Optimizing the Accounting Close and Financial Reporting

Agenda / Goals
- Part II – Complete Solution Approach to Optimization
  - Methodology
  - Best Practices
  - Technology
- Part III – Complete Solution Approach to Optimization
  - Focused Resources and Strategies

Course materials will provide a structured solution and practical insights

Specific objectives include:
- Identify the core close and why it is referred to as "Last Mile."
- Identify a relevant improvement methodology why used.
- Identify 5 key challenges to improving the close.
- Define an Optimized Close.
- List the top priorities of an efficient close and how do they relate to the speed of the close.
Introductions & Expectations
Accounting Close and Financial Reporting

Introducing “The Close”
“Core close” versus “Extended Close”
◦ Cycle time (days): From a) Start of pre-close to b) Last J/E
◦ Where is electronic data stored? (excel, e-mails, pdf reports)
◦ Are binders used to store paper documents?
◦ What technology manages the close?

Overview
Accounting Close and Financial Reporting

Definition Question
What is the Accounting Close and Financial Reporting?

a) An event
b) An important financial process
c) A rite of passage
d) A fun time
e) All of the above
f) None of the above

Why does it seem as such a unique process?

Uniqueness Questions

◦ Why is the close different from other processes?
  ◦ Changes frequently
  ◦ Catcher of the miscellaneous
  ◦ Generally has not been an actively managed or highly visible process
  ◦ 100% ONLY based Grading Scale
  ◦ “Last mile” of the Financial close process

◦ On Day 3 of a 6-day close, if the CFO asks, “Where are we in the close?” – What do you say? Why?
Manageability Questions

How is the Close process managed?

- Should the accounting close rely on Excel as a process management tool? Why?
- What technologies are used to manage other complex financial processes? Why?

Analysis

Financial Systems

Overview

Accounting Close and Financial Reporting

Timing Questions

Q.) Do you have the time to improve the close?
A.) You do not have the time NOT to improve the close.
Improving saves time.

Q.) When should you start?
A.) Start it now, before its mandated by someone else!
Goal of over 50% of audit committees
Q. Why is the Close often referred to as the “Last Mile”?

Q. How and Why is the Close so unique?

A. Pictorial analysis of the problem.
### Company C

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### Overview

**Accounting Close and Financial Reporting**

IOMA survey "Improving the Financial Close"

* CFOs & Managers asked to describe top priorities:

5. Assign responsibility for resolving discrepancies
4. Establish clear accountability for closing tasks in a closing schedule and enforce deadlines
3. Establish clear and regular close communication
2. Develop and monitor close performance metrics
1. Continuously improve closing processes

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**Survey Needs Analysis of Complete Solution Approach**

- Assign responsibility for resolving discrepancies
- Establish clear accountability for closing tasks in a closing schedule and enforce deadlines
- Focused Resources and Strategy
- Best Practices
- Technology
- Continuously improve closing processes
Methodology

Lean Six–Sigma

Four Basic Principles of Lean Six Sigma

1. **End–User Focused**
2. **Improve Process**
3. **Teamwork Focused**
4. **Facts Based**

Reference: *What Is Lean Six Sigma* by Mike George, Dave Rowlands, and Bill Kastle

Methodology

Lean Six–Sigma

1) **End–User Focused**
   
   Who are customers of the financial close process?
   
   What do they value? What do YOU value?

   **Quality**  ➔  Eliminate defects

   - Accuracy / Completeness
   - Visibility / Manageability
   - Compliance / No surprises
   
   - Optimized process yields “good” Speed
Methodology
Lean Six-Sigma

2) Improve Process

- If I ask, “Why do we do things this way during the close?”
- “That’s the way we have always done it” which is based on historical constraints, not on efficiency.
- Make incremental process improvements, measure effectiveness [get data], continue iterations towards improvement objective.
- Continually improve by repeating optimization process to achieve increased sigma levels of quality

