Smart Closing & Reporting

How to stay on top of your financial close process

Part I
The survey results

EY
Building a better working world

Contents

Smart Closing & Reporting

How to stay on top of your financial close process

> “The future depends on what you do today.
>
> Mahatma Gandhi

How to stay on top of your financial close process?

The increasing speed of change in our globally connected world leads to new expectations from shareholders, regulators and analysts. Forward-thinking companies understand that digital development and reporting obligations are a competitive advantage, however, ...

$< 10\%$

less than

... is the usage of "modern" techniques like process mining and robotic process automation (RPA).

$= 35\%$

equal to

... use a consolidation tool to a very high or high extent, whereas in 22% of all cases, a sole manual (e.g. MS Excel) solution is still in place.

$> 40\%$

more than

... strive for a higher degree of automation in the accounts payable, accounts receivable and general accounting processes.

$= 45\%$

equal to

... still regard the process "preparation of the reporting package" as manual or more manual than automated.

$< 50\%$

less than

... is the degree of automation determined to be "high" or "very high" in the "purchase-to-pay" and "order-to-cash" process.

$> 50\%$

more than

... of the respondents assess the automation in the accounting department as "medium", while for 31% the degree is still "very low" or "low".

$= 51\%$

equal to

... claim their annual report creation to be manual or mostly manual.

$> 75\%$

more than

... do not use automated workflow, reports and KPIs, i.e., manual proceeding still prevails.

The better the processes and data flows are linked together and the more accurate figures are available at any time in accounting and controlling, the greater the value is generated for the company ...

Potential for improvement according to the survey participants

Process acceleration | Quality improvement | Cost reduction

Part I provides a summary of the survey.

Part II introduces innovative tools and techniques for automation and standardization of the closing and reporting process and efficiency gains in accounting and reporting as part of the "Smart Closing & Reporting" solution.

> Dream big. Start small.
> But most of all, start.

Simon Sinek

I. Executive summary

The increasing speed of change in our globally connected world has led to new expectations from shareholders, regulators and analysts. The growing opportunity of digital solutions involves bringing the factors efficiency and speed to the center of attention.

Always available, error-free and understandable – these are the primary requirements for companies when it comes to external financial reporting. However, developments in recent years have shown that there has been an increase in the amount of time required to prepare external financial reporting. This is due to several factors, such as as the introduction of new regulatory standards like IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases* or the publication of annual financial reports according to the new ESEF (European Single Electronic Format). From an internal point of view, the evaluation of data for corporate management purposes is often an additional step and is not synchronized with external reporting figures.

The year-end closing is usually the time with the highest workload for the accounting and controlling departments. In addition, there is an increasing expectation that financial statements will be reported even faster, especially for capital market-oriented and listed companies, but more and more in medium-sized companies as well. Forward-thinking companies understand that digital development and reporting obligations are not just an additional challenge and a compulsion to provide more transparency to the outside world but rather a competitive advantage. The better the processes and data flows are linked together, and the more accurate figures are available at any time in accounting and controlling, the greater the value is generated for the company.

However, first-class closings can only be achieved quickly and with high quality if the relevant data is fully available in time. In practice, the full potential of digital solutions is still not being used and a mixture of IT solutions and manual work steps – with many process and system breaks – still prevails. This is a considerable source of inefficiencies and presents great potential for errors in many companies.
To avoid this, all processes and systems as well as the organizational structure should be coordinated. It is particularly important to look at the processes in the financial statements from an "end-to-end" perspective so that the causes of weaknesses can be successfully eliminated.

The discussion is also increasingly relevant in the course of upcoming SAP S/4 HANA migrations. Many companies are taking the opportunity to challenge and harmonize the process and system landscape which has grown extensively over many years and is therefore very heterogeneous. Accordingly, we currently see a need to harmonize processes prior to new ERP system implementations.

Extensions of system functionalities such as workflow functionalities or automation across ERP interfaces constitute immense challenges for companies. These challenges remain relevant even after a S/4 HANA implementation. Modern systems are increasingly expected to handle all of this in an integrated and automated manner, to make reliable statements and to react automatically and flexibly to future changes.

However, insufficient know-how, lack of confidence in new technologies, fear of losing the quality of financial statement information and in particular the fear of high financial and time investments deter many companies from fully relying on automation through innovative finance technology.

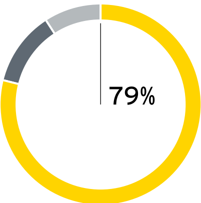
Considering the entire financial process chain, the aim of this survey is to identify the current state of standardization in key accounting and reporting processes, and to identify potential improvements.

II. Survey results

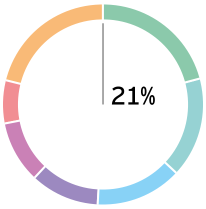
A. About the survey

The evaluation process was carried out anonymously, thus company-specific statements cannot be made by retracing the answers. The following information was requested in the survey from around 200 company representatives:

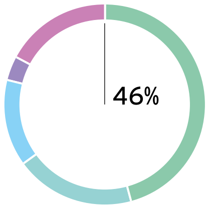
... country of origin, industry and position of participants in the company



- 79% Germany
- 12% Austria
- 9% Switzerland

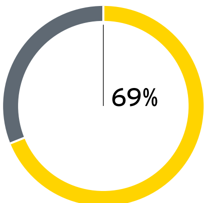


- 21% Chemicals, Health & Life Sciences
- 16% Consumer Products & Retail
- 14% Industrial Products
- 11% Automotive & Transportation
- 10% Power Utilities
- 7% Technology
- 21% Other

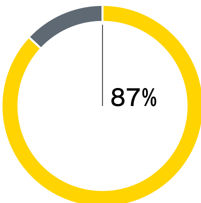


- 46% Head of Finance/ Accounting
- 19% Head of Consolidation
- 14% Group Finance Director
- 4% Head of Controlling
- 17% Other

