to be spread out during the month, reducing the pressure on hard-pressed finance functions and enabling a paradigm shift to the delivery of management information at any point in time.

[1] *EPMi Close Cycle Rankings 2015*

About Gary Simon

Gary Simon, is ranked by LinkedIn as one of the UK's top 10 business leaders in 2015 and is leader of the FSN Modern Finance Forum on LinkedIn with more than 43,000 members. He is a graduate of London University, a Fellow of the Institute of Chartered Accountants in England and Wales and a Fellow of the British Computer Society with more than 30 years' experience of implementing management and financial reporting systems. He is the author of four books, many product reviews and whitepapers and as a leading authority on the financial systems market is a popular and independent speaker on market developments. Formerly a partner in Deloitte for more than 16 years, he has led some of the most complex information management assignments for global enterprises in the private and public sector.

About BlackLine

BlackLine is a leading provider of Enhanced Finance Controls and Automation (EFCA) software and the only one that offers a unified cloud platform supporting the entire close-to-disclose process. The BlackLine Finance Controls and Automation Platform is designed to help midsize companies and large enterprises strengthen controls, lower compliance risks and gain greater efficiencies and visibility. Delivered through a scalable and highly secure cloud model and built from a single code base, the platform supports many key accounting and financial processes including the financial close, account reconciliations, intercompany accounting and controls assurance, fuelling confidence throughout the entire accounting cycle. More than 120,000 users across 1,200+ global companies in over 100 countries currently leverage BlackLine to increase accountant productivity and elevate controls and compliance functions to 'Modern Finance' status, with customers comprising more than 25 of the Fortune 100 and over 100 of the Fortune 500. BlackLine complements existing enterprise systems for Corporate Performance Management, Governance Risk and Compliance and Enterprise Resource Planning. The BlackLine Financial Close Suite for SAP® Solutions is an SAP-endorsed business solution, joining the ranks of fewer than 40 other software offerings. BlackLine also is an SAP Gold Partner, Oracle Gold Partner, and participates in the partner programs of NetSuite and several other ERP providers.

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