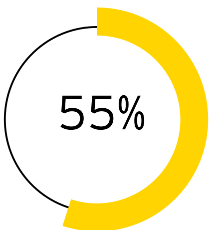
How to stay on top of your financial close process

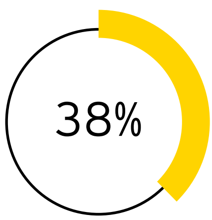
Always available, error-free and understandable – these are the primary requirements for companies when it comes to external financial reporting. However, there has been an increase in the amount of time required to close and prepare external financial reporting.

The closing period is usually the time with the highest workload for the accounting and controlling departments. Late adjustments made during the financial close process can cause multiple issues: results in re-work to reports and disclosures, increases pressure on reporting team when publishing deadlines are imminent.

By becoming "agile", the closing process focuses on the analysis and not just the accounting record.



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



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

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> **The future depend on what you do today**
> Mahatma Gandhi

Managing and optimizing the financial close process will bring benefits:

- Harmonize practices,
- Ensure quality - Better and more relevant financial information,
- Reduce lead times - Reduced number of days to close your books,
- Motivate teams,
- Better operation decisions,
- Lower finance function cost.

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 typical challenges in record to report (R2R) are:

- Limited time available for analysis,
- Under-optimized use of technology and automation,
- Excessive use of excels and emails for reconciliation,
- Large unidentified reconciliation differences,
- Exponentially increasing volumes of data and processing requirements,
- Limited visibility into day-to day monitoring of accounting cycle,
- Inability to monitor reason codes for journal entries,
- Increasing number of adjustments and reclassifications leading to inefficiency.

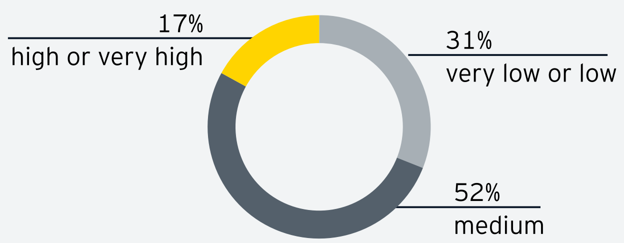
Technology and digital enablers have allowed companies to centralize their entire R2R scope, from transactional processing to data reconciliation.

> 40%

more than

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

... 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".



Financial closing solutions – the closing revolution

Technology is transforming finance, particularly in the area of data. Today, organizations and their finance teams have more data than ever before, thanks to increases in computer processing power, ever-growing connectivity, and the cloud and its massive storage capacity.

To turn data into truly value-driven reporting and to produce financial information ever faster, finance teams should focus on utilizing digital solutions for closing the accounts (automation and digitization of the finance process) and on building trust in data analytics (data and process analysis). This digital transformation also requires them to think differently about the people they recruit.

But a high degree of automation requires standardization.

Process analysis will tackle these challenges at their source. It helps to discover the "standardized" processes. Gaining a common understanding of the status "as is" is the starting point to identify areas for improvement regarding further implementation of technological support.

Process Mining enables users to analyze the processes, to detect those who are actually tracked and compare them to the processes theoretical, detect inefficiencies and anomalies possible.

Traditional interviews do not ensure the completeness of process reviews.

Process Mining tools make it possible to:

- Identify bottlenecks and deviations from the target process,
- Monitor performance indicators, continuous improvement,
- View 100% of data and quantify transactions (in volume and amount),
- Improve cost / time performance and compliance.

Furthermore, process mining enables to identify potentials for improvement and helps process standardization and transparency which are crucial prerequisites for automation purposes.

< 10%

less than

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

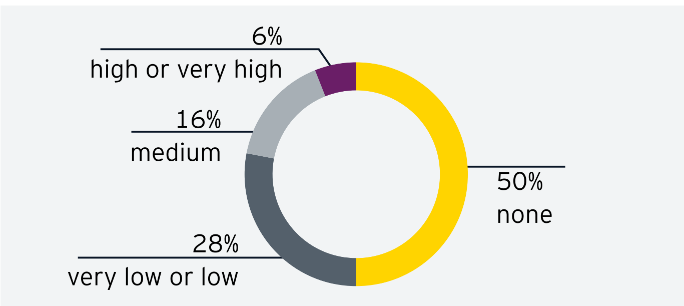
The cloud-based solutions (e.g. BlackLine) offer the possibility to process key accounting processes such as reconciliations, task assignments, journal entries and analyses on a centralized platform, even in very heterogeneous system environments. This processing replaces the complex and error-prone work in different spreadsheets or systems on different servers and enables the finance departments to build up extensive transparency of the closing process and trust in real-time data. Supporting the entire closing process across the company also enables the audit trail to be tracked without interruption.

Finance teams can use machine learning and artificial intelligence to build prediction models, improve outcomes and look for underlying patterns. These models are able to auto 'learn' from the data and predict outcomes to completely new cases.

- Data to Insights
  - Ability to uncover patterns with regressions,
  - Understanding complex correlations between value driver.
- Improved financial predictions
  - Prediction of financial KPI, revenues, balances and profit/ loss,
  - Increases reliability of planning, budgeting and forecasting,
  - Transforms simplified and rigid "human" planning into agile data drive "AI" planning.

EY has developed a machine-learning anomaly detector for journal entries ("JE(s)"):
- It develops a model to predict the amount of debits and credits posting to each general ledger account each day. For each day that has a significant variance for a given general ledger account, all of the journal entries for that day related to that account will move to anomaly detection.
- It identifies the outlier entries within that population.

Robotics can be deployed in several areas:
- Software that mimics human interaction with core systems, web, and desktop applications to execute processes,
- Combine structured and unstructured data into reports,
- Automate report distribution and collection.



... 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.

With the introduction of technology in the financial close process, companies benefit from five factors in particular: automated workflow, earlier identification of accounting issues, data integrity, increased governance, a centralized and single source of truth.

Data analysis performed during the month enables earlier identification of significant accounting issues, provides more time to resolve them, reduces work during closing and help to manage tight closing and reporting deadlines.

Transforming the finance workforce

The finance function will benefit from team members with new capabilities beyond traditional finance and accounting skills, including strategic awareness of new technologies such as AI, RPA and knowledge in disciplines such as data science and advanced statistics. This should include both the "hard" skills required to utilize new technologies and data, and "soft" interpersonal and strategic skills.

In addition to looking at the competencies required, finance leaders should also consider their future operating model. As their organization's strategic priorities will likely change rapidly – finance and reporting should have the agility to change with them. Flexible models, such as managed services, are one way to address this. Tools and data allow finance teams to work collaboratively with external vendors more closely to deal with these challenges.

Digitization of the closing process will require to rethink the operating model

- Process mining tools will enable the organization to monitor exceptions and identify root causes for deviations
- Machine learning will be used to build prediction model and detect anomalies
- Policies and procedure will be updated to enable new digital and automated processes
- Technology: Complex tasks like consolidation, elimination and foreign currency revaluation functions will be automated
- People: teams with non-accounting backgrounds, such as data scientists, RPA analysts and other skill sets
- Data: Automated finance data management process will be established

How EY can help?

Our CFO Services professionals focus on supporting leading organizations in navigating this ever-changing accounting and reporting landscape, helping clients to tackle technical accounting and financial reporting issues.

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