CFO PLAYBOOK ON REPORTING:
HOW TO ENSURE AN EFFICIENT AND ACCURATE CONSOLIDATION AND CLOSE
EVolving companies complicate the consolidation and close process for CFOS

The future role of the chief financial officer may be mostly strategic, but for now the blocking and tackling work of the CFO and the finance team is still closing the books and reporting. Expanding global operations and new business lines complicate that work by fostering multiple charts of accounts, systems that don’t communicate well with each other, and cultural barriers. But new technologies, like robotic process automation and cloud technologies, and best practices established at top-performing companies, show CFOs a potential path to efficient and accurate consolidation and close processes, even as their companies continue to evolve.
SOLVING CONSOLIDATION ISSUES

Multiple Charts of Accounts and Other Signs of Problems

The general increase in mergers and acquisitions in recent years has forced more company finance teams to maintain multiple charts of accounts. The issue has become a common one, especially for companies that are transforming their reporting infrastructure and their underlying financial and accounting systems, says William Marchionni, a senior director at the Hackett Group strategic consultancy.

When a company has multiple charts of accounts, it’s often because those COAs are associated with multiple systems, which means the mapping of those charts isn’t necessarily automated. So both the mapping and integration must be performed manually.

“They don’t always speak the same language; they don’t always consolidate very nicely,” Marchionni says. “Many times there are going to be manual activities associated with bringing that data from those various charts-of-accounts into a particular tool.”
Without a good governance structures in place, finance teams can soon find their charts of accounts expanding into thick ledgers. That can lead to loss-of-confidence questions: Are the numbers comparable, especially at the consolidation level? Are they accurate, and is the analysis based on those numbers accurate? Are the policies and procedures clear, and is staff adhering to them? Multiple charts of accounts can also lead companies to rely on double-checking and unique adjustments. They also add to the workload of the finance team as it performs analytical reviews, issues internal and external financial reports, and drills down to account-level detail to ensure accuracy.

Compared to companies with infrequent M&A activity, companies that grow regularly through M&A are more likely to have well-thought-out, well-disciplined playbooks with specific plans and time-frames for getting to a common chart of accounts. Not all multiple charts of accounts situations are caused by M&A, of course. But for every company, until a common COA is achieved, getting financials to the necessary level of materiality and comparability can require a lot of effort and late nights by the finance staff.

How does a CFO know when his or her company needs to change its consolidation processes? One warning sign is lengthy consolidation processes, or consolidations that take a varying amount of time to complete from one month to the next. Variation in the finance staff’s work load for consolidations indicate that the process is not mature, predictable, repeatable, or standardized. Other red flags are internal restatements, or re-work.
Identifying Bottlenecks

Finance teams can follow best practices to isolate bottlenecks in the consolidation process, and then to eliminate them. According to Marchionni, the key is to reduce complexities that the finance team can control, such as excessive processing times and excessive wait times.

“What we’ve seen the top performers do, and there are a lot of tools out there that will help with this, is to get very granular in terms of what activities need to be done in the close and consolidation process,” he says.

CFOs and their finance teams need to list the steps in their consolidation process in detail, then take a continuous improvement approach to examining those steps, mining the data from each step and identifying the problems.

For example, finance could look at journal entries and identify who is making them, when they are made, what information they contain and, most importantly, who the company depends on to get that information—corporate business units, global business services, or external third parties. A solution may be as simple as retraining an employee responsible for providing the information, or improving communication, or requiring a third party to provide the information sooner.

It is also important for finance teams to perform a materiality-based assessment of activities, developing a healthy understanding of materiality and acceptable risk within the organization.
TOOLS TO HELP

Cloud Technologies and Robotic Process Automation

For finance teams dealing with multiple charts of account, the new tools and resources available to help close the books more efficiently and accurately fall into two categories: cloud technologies and robotic process automation, or RPA.

With cloud technologies, a key advantage for the user is the ease of implementation versus on-premises software. Updated versions are also much easier to implement, and cloud offers the ability to quickly and efficiently scale up and link to different tools. Security is also a strength of cloud technology, i.e., enabling enterprises to leverage expertise rather than having to develop it.

Many vendors are strategically moving their solutions to cloud models with the long-range plan that eventually they will offer only cloud-based tools, which is a major trend for companies looking to make investments in finance tools. For people driving transformations within finance, the increasing availability of cloud tools is a significant opportunity.

RPA is a hot topic among finance professionals because it is expected to perform a lot of the work that companies currently have to do manually. For example, with multiple charts of account, RPA is starting to perform some of the mapping and analysis that previously had been manual, helping companies with their closing and consolidation process. Some companies are looking to RPA as a long-term solution, while others view the software as a temporary fix until they can consolidate their charts of account.

Because of “smart” technology close tools and real-time close tools, organizations can more easily capture every incremental step in their closing process—breaking out 600 steps, for example, where previously they were described in Excel as 100 steps. These new tools, which may also include front-end data validation capabilities, help CFOs identify and fix the bottlenecks in their consolidation and close processes.

Some top-performing companies are adding the robust solutions now available as bolt-on tools, layering them over their existing ERP system to address only specific steps in their consolidation process, for example.
UNIFORMITY CHALLENGE

Even Complex Companies Can Enforce Uniform Reporting Practices

Another challenge for finance teams at companies that are active in M&A or expanding otherwise is maintaining uniform reporting practices among multiple lines of business, locations, and markets.

CFOs have the ability to enforce expectations across cultures, time zones, and businesses with the aggressive use of templates; best-in-breed technologies; and standardized footnotes, disclosure, and commentary.

But CFOs and their finance teams need to first establish a solid understanding of what information is needed, how the information will roll up, whether it has been vetted, whether the systems are communicating with each other, and how much manual activity is involved. Once those parameters are established, then finance can establish what other data it needs to gather through templates, or where sub-ledger detail or footnote disclosures are needed, or what other statistics or explanations are needed.

Uniformity is certainly feasible, even at the most complex companies, Marchionni says.

“We deal with multinationals all over the world; some of the biggest companies in the world,” he says. “It’s an investment of time and talent and systems to get that uniformity, but the answer is, yes—you can get the uniformity that you need to make that make the decisions and do the disclosures that you need.”

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CFOs and their finance teams often encounter obstacles as they attempt to improve visibility into the results of business units and into the closing and consolidation processes. Employees may fear change, or the idea of a “corporate watchdog” prying into their work and criticizing it. New, sophisticated tools and technologies may amplify these feelings because they give finance the ability to more easily identify bottlenecks and the people responsible for them.

As the closing and consolidation processes tighten up, the new tools also build expectations among people who want to view results faster and who have more questions when those results change between flash reports and actual closing, which puts more pressure on the finance team. Cultural differences in different countries may also amplify the pressure or resistance to change.
Top-performing companies don’t conduct ad-hoc transformations, obviously. They establish formal change management structures and practices; they invest in those structures and practices; and they give decision-making authority to an account-to-report (A2R) global process owner to overcome obstacles to consolidation and reporting. The global process owner should have technical accounting knowledge, especially with accounting standards and tax issues, and a keen understanding of accounting and finance tools and systems.

One common mistake that CFOs make as they attempt to streamline their consolidation and close processes is to underinvest, or try to cut corners in the process to try to save money. Another mistake is failing to plan for agility, having systems and people in place that their company may need in the future to adapt to rapid changes across industries.

CFOs also need to consider and plan for change management issues. Establishing an A2R global process owner can help a CFO anticipate and avoid some of those future issues. The CFO should also re-assess the A2R service delivery model periodically, and keep an open mind with potential investments in the model that don’t meet traditional return-on-investment rules.
CONCLUSION

Follow the Leaders

Top-performing companies show that an intense focus on improving the account-to-report process is worthwhile. For CFOs, that means continuing to invest time, focus, people, processes, and technology in building a sustainable, repeatable, agile, scalable A2R model. CFOs should continually refine and review their A2R service delivery model. According to Marchionni, one top-performing company reinvests 80% of its controllership capital budget every year in its A2R process, which is already at a world-class level, so the process can continue to adapt to changes to the company’s business model, geographic footprint and customer base. Such foresight is likely to be rewarded.
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