Prophix®

A faster year-end close

A Prophix white paper

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Executive summary

Why is faster closing important? A faster close is a good indication of how well a company's financial systems and procedures are performing. In today's competitive market, the accounting function needs to improve existing processes and, at times, infrastructure to achieve greater efficiency and accuracy. When properly implemented, sound financial processes will improve information and deliver accurate data to decision makers throughout the entire year, and early enough to take corrective action.

Fast and effective closing saves time, money, resources and minimizes re-work. The time saved directly translates to time dedicated to performing value-added activities throughout the organization.

Many finance departments accept that month-end and year-end close are stressful times and employees are expected to work overtime hours for days or weeks at a time. In many cases, senior executives are required to 'watch over' the process since there are inherent delegation and trust issues due to the lack of standardized accounting processes across the entire organization particularly when sub divisions exist.

Fundamental to successfully achieving a faster year-end close, it is important to note that the principles discussed in this document should be implemented throughout the year, and not just at year-end. The production of timely and accurate financial information is essential all year round, driving the need for systems, processes, and procedures to be in place that accommodate all financial activities throughout the financial calendar year such as year-end reporting, month end, annual budgeting, tax and audit preparation, product profitability analysis, and quarter- or mid-year re-forecasting.

Why is faster closing important?

A faster close is a good indication of how well a company's financial systems and procedures are performing. Faster closing has numerous benefits, relaxes pressure on resources, and is a good indication that the finance department is running smoothly.

Sound financial management

Delivering timely, error-free, and auditable financial statements indicates that your organization and finance departments have a sound financial management system in place. Internal and external auditors are able to spend less time tracing results and often are able to use the tools in place to delve into deep analysis without disturbing their day-to-day activities.

Better resource management

The tools, processes, procedures, and systems required to achieve a faster close aid the overall management of resources. If proper systems are in place to monitor and manage changes due to changes in your organization, then the changes themselves will have minimal impact on your finance department. Finance staff is able to adapt quickly to corporate changes, and do not need to spend extra time accommodating changes in reports, business models, or analysis tools. Some financial performance management tools adapt automatically to these types of business model changes, and hence the impact of accommodating the changes in reports, for example, is not even noticed. When proper systems and procedures are in place, all departments are able to assess their performance on a daily basis making corrections throughout the year instead of at year-end. A fallout benefit is that the system allows a department to track budgets throughout the year and enhances their ability to plan.

Lower risk

Quality and error-free financial performance management systems provide confident results in-year to senior management. Decisions about the company are taken with more confidence, and mitigate risk. Reviews and re-planning can take place often if proper systems are in place and will provide early warning signs on under or over spending.

Inform stakeholders

The earlier that information is made available, the greater relevance it will have to the users of the reports and statements. Department managers can make informed decisions about their departments' performance, and the department can make future decisions based on historical data.

Motivate staff and reduce turnover

When proper systems are in place, the seasonal demands of year-end planning, or even month-end are balanced throughout the year. Staff are given the opportunity to provide other value-added services making a bigger impact on the organization overall and adding to the individual's motivation. The following table illustrates the typical benefits that can be achieved through a faster close system or tool:

Business unit level	Corporate consolidated level	Financial & management reporting
• Detailed close calendar • Communication and workflow procedures • Accelerated cut-off dates and timing to perform account reconciliations • Established and documented processes • Automated journal entries pre-close • Automated processes within close • Defined/updated corporate policies/procedures to promote consistent quality of earnings	• Detailed procedures to perform inter-company cut-off and reconciliation • Reduced inter-company complexity • Established analysis and reviews to ensure consistent quality of information prior to data submission for consolidation • Increased adherence to closing timetable • Established day-to-day task plans to execute and monitor consolidation activities and coordination with business units • Standardized consolidation practices	• Aligned financial and management reporting needs across the organization • Established a common language and types of analysis to communicate results across all layers of the organization • Eliminated redundant reporting streams that delivered conflicting information • Automated reports • Proactively prepare reporting packages • Established common financial and management reporting templates • Established review meetings to enable appropriate analysis and review

Company

An international transport company with more than 30 operating companies and has a history of acquisition with limited post acquisition integration.

Problem

Typical with companies that are in heavy acquisition mode, the biggest issue facing the organization was the limited and inconsistent view of the financial and operational statements across all divisions. This affected the time it took to close their books at year-end and also at month-end. This was primarily due to the number of systems and inconsistent processes in place. Because the companies were not integrated well, there was also a lack of trust between the operating entities. As is the case when companies merge or are acquired, the reporting formats were inconsistent across the organization and made it difficult to assess the true position of the various entities. When compared across the industry, this company was the slowest to report their year-end results.

A change in policy aimed at improving both the time it took to produce the monthly management and statutory reports was planned. The project was organized into three streams:

1. **Finance** was designated to review, revise and update the divisional and group chart of accounts. This involved working closely with each division to ensure the newly designed charts of accounts were both useful to the local management teams and consistent in the way they treated their underlying components. In addition, this stream developed the management reports required locally and centrally.

2. **IT** was involved in the implementation of a new consolidation and reporting system and linking this directly into the local financial ledgers. This stream also involved the upgrade of the network to allow direct access from a centrally deployed solution.