3) Teamwork Focused

- Teamwork evolution:
  - Individual Contributor ➔ Groups ➔ Teams ➔ Optimized Teams
- Requirements for effective teamwork
  - See: Visibility to identify need
  - Decide: Communication to process, determine & disseminate
  - Do: Manageability for effective execution
- Use teamwork to set goals, assign accountability, handle conflict, hold effective meetings, enable continuous learning, collaborate with other groups

4) Facts Based

- Find “Relevant Measures” to set goals, measure progress and track effect of improvements
- Visible, useful, quantifications of discrete actionable results
- What is measured today?
- No measure will be perfect
  - No one measure is a magic bullet
  - The story is told by many measures considered together
- Customized, so must be based on your measures on your unique systems, processes, and people
Gary Simon describes the “Reporting Supply Chain” as “all the events around the entire group reporting process especially the extremities of the process.”

“Fast Close to the MAX” by Gary Simon, 2007
Best Practice
Customer Facing

What are the optimization goals for efficiency and effectiveness?

- Speed
- No.1 Accuracy
- + Predictability
- + Manageability
- + Visibility
- + Accountability
- + Compliance
- + Increased analysis

= & Reduced cost

Can you do them all?

Yes!

You MUST DO THEM ALL!

Fast close is not necessarily efficient, but an efficient close is faster!

Overview
Key Technology Questions

1) What solution do we need?
2) What is available?
3) What is the future of close technology?
4) How do we evaluate and select?
Technology
1) What Solution Do We Need?

**Top Characteristics of a Solution**
- Component of an enterprise architecture
- Leverage standard corporate technologies
- Leverage packaged software capabilities
- Web enabled for data capture, validation, and reporting
- Utilize the intranet for process management, knowledge sharing, and training
- **Provide personalized analysis and performance management**
- Multi-dimensional – accommodate global data view

**Continuous improvement Enablers**
- Workflow and collaboration
- Document management
- Automated metrics measurement
- Visibility
- Compliance evidence
- Bridging multiple systems
- Easy to deploy during Close period
- Configurable to your Close process

**ERP Not Meeting the Need**
- Organizations are not standardized on “wall-to-wall” ERP systems
- Physical layers of group consolidation add complexity
- Limitations of ERP in task management, controls documentation, reporting, team collaboration
- Inflexibility and ability to respond to new localized regulatory requirements, group level processes

Technology

2) What Is Available?

- Established Tools
  - Excel
- Collaboration Tools
  - Access
  - Sharepoint
- Dedicated Programs
  - Trintech – governance
  - Blackline – recons

- ERP platform modules
  - Oracle – Hyperion
  - SAP

- ECM platform modules
  - Hyland Software OnBase
    AFRM (Accelerated Financial Reporting Management)

Technology

3) What Is the Future of Technology?

Ideal Architecture for Financial Close?

- Layer of governance, risk management, and compliance applications over the existing myriad of operational systems
- Seamlessly connect period close, financial close, external filings and controls across the environment
- Merge required closing information and processes with workflow, measurement, and reporting
- Implement enterprise-wide using the Internet
- Provide linkage to ERP systems and data to facilitate close
- Provide close activity tracking and reporting


Scope of system – example after one year

Multiple process groups
~ 60 users
~ 9 users
~ 40 sub-processes

~ 5400 activities managed – including qtr, year and operating
~ 800 deactivated
~ 2700 activities completed
~ 60 users
~ 800 deactivated

~ 2800 activities completed
Real-Time Status by Due Date

By User

By Activity Type
The Finish Line – All Done!