... legal form, fiscal year end

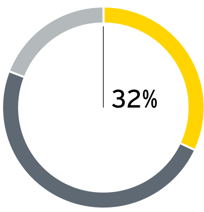


- 69% AG/GmbH
- 31% Other

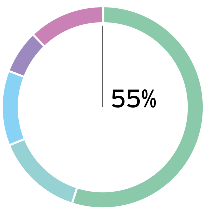


- 87% Year end 31 Dec
- 13% Other

... number of ERP system used and system landscape

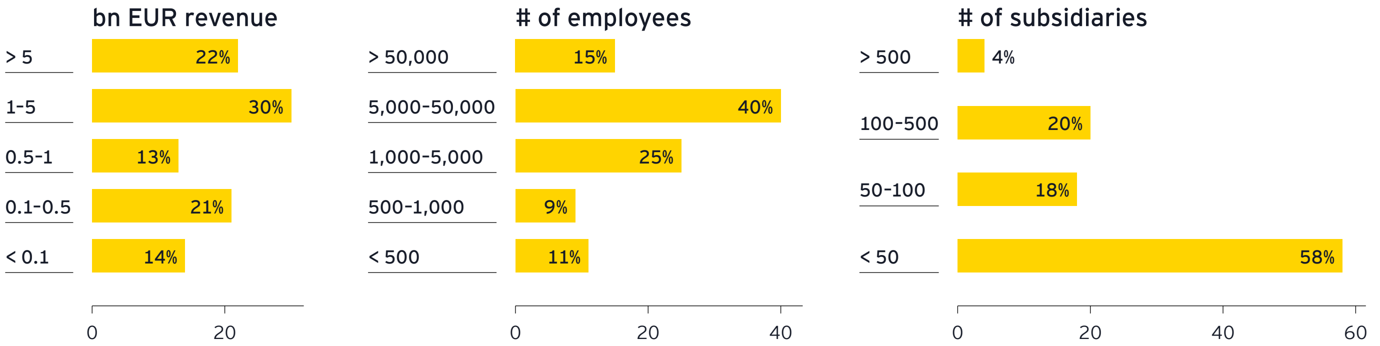


- 32% 1 system
- 49% 2-5 systems
- 19% > 5 systems

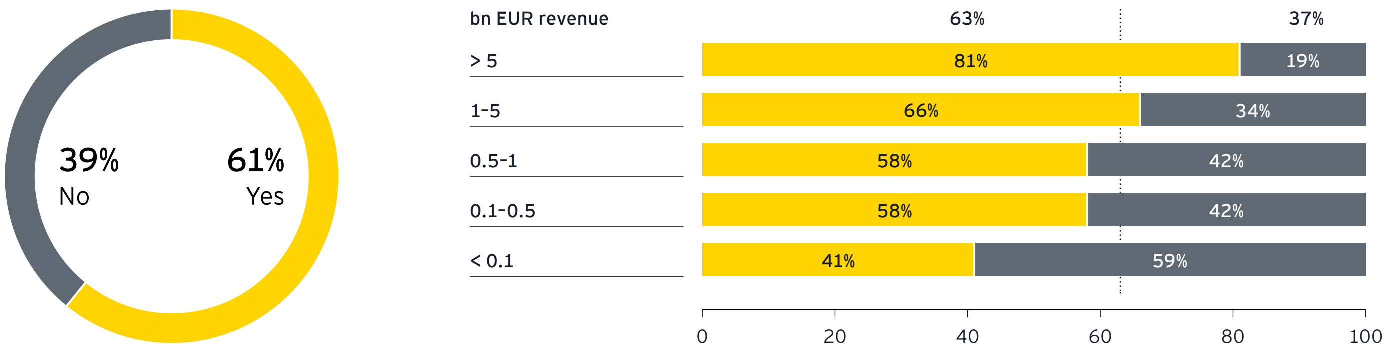


- 55% SAP (Other)
- 14% S/4 HANA
- 12% MS Dynamics
- 7% Oracle
- 12% Other

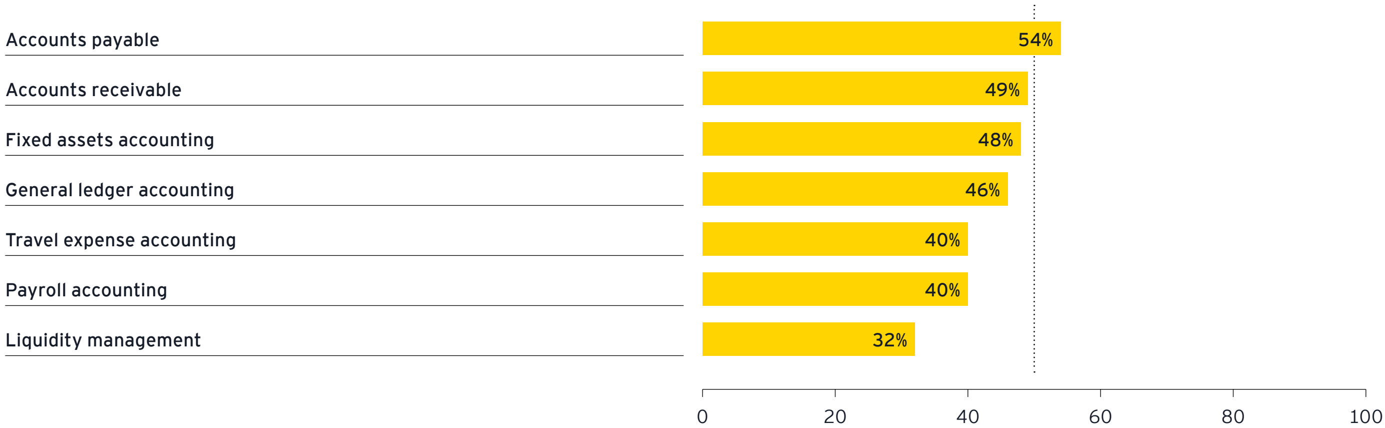
... overview of the participant structure based on total revenues, number of employees and number of subsidiaries



... overview of shared service center (SSC) usage – overall and by revenue



... overview of shared service center (SSC) usage by accounting process



B. Key findings

1. Major end-to-end processes

The purchase-to-pay (PtP) and the order-to-cash (OtC) process are the most important operational processes in a company. An automated and key-performance-indicator (KPI)-based execution of the sales and purchase processes may lead to cost savings, accelerate the finance process and significantly improve the quality of the end products (numbers, data, information).

Purchase-to-pay-process (PtP)
The PtP process is divided into the sub-process steps such as order processing, goods receipt, invoice receipt and payment processing. A master data management system is also maintained across the board for the corresponding suppliers.

When assessing the degree of automation of individual process steps, it can be noted that typically the end of the process chain is more **automated** than the start. The degree of automation described as **"high"** or **"very high"** increases **from 10% to 46%** with the process flow:

Master data management	→	Order processing	→	Goods receipt	→	Invoice receipt	→	Payment processing
10%		17%		18%		33%		46%

! ... overall for **no sub-process** the degree of automation determined as "high" and "very high" is **above 50%.**

Simultaneously, the **degree of "low", "very low" or even "no automation"** declines in the individual process steps **from 69% to 21%** with the process flow:

Master data management	→	Order processing	→	Goods receipt	→	Invoice receipt	→	Payment processing
69%		47%		47%		27%		21%

! ... overall the degree of "low" or "very low" automation or even "no automation" is **for all sub-processes above 20%.**

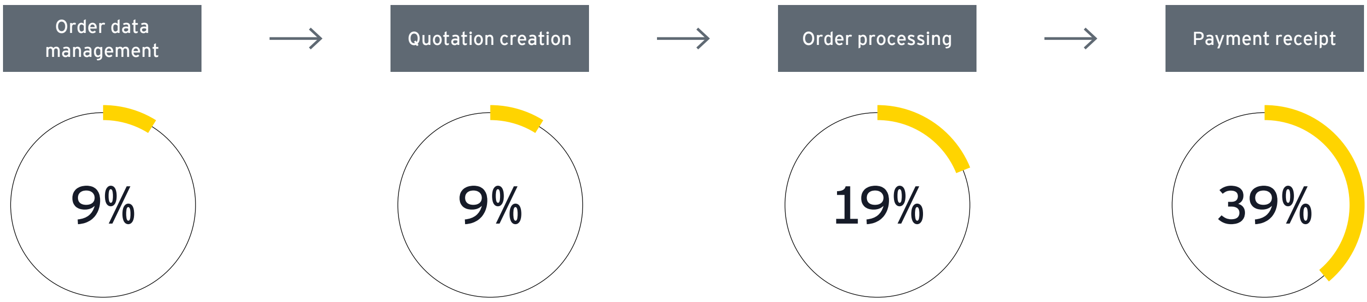
"Modern" techniques like process mining and robotic process automation (RPA) are available supporting the automation of the PtP process. However, the usage of these tools is very limited among the participants.

Process mining		RPA
7%	… usage of "modern" techniques to a **"high"** or **"very high"** degree …	6%
56%	… **no usage** of "modern" techniques	49%

B. Key findings

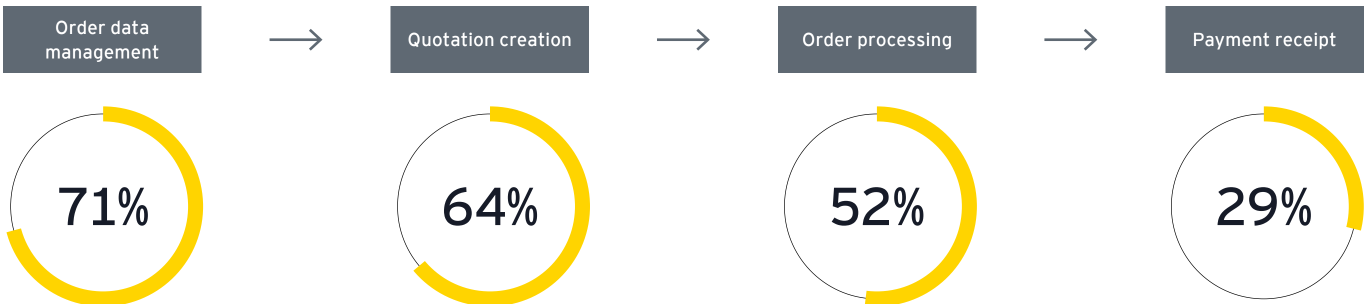
Order-to-cash-process (OtC)
The OtC or sales process is among other things divided into the following sub-process steps: order data management, quotation creation, order processing and payment receipts.

When assessing the degree of automation of individual process steps, it can be noted similar to the PtP process that typically the end of the process chain is more automated than the start. The **degree of automation** described as **"high" or "very high"** is increasing **from 9% to 39%** with the process flow:



! ... overall for **no sub-process** the degree of automation determined as "high" and "very high" is **above 40%.** That is even **less automation** compared to the PtP process.

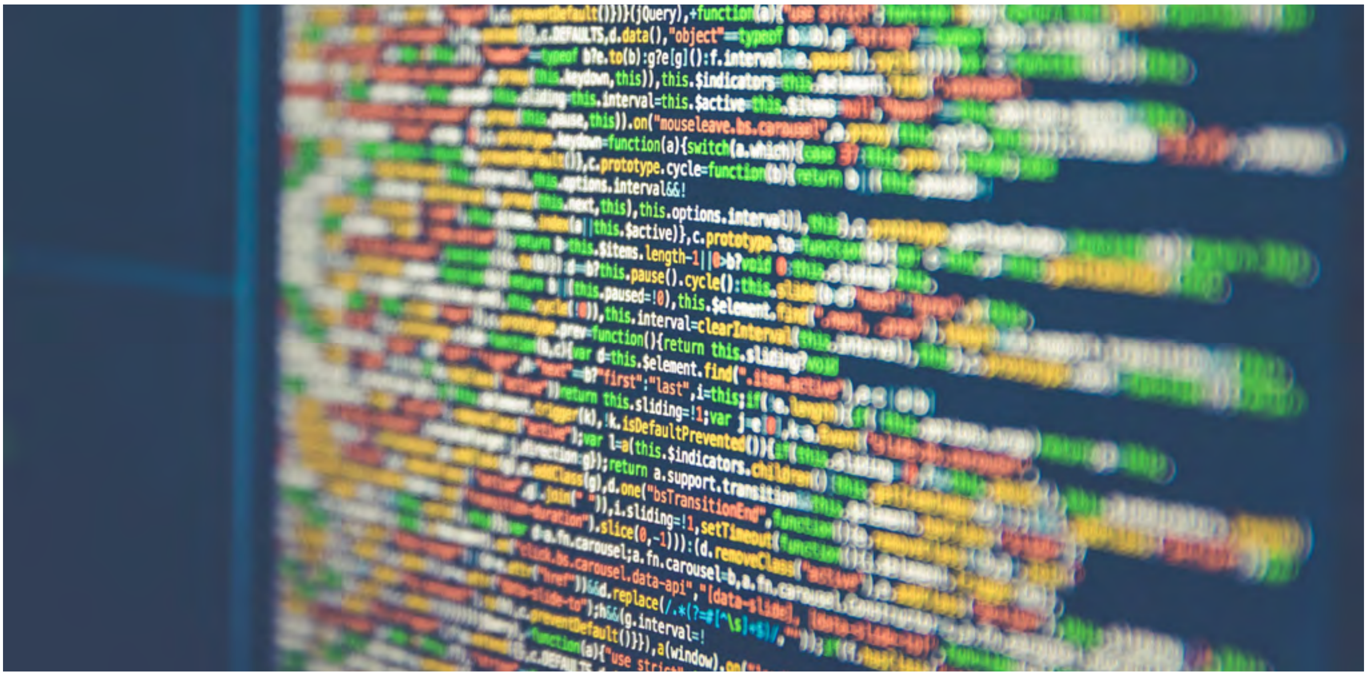
Simultaneously, the **degree of "low", "very low" or even "no automation"** is declining in the individual process steps **from 71% to 29%** with the process flow:



! ... overall the degree of "low" or "very low" automation or even "no automation" is **for all sub-processes above 29%.** Compared to the PtP process the degree of **"no", "very low" or "low" automation is higher.**

When considering the use of process mining and RPA in the OtC process, it is noticeable that the survey participants evaluated the degree of application similar to that in the PtP process.

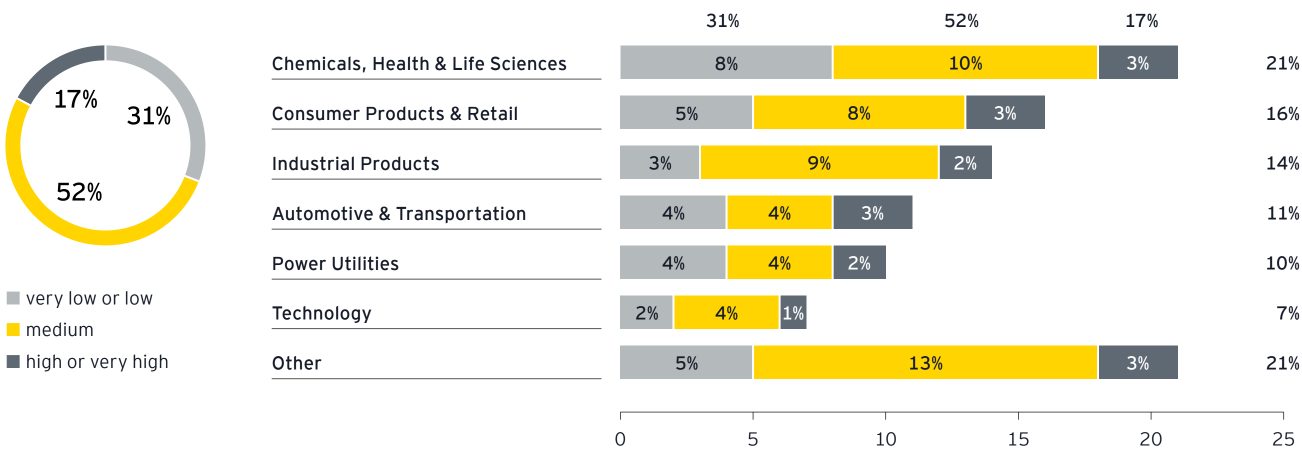
Process mining		RPA
4%	… usage of "modern" techniques to a **"high"** or **"very high"** degree …	7%
59%	… **no usage** of "modern" techniques	49%

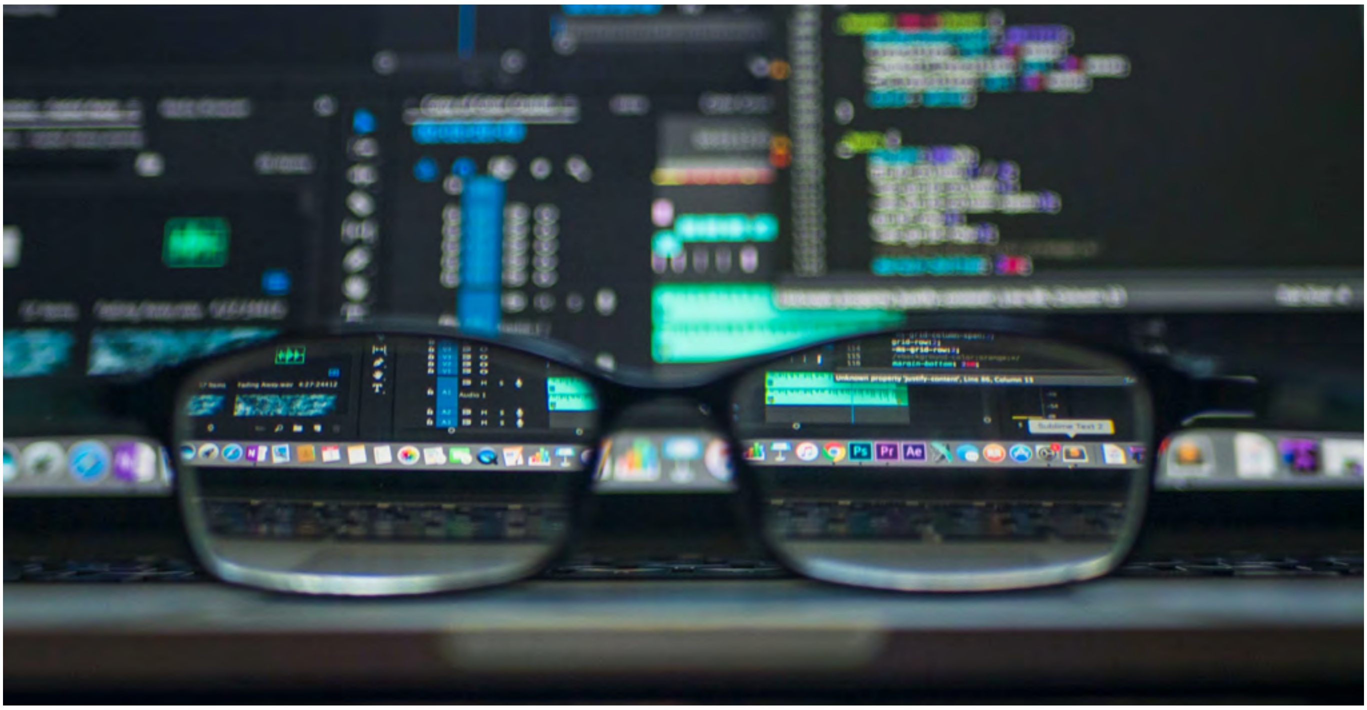


B. Key findings

Overall assessment and strategic alignment
Overall, the participants of the survey were asked how they assess the grade of automation in the accounting department.

! … **more than 50%** see the degree of automation on a "medium" level. The assessment as "medium" is the prevailing answer in all industries. Still 31% asses the level as **"very low" or "low".**

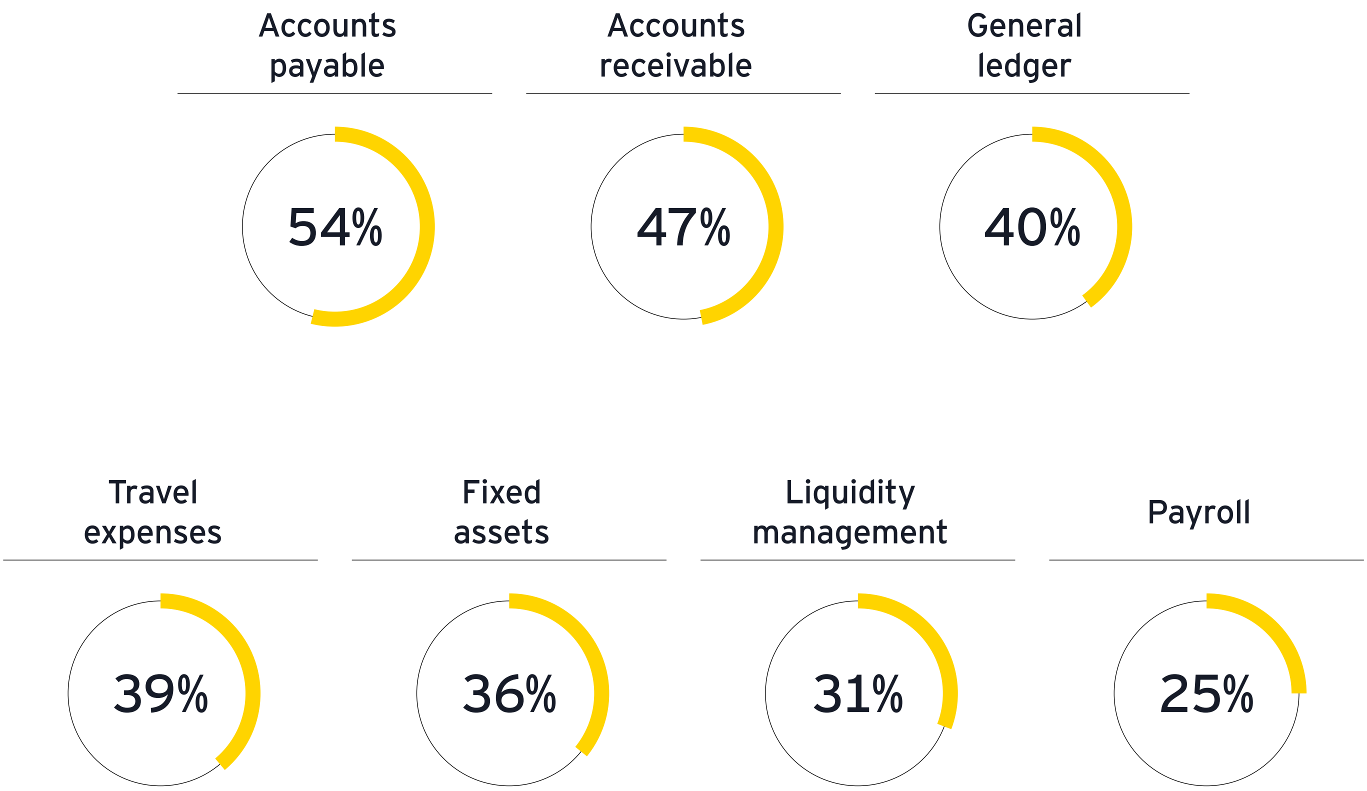




With respect to future performance of the examined core processes, companies were asked to state their strategic alignment. The results show that most companies strive for automation. In particular, the accounts payable and the accounts receivable accounting, i.e., those processes, which already have achieved a certain stage of automation as described previously are the focus of this alignment.

In addition, it should be noted that also general ledger accounting, i.e., a process that itself is often burdened with heterogeneous systems and the requirement for many manual adjustments, was determined as process with a high potential for automation.

For the core accounting processes, it can be noted that the participants strive for a higher degree of automation:



! … in focus for a higher degree of automation are accounts payable, accounts receivable and general ledger.

B. Key findings

2. Closing

Financial statements on single entity-level
The preparation of the single financial statements – of the reporting package of the entity – is the main task of closing. Early reporting strengthens the trust of external stakeholders and can streamline internal decision-making paths.

The table below shows the average number of working days needed to complete a defined process step within the participants' closing process.

Average working days required to conclude the process:

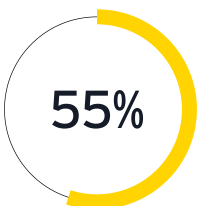
	Accounts receivable	Accounts payable	Fixed asset accounting	Cost accounting	Inventory accounting	Intercompany-reconciliation
Reporting package month-end[1]	+3	+3	+3	+5	+4	+4
Reporting package year-end[2]	+6	+7	+6	+8	+8	+8
Year-end closing[2]	+11	+12	+12	+12	+13	+13

1) "Reporting package year-end" and "Reporting package month-end": Prepare the reporting packages to report the current balance sheet, income statement account, cash flow statement and supporting documentation at the single entity level to the parent company.

2) "Year-end closing": Preparation of the statutory financial statements including balance sheet, income statement, notes, management reports, and if applicable, cash flow statements and equity rollforward.

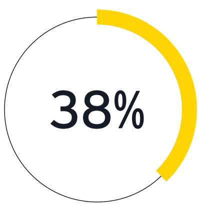
To obtain additional insight into the closing process, the process maturity with respect to automation can be seen in the following statements.

When assessing the degree of automation of the "preparation of reporting packages", it should be noted that **55%** regarded the process as **"automated" or "mainly automated" or "more automated than manual".**



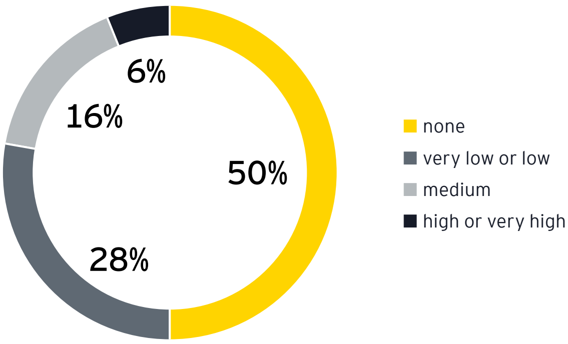
! ... 45% still regarded the process as manual or mainly/more manual than automated.

The orchestration of closing processes is described as **"automated" or "mainly/ more automated than manual"** only to a certain extent **(38%).**



! ... **62%** say that the **orchestration of closing** processes happens **manually, mainly manually or more manual than automatic.**

When assessing the degree of RPA in the record-to-report process at all, it can be noted that **50%** use no RPA and only 6% use RPA to a "high or very high" extent.

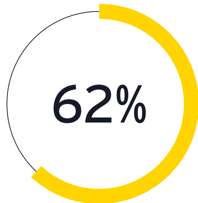


! … **50%** have **no RPA in place** with respect to the record-to-report process, and **78% use it only on a very limited basis or not at all.**

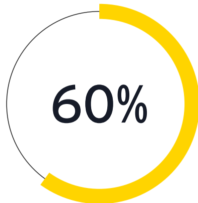
Due to dependencies among the processes, immediate information on the completion of the upstream process and process workflow step is necessary. This can be enabled through various communication channels.

The usage of the communication channels is assessed as follows by the participants:

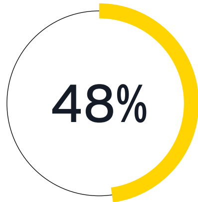
E-mail



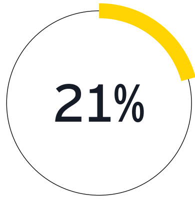
Verbal communication



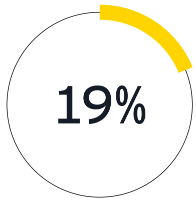
Closing calendar



Automated reports



Automated workflow



Automated KPIs

! … **more than 75%** of the participants **do not use** automated reports, automated workflow or automated KPIs in their closing process.

B. Key findings

3. Consolidation

Consolidated financial statement
For many entities the consolidation of the reporting packages is the next required step. Consolidation owners and parent companies are especially interested in streamlining reporting by their subsidiaries. The next table presents the average time until this exercise is performed:

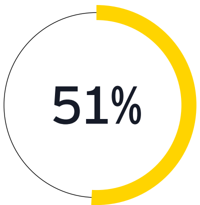
Average working days until process step is completed:

	Receipt of reporting package	Consolidation	Preparation of consolidated balance sheet and income statement
Consolidated financial statement	+16	+23	+25

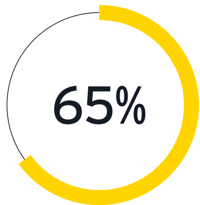
To gain more insights, the participants of the survey were asked about the most critical and expected time-consuming parts of the consolidation process:

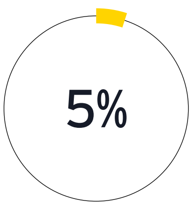
Processing intercompany differences

Entering financial data into consolidation tool



... degree of automation is described as **"automated" or "mainly/more automated than manual"**





... degree of automation is described as fully **"automated"**

! ... **more than 50%** of the respondents state that both sub-processes are conducted **more automatically than manual.**

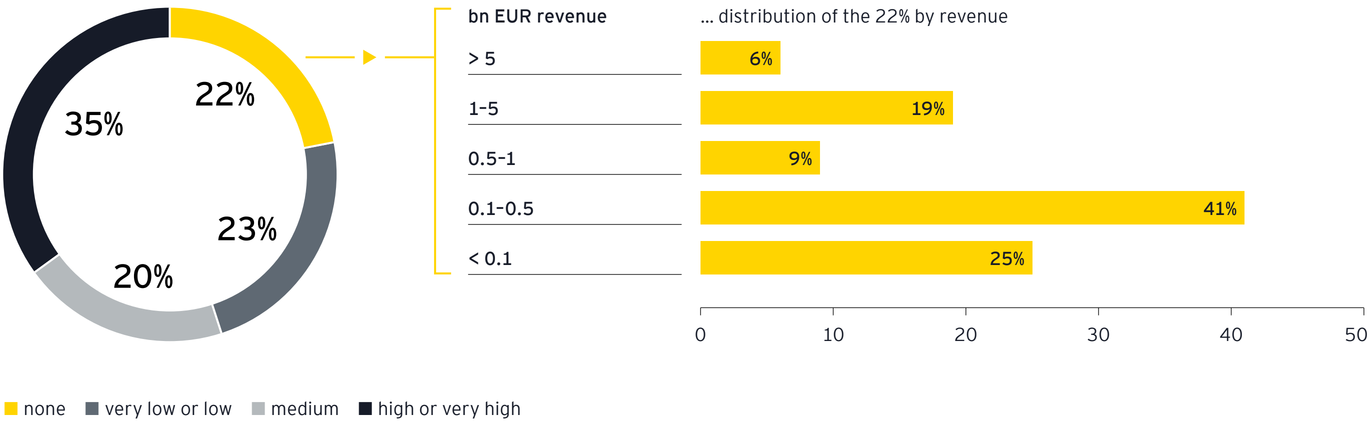
... but **a fully automated status** is only reached by **5% and 10% respectively.**

Finally, the participants of the survey were asked to determine the usage of a consolidation tool:

!

... **only 35%** of the companies **use a consolidation tool** to a very high or high extent at all.

... in **22% of cases,** a **pure manual (e.g. MS Excel)** solution is in place and can be found in all revenue categories.



B. Key findings

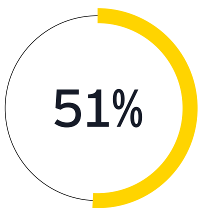
4. Reporting

Prepare external reporting for the capital market

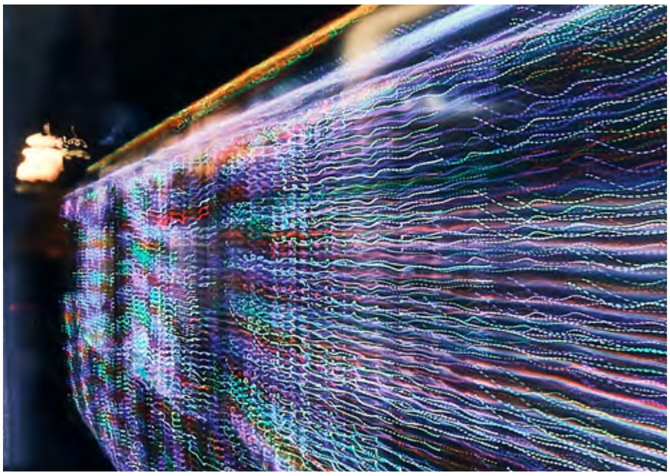
Average working days until process step is completed:

	Preparation management report	Preparation notes	Annual general meeting	Publication
Consolidated financial statement	+38	+39	+103	+105

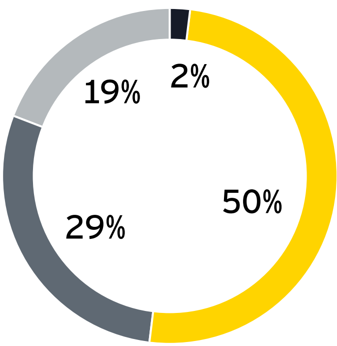
The participants of the survey were further asked to determine the current state of the automation with respect to the preparation of the annual report:

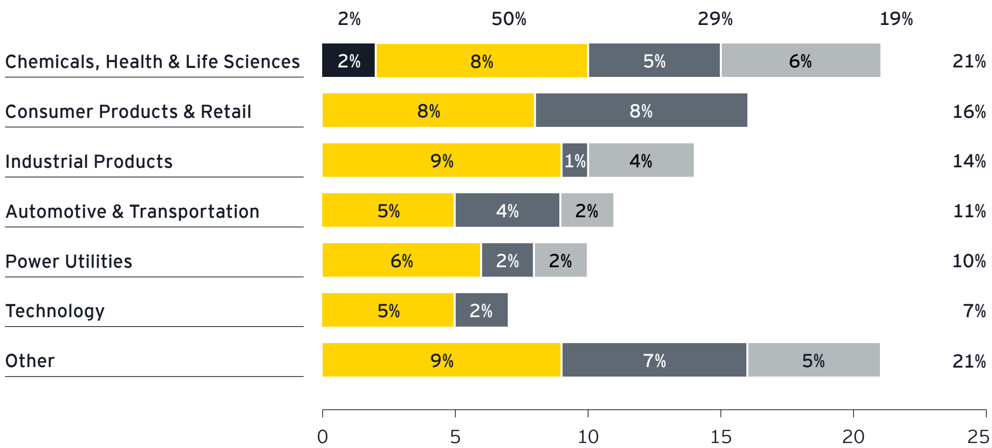


! ... **51% of the respondents** claim their annual report creation including the notes and the management report to be manual or mostly manual.



! ... 50% are satisfied with the extent of the annual report, however for **19%** there is **still an information overload and 29% are not sure.** The assessment of the extent of the annual report is viewed differently by the participants of the industry sectors.



