From **Weeks** to **Days:**

Boarding the Mid-Market Financial Close Bullet Train

IQPC
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SKYSTEM
Crystal Clear Close

Spotlighting the Predicament of the Financial Close

The benchmark of a best-in-class finance function is its ability to complete month-end close and produce accurate financials within days after month-end.

However, this gold standard is still a pipe dream for many organizations struggling to close the books each month, while navigating siloed enterprise infrastructure, multiple sources of data and burdensome manual tasks. Then came the pandemic.

The pandemic has toppled many of our old beliefs and has forced us to adopt new perspectives and habits around key business strategies and processes. Since the pandemic started, on top of existing challenges in meeting closing deadlines, many organizations have pivoted their business models and working methods, and are being forced to make do with fewer resources. Those who have not adopted process automation now have the added burden of navigating logistical barriers that comes with remote working and a suddenly decentralized workforce.

This is a strong signal to evolve our close process, so that we can continue to issue accurate financials, maintain process and resource stability, and be able to deploy our talent to more strategic projects.

In these uncertain times, how can the finance function close the books quicker, get better at forecasting, and at the same time, still take on strategic projects that will continue to evolve the finance function? In this report, we propose three process improvement paths to consider:

1. Automating month-end close
2. Streamlining internal controls
3. Adopting and analyzing “sub metrics”

These paths include various degrees of digitization – from very little automation to more substantial transformation. They also consider availability of time and resources. Some ideas can be adopted right away as quick wins, and others promise greater results but require more time investment.

A key hurdle in successfully achieving finance transformation is finding the right place to start. With limited resources, predicting the business value of a particular decision cannot just come down to saved costs, but should also include increased compliance, faster turnaround and/or higher accuracy. The execution order of these paths depends upon the size, scale and the business needs of each organization. All three paths, however, have demonstrated promising results in improving the monthly close, and at the same time, meeting the different demands of the financial function.

Solution 1:
Invest in Automation for the Heavy Lifting of Low Value Tasks

There is no silver bullet for closing the books painlessly, but automation can easily cut through the manual, repetitive and administrative aspects of the close. This comes as no surprise. Virtually all other areas of finance and accounting – Accounts Payable, Accounts Receivable, Budgeting and Forecasting, etc. – have already experienced the benefits of digital transformation in the last two decades, as more and more affordable solutions became available to automate these processes. These benefits can be applied to the month-end close process as well.

Automation in the realm of the financial close can apply to numerous activities that are primarily done by hand today. For example:

- The preparation and review of balance sheet reconciliations.
- Completion and management of closing checklist and process workflow.
- Journal entry approval and posting.
- Balance sheet flux and/or P&L variance analysis.
- Data and analytics on the health and status of the month-end close.

66% of finance leaders anticipated spending more resources towards workflow automation tools.

Gartner's 2020 CFO Survey[1]

Not only are there different automation options available in the market today, but these options are flexible and can be layered together, if desired, to further optimize the close process.

Generic Workflow / Digital Solutions: These solutions have enjoyed immense global popularity in the business world for the last 10+ years due to their adaptability for multiple processes. Tools such as SharePoint and Adobe Sign, although not customizable for process subtleties, allow companies to build general process workflows.

Dedicated Month-End Close Solutions: Out-of-the-box solutions that are built specifically for month-end close not only introduce automation to the close, but also come with the benefit of providing best practice process improvement suggestions and the ability to automate internal controls. Dedicated month-end close solutions are typically offered as a SaaS offering.

Robotics Process Automation (RPA): Solutions that specialize in robotics process automation allows for the building of custom workflows to handle repeatable tasks that would otherwise require humans to complete. RPA can be layered on top of dedicated month-end close solutions to further optimize automation opportunities for the accounting team.

With all automation options, it is increasingly likely that artificial intelligence and machine learning are embedded to further capture speed and automation. This aligns with finance leader objectives. SSON's Future of Finance and CFO Summit 2020 Survey[2] reports that 51% of leaders sought out artificial intelligence for its ability to offer better analytics and support business decision making.

Solution 2:
Streamline and Automate the Internal Controls Environment

Executing internal controls over financial reporting is a crucial compliance activity during the month-end close. But because of the time-sensitive nature of this activity, as well as the volume of controls that require coverage, financial and accounting staff often feel torn between finishing the close quickly at the expense of neglecting internal controls documentation, or properly executing all compliance steps at the expense of a longer close cycle.

Reassessing the internal controls environment can create opportunities to replace manual controls with automated ones that are standard with new system investments and/or existing systems that have new features available. Begin by completing a refreshed risk assessment to identify the biggest drivers that threaten both the organization, as well as those that threaten the objectives of the finance office. The identified risks should then be mapped to the existing set of internal controls in the financial close process. The mapping exercise should aim to identify:

Gaps: Areas where there are risks that threaten the stated objectives but without internal controls, or adequate internal controls to mitigate those risks. Where gaps exist, either new internal controls must be implemented, or existing controls must be enhanced to address those risks and mitigate the potential adverse impact.

Overlap: Areas where there are multiple internal controls that mitigate the same risk. If the identified risk is not critical, then it may not warrant duplicate coverage. This is an opportunity for streamlining. Where there is overlap of internal controls, retire one or more of the internal controls to reduce duplicate coverage. Executing fewer compliance activities will help save time during month-end close.

Swaps: Areas where new or different internal controls can replace existing controls to improve the strength of the controls and/or to reduce the effort required to execute the control. This is also an opportunity for streamlining. Some examples would be:

- Replacing manual controls with automated controls. Automated controls require fewer manual resources to maintain.
- Replacing detective controls with preventive controls, which are generally more effective.
- Replacing multiple transactional level controls with one process level control and reduce the overall control set.

Fraud Controls: The risk of fraud is increasing. Organizations should also complete a fraud risk assessment and identify specific anti-fraud controls to bolster the month-end close process.

Solution 3:
Identify and Measure Sub Metrics for Process Improvement

The most visible benchmark in gauging the strength of the month-end close is the number of days to close the books. This metric alone, however, can be misleading. And more importantly, this single metric is unable to illuminate bottlenecks and issues around the close to pinpoint specific and incremental process improvement work that is required.

The following sub metrics should be applied toward month-end close to complement the days to close calculation. These metrics are important to measure because: 1) they either fall on the critical path of the close, which means that any improvement made here can translate directly into a quicker close cycle, or 2) they speak to the accuracy and quality of the close. A speedy close is not necessarily an accurate close, and one cannot be sacrificed for the other.

- **Number of days for subledger close.** The sooner subledgers are finalized, the sooner the rest of month-end close can be completed. Where subledgers require many days to close, the root cause(s) are typically upstream, for example, at the time of invoice origination. So be prepared to dive deep into the re-engineering process.
- **Number of manual journal entries.** The more manual the journaling process is, the more time and effort is required to complete month-end close. Measuring the number of manual journal entries (compared to automated entries) can speak to the potential need for automation.
- **Number of error correcting journal entries.** Journal entries posted to correct previous mistakes are, by nature, duplicative work. As this brings no value to the organization, error correcting journal entries should be carefully analyzed and remediated to eliminate future occurrences.
- **Time required to complete reconciliations for critical accounts.** Critical/High-risk balance sheet accounts must be reconciled prior to final close. In cases where reconciling work reveals exceptions or anomalies, necessary adjustments can then be posted in the current period's general ledger. Measuring the time and effort required to meet reconciliation deadlines can indicate whether there would be value in adopting automation.
- **Open items and unexplained aging from reconciliation work.** Temporary items from reconciling work, such as GL adjustments, planned write-offs, or timing differences must be aged and monitored each month until the items fall off the reconciliation and resolve themselves, or be written off the balance sheet by management. This is the best way to maintain a current and healthy balance sheet.

CASE STUDY: AM RETAIL GROUP

Saves Two Weeks per Quarter with Automation

DKNY Calvin Klein PERFORMANCE G.H.Bass&Co. KARL LAGERFELD PARIS WILSONS LEATHER

AM Retail Group was founded in 2008 as a wholly owned subsidiary of G-III Apparel. The company was created to operate retail store locations owned by G-III, including Wilsons Leather, G.H. Bass & Co., Calvin Klein Performance, Karl Lagerfeld Paris, and DKNY stores.

Prior to adopting SkyStem ART, AM Retail Group’s month-end close and reconciliation process was completely manual and stored in folders. The accounting team was never 100% comfortable with this process and became even more concerned when the company acquired 5 companies, which increased the number of reconciliations by more than 300%.

The accounting team chose to adopt enabling technology to proactively optimize the process so that each team member could maximize time on value-added activities. SkyStem’s month-end close solution, ART, was selected to automate the process. The team specifically adopted the following key practices through automation:

- **Standardized the closing process** so that the entire team is on the same page when it comes to the work that is required each day of the close. This reduces confusion and uncertainty as the team completes month-end work.
- **Relied on real-time dashboards** so that each person in the accounting team can monitor the status of the close and take proactive action. Management could then rely on dashboards instead of tying up staff’s time in status reporting.
- **Converted manual signatures to digital signatures** so that the reconciliation preparation and review can be done faster, with accurate information provided to the auditor.
- **Created an automated central repository online** so that the need for printing, scanning, and collating is eliminated, earning back more time for the team to pursue higher value activities. Documents are accessible instantly and virtually, which reduces the time and resources needed to administer the close and audit process.

By focusing on the above areas through automation, AM Retail Group was able to recoup two weeks’ time during quarter-end close in the first year of adoption.

Conclusion

Speeding up the month-end close from weeks to days will require reassessing and re-engineering the process from different perspectives. Recent benchmarking data from Robert Half and Financial Education & Research Foundation has shown that the pace of implementing automation in finance and accounting is increasing, and that the time needed to report financial results is decreasing[3]. These two phenomena are directly linked to each other. If your current month-end close process has not followed this trend, then consider evaluating the three-pronged approach presented in this report to kick start the journey to a faster and more confident month-end close.

About SkyStem

Headquartered in the heart of New York City, SkyStem delivers a powerful month-end close solution for organizations seeking to streamline their financial processes. The company's flagship solution, ART, is an enterprise technology that helps CFOs and Controllers shorten the month-end close and the time to issue financials by automating balance sheet reconciliations, managing month-end tasks, performing balance sheet flux and P&L variance analysis, and providing insightful reporting. Our web-based solution streamlines and eliminates up to 90% of manual activities while strengthening internal controls and corporate governance.

Visit www.skystem.com to access additional materials to transform the month-end close.

About IQPC

At its core IQPC is a global business to business event company that has embraced the digital age. We are the go-to source for online and offline events, information, education, networking, and promotion for executives across an extensive range of industries and professions. We create a blend of live & digital events that drives corporate innovation. We give access to practical insights, we embrace external trends and move at speed – these trends are not hard to spot, but they can be difficult for organizations to embrace. We help organizations embrace these trends and ride the tail wind they deliver for innovation.

Resource List

1. https://www.gartner.com/en/newsroom/press-releases/2020-11-12-gartner-cfo-survey-reveals-a-dramatic-digital-acceleration-since-covid19

2. https://www.sson-analytics.com/finance-accounting/analytics-workbooks/future-of-finance-2020-architects-of-value-creation-leading-strategy-with-transformative-insights

3. https://www.roberthalf.com/research-and-insights/workplace-research/benchmarking-the-accounting-and-finance-function