Electronic Working Papers

Links to SOX Testing
Preparing for an optimization project

- Senior management commits to find a comprehensive solution with continuous improvement
- Strategic plan and project management: consider deadlines, project approach (pilot, division, enterprise, etc.)
- Prioritize change management
- Deploy focused resources
- Identify and adapt current and best practices
- Evaluate existing technology
- Adopt a culture of continuous improvement

Reference: "Optimizing Financial Reporting in an Increasingly Dynamic World" by Silicon Valley Accountants
Focused Strategy and Resources

Planning
Discovery
Technology Selection
Workflow and Measurement
Training
Configuration and Testing
Month One Close
Optimization
Lessons Learned

Timing (Schedule)
Between Closes
Incremental Continual Monthly Improvement Steps
Goal: Do not disrupt the ongoing close

People
Unless internal resources available, outside help needed

Goal—Positive Implementation
Manage expectations
No initial reengineering
Never slow the close
Sample Pilot Program Timeline

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<td>Analysis data, process improvement, optimization (50% X 2 days)</td>
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Preliminary Project Plan (Actual)

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<th>Phase Implementation Plan</th>
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Focused Strategy and Resources

Planning
Discovery
Technology Selection
Workflow and Measurement
Training
Configuration and Testing
Month One Close
Optimization
Lessons Learned
**Focused Strategy and Resources**

**Discovery**

**Principle: What do you do now?**

- **Capture the current state as a starting point**
  - Documentation – Where are the documentation and electronic files?
  - Current process – Can you leverage current Close Calendar and Checklist?
  - Source data – Trace information links back to other functions or source.
  - Other documentation – Review all SOX binders, Audit procedure documents, and other systems implementation reports

- **Observe and Interview** – Trust but verify

**Planning**

**Technology Selection**

**Workflow and Measurement**

**Training**

**Configuration and Testing**

**Month One Close**

**Optimization**

**Lessons Learned**

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**Focused Strategy and Resources**

**Technology**

**Technology Selection**

**Requirements** for implementation, and how much disruption?

- How much IT involvement – define hardware, software, support, network, budget, etc.?
- Can the technology extend beyond the core accounting close to internal reporting, tax, other processes or people?
- Is deep integration required or can it link easily to existing Company technology?
Focused Strategy and Resources

- Planning
- Discovery
- Technology Selection
- Workflow and Measurement
- **Training**
- Configuration and Testing
- Month One Close
- Optimization
- Lessons Learned

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**Training - Key to Successful Implementations**

- **Change Management**
  - Selling Need
  - Address Objections
  - Provide Clarity and Leadership

- **Tools**
  - Familiarity training
  - Adoption/transition assist
  - Special needs

- **New processes & workflow**
  - Design assistance
  - User acceptance testing
  - Rework assistance

- **Review/Approval Cycle**
  - Controls and review design
  - Design testing

- **Best practices**
  - Initial best practice metrics
  - Challenges to Status quo

- **Continuous Improvement** – key to lasting value
  - Initial training
  - Several cycles of support in all the listed areas

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Focused Strategy and Resources

- Planning
- Discovery
- Technology Selection
- Workflow and Measurement
- Training
- Configuration and Testing
- Month One Close
- Optimization
- **Lessons Learned**
Focused Strategy and Resources
Lessons Learned

Planning determines success

- Over-plan – expect delay, distractions, and diversions
- Build an adaptable plan
- Never slow the close!

Plan for much more than promised and extra training

Scope selection is key

- Smaller faster wins = build momentum
- Don’t start with hardest
- Link the benefits

Scope will creep, plan on it

Change management

- Under-promise & Over-communicate
- Nothing is easy

This is a significant change to an established critical practice
Focused Strategy and Resources
Lessons Learned

Continuous Improvement

Adopt a mentality of **continuous improvement**

Tesco Property actively and explicitly pursues improvements in its close.

“We have monthly management meetings where we think about how we can do it better. Not just to get to a four-day close, but…how to make our information better.”

*Accelerating the Financial Close* – CFO Research Services

Upcoming Events

Upcoming **Free Webinars**
Presented by EITF Member
Tony Sondhi

Revenue Recognition
& Other current topics

*“Tuesday with Tony”*

Register at [www.SVACPA.com/Sondhi](http://www.SVACPA.com/Sondhi)

Advanced Close Optimization Classes

- Mastering the Audit
- Mastering Financial Reporting SOX & Controls
- Mastering SOX IT
- Mastering SEC Reporting
- Mastering Tax

Classes available

More Information at [www.SVACPA.com](http://www.SVACPA.com)