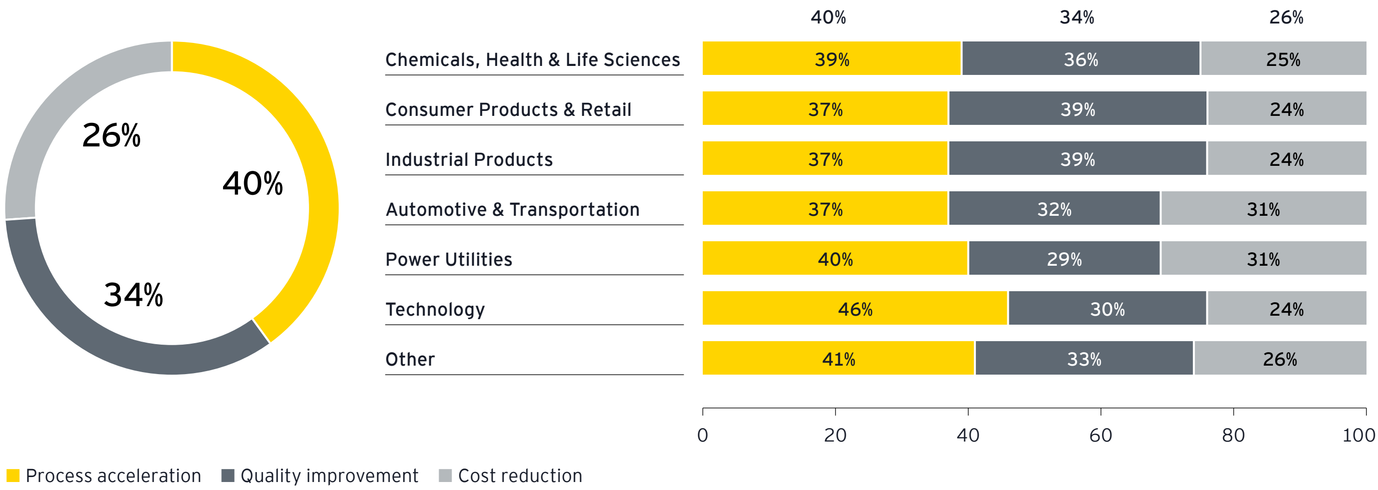


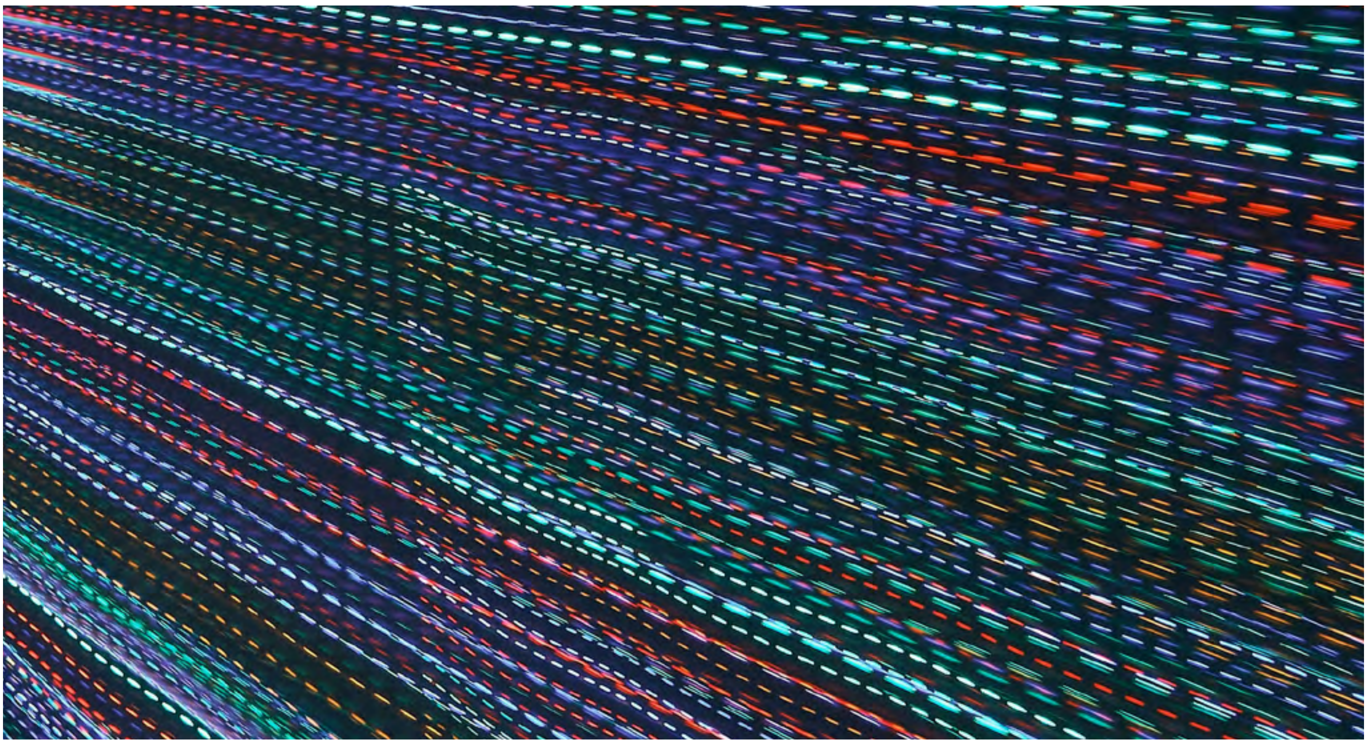
■ too low ■ exactly right ■ not sure ■ information overload

It is of great importance to continuously evaluate, monitor and improve the business and the financial processes in terms of effectiveness and efficiency.

Therefore, the participants of this survey were asked about the main drivers in terms of improvement potential and their influencing factors.

The survey shows that process acceleration in particular is regarded as the most important driver, followed by quality improvement and cost reduction. Within the industries the assessment differs.

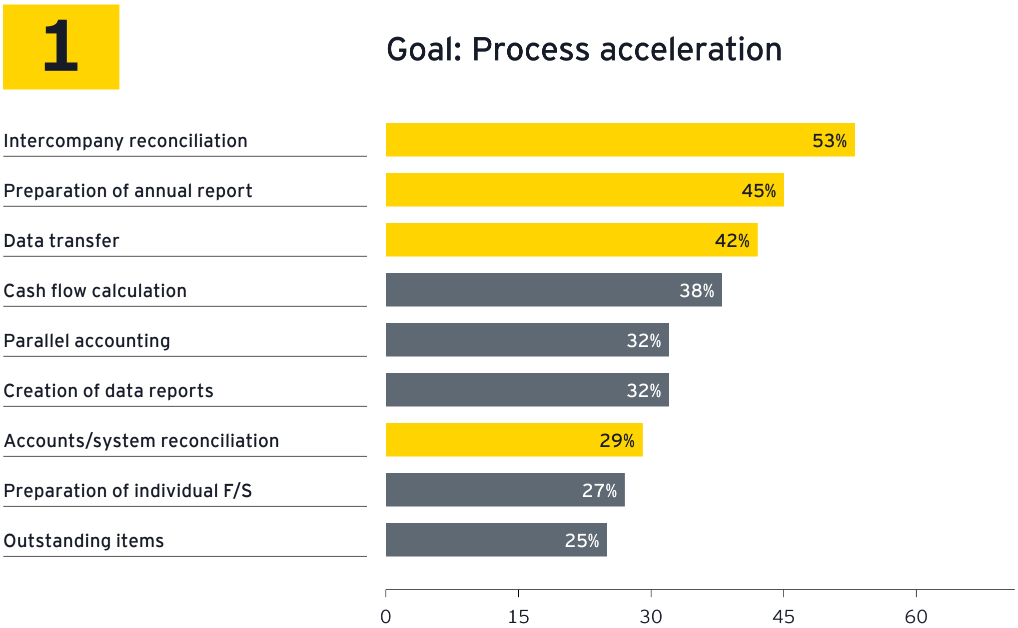




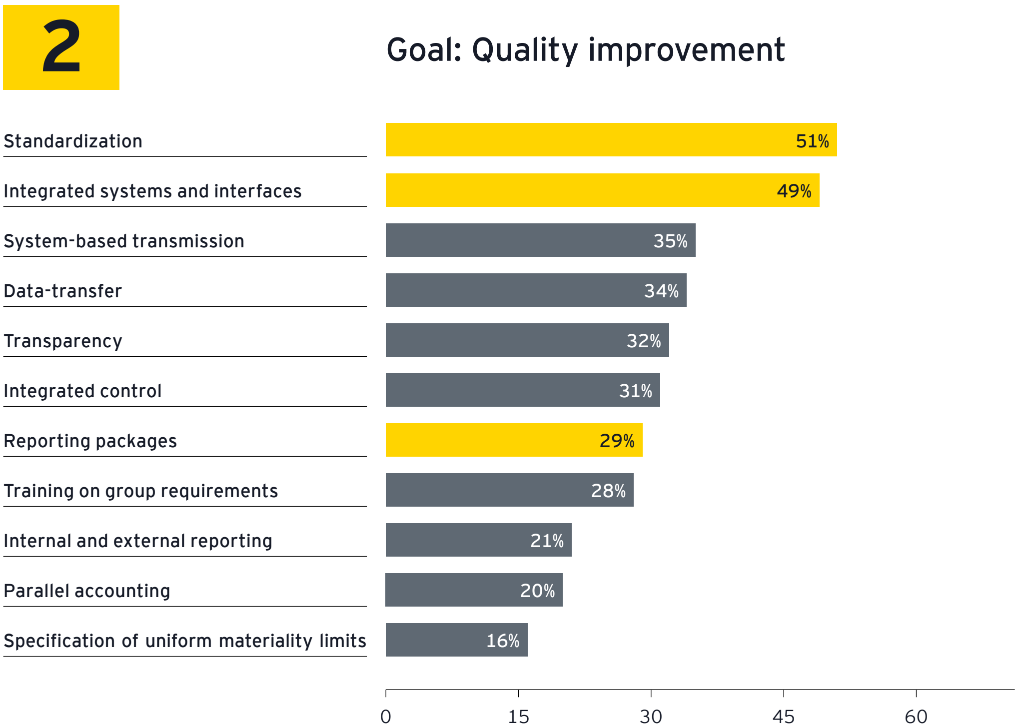
C. Potential for improvement

Furthermore, the influencing factors for these three drivers were evaluated.

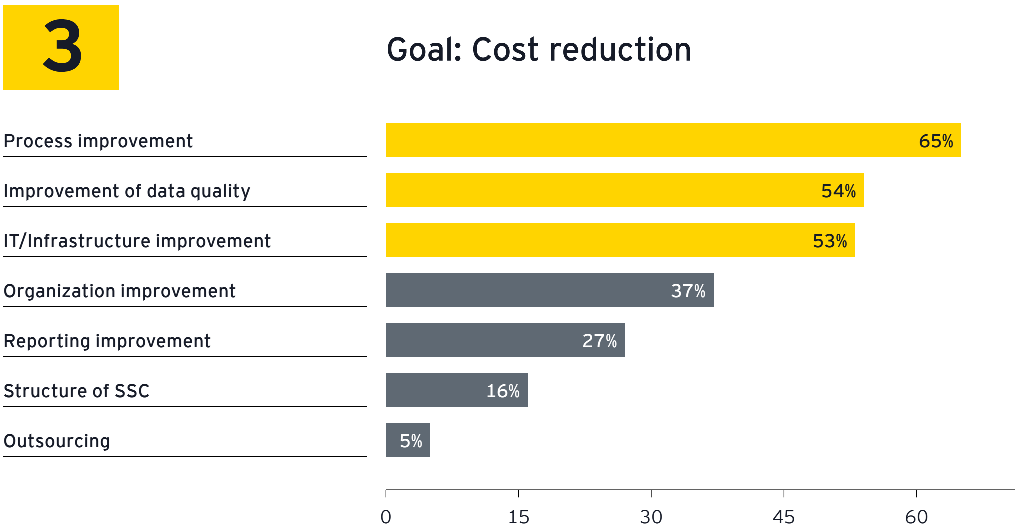
For more than half of the surveyed companies, the intercompany reconciliation offers the most **process acceleration** potential. This is followed by the preparation of annual reports (45%) and data transfers (42%). In addition, 29% of all participants still see process acceleration potential regarding account and system reconciliations.



Standardization (51%) and the integration of systems and interfaces (49%) are assessed to highly influence the realization of **quality improvement.** It was further noted, that the reporting packages are estimated to be influential by 29% for the realization of the quality improvement.



With regards to **cost reduction,** the surveyed companies consider general process improvement (65%) and improvement of data quality (54%) to be important. In addition, 53% of the companies surveyed assume that IT/ infrastructure improvement can lead to cost reduction. This emphasizes the importance that companies attach to their data and system structure.



D. Summary of observations

The survey results show that there is a need for improvement regarding standardization and automation throughout the entire closing and reporting process.

Having a look at the **PtP and OtC processes,** many process steps are poorly standardized and automated and demonstrate infrequent technology usage. The survey also showed that manual process orchestration and communication channels are major reasons for delays in the respective processes. Since status reports are still most commonly transmitted via email or personally, a seamless information flow cannot be assumed. This can only be ensured with the support of technologies such as a KPI dashboard that is tailored to the client's needs, priorities and system landscape to respond to this necessity. Since many companies still do not track their financial close progress digitally, advantages of a tool-based closing calendar such as clear definition of responsibilities and real-time status reports can rarely be found.

Expenditure of time appears to be the most striking challenge in the **closing of individual and consolidated financial statements.** In particular, year-end activities such as the intercompany reconciliation are the most time-consuming. Furthermore, different systems and sources make it difficult to maintain consistency and lead to increased manual work, e.g., in the creation of reporting packages. In response to this, financial closing solutions are designed to centralize and automate the closing process and reduce complexity and time. Without the need to switch between different systems, data from several sources can be utilized. Besides automated workflows, these platforms enable data integrity, increased governance and a single source of information.

Not only closing but also **reporting** is conducted more manually than automated in most cases. Final process steps show significant time lags to the balance sheet date which points out the need for a streamlined reporting and an automated management of disclosures.

Regarding the drivers for **improvement potential,** companies surveyed regarded process acceleration as the most important driver, followed by quality improvement and cost reduction.

EY considers all these challenges as major potential for improvement and responds to them as part of their "Smart Closing & Reporting" solution as described in Part II.

III.
What comes "next" and "beyond"?

This is a time of great volatility and disruption, with the COVID-19 pandemic creating real uncertainty and impacting many people and businesses. The current situation requires adaptation in many areas of life – personal and business. Our daily working routine, our work environment and also the way we work together have changed very quickly and unexpectedly. As a result, many companies have been introduced working from home as the new "normal" and were faced with the remote financial closing in the past weeks and months and ongoing. In the course of many calls and video conferences with clients and colleagues, the challenges that companies are facing during these special times became obvious, in particular regarding the closing and reporting process. Examples of this include:

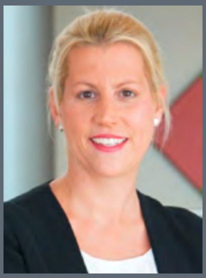
- Closing will likely take longer with a remote and distracted workforce
- Certain systems and tools are not available via remote access or have highly limited access controls
- Collaboration tools are not available or inconvenient for people to use
- Approach to capturing and communicating key decisions and changes to the closing and consolidation process might require adjustments

With the crisis management of most companies focusing mainly on the "now" phase, it is extremely important to consider what comes "next" and "beyond" in order to stay competitive and to make the right decisions for the future. This includes an efficient and effective closing and reporting process. The primary drivers for the "next" and "beyond" phase include:

- Implement a workflow tool and closing calendar with defined tasks, roles, inputs and outputs
- Automate account and intercompany reconciliations
- Simplify chart of accounts
- Standardize templates and enforce procedures to ensure consistency and streamlined reporting cycles
- Set up central repository for supporting documentation

So, are you ready for what comes "next" and "beyond"? We are here to assist you. Contact your EY team!

IV. Authors and contacts



Sandra Dreier
Partner
Financial Accounting Advisory Services

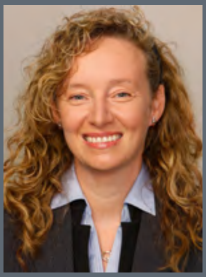
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft
Graf-Adolf Platz 15
40213 Düsseldorf (Germany)

Office +49 211 9352 26538
Mobile +49 160 939 26538
Email sandra.dreier@de.ey.com

Volker Merkel
Associate Partner
Financial Accounting Advisory Services

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft
Mergenthalerallee 3-5
65760 Eschborn (Germany)

Office +49 6196 996 14951
Mobile +49 160 939 14951
Email volker.merkel@de.ey.com



Claudia Pott
Senior Manager
Financial Accounting Advisory Services

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft
Westfalendamm 11
44010 Dortmund (Germany)

Office +49 231 55011 28641
Mobile +49 160 939 28641
Email claudia.pott@de.ey.com

Torsten Rehage
Senior Manager
Financial Accounting Advisory Services

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft
Graf-Adolf Platz 15
40213 Düsseldorf (Germany)

Office +49 211 9352 22500
Mobile +49 160 939 22500
Email torsten.rehage@de.ey.com

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