3. **People and processes.** The people elements of the project involved a training analysis, the creation a business transition plan, and stakeholder management at all levels of the organization. The close process was reviewed and revised around the new consolidation and reporting system. These streams were managed as a high-level project structure, with a clearly defined implementation roadmap, which ensured that the management and tracking of the project was both effective and visible. Regular steering committees were held with representation from the wider finance community, IT, the project team, and the external auditors.

Approach

The implementation was successful in many ways. First, it provided real visibility of divisional performance and allowed information to be shared across the business more readily. Second, it significantly reduced the time it took to close the books and report externally (by over 30%) with additional opportunities to speed this up still further. Third, it reduced the reliance on local systems to complete the local consolidation and reporting activities. [1]

[1] *Source: PricewaterhouseCoopers*

Challenges to closing faster

Although every organization is unique, a number of common challenges to faster closing can be identified. These challenges limit a department's ability to complete their tasks promptly and reduce potential benefits of new or existing systems and procedures.

Lack of training

Ensuring that staff is properly trained in the proper use of systems and procedures is an essential part of a faster close. Doing things right the first time is more efficient than reworking down the line. In addition, trying to resolve an error at a later date is often slowed down due to the lack of context and understanding. Training staff on year-end procedures is vital for new staff, but an annual refresher will also remind existing staff of how to properly perform required procedures. Certain tasks that are required once a year are often the tasks that are prone to error. When using a system that supports a faster monthly close, the year-end close training will be smoother. A training session is also a good place to remind staff of the latest corporate or government changes. Finally, clearly documented notes, or a system that documents procedures, should be used for closing tasks.

Passive support by senior management

The support of senior management is crucial to the success or failure of a faster close. Without the support of senior staff to put systems in place, a faster close is out of the question. Staff will not understand the importance of a fast close, and the effort will be viewed as wasted time if management does not actively participate in the process.

Department buy-in

A good performance management system provides tools that will benefit many departments outside of finance. When all departments use the same system, ultimately data becomes transparent and the creation of reports and performing analysis becomes painless as well as raises the overall quality of the information provided. When rogue departments continue to manage their budgets and plans outside the corporate systems, often this leads to false assumptions, poor quality, and insufficient information for making decisions. Small departments may get away with this for a while, but when it comes time for detailed analysis, these departments will be exposed.

Inadequate systems

Many departments have encountered difficulties with the operation of multiple, and sometimes incompatible, systems resulting in the need for time-consuming manual intervention in the process. Many systems exist in the market to automate consolidation including currency, inter-company eliminations, journal entries, and allocations. These systems eliminate the need to work in the source systems directly, and hence eliminate the manual intervention steps. Using a good system will mitigate the need to create detailed procedures manually and can automate many of the steps involved when creating year-end reports.

Failing to communicate

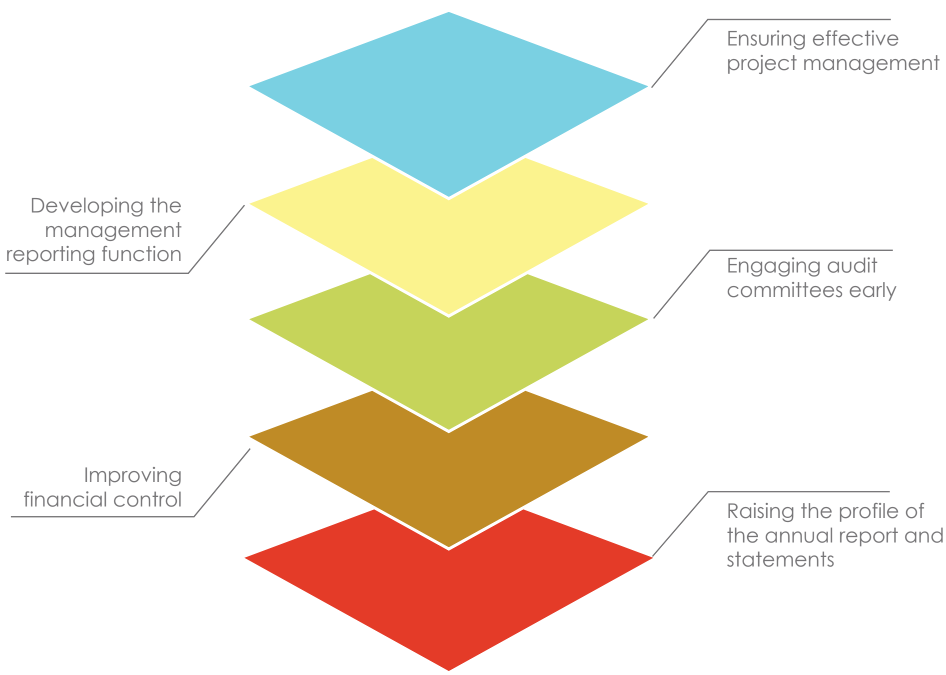
Failing to engage with staff from across the organization, both in terms of seeking their input on how processes and working practices could change and not communicating to them throughout the project, will potentially lead to failure.

Poor communication with auditors

There are benefits of holding regular progress meetings with auditors that are attended by senior management. These meetings ensure that any potentially contentious issues are discussed at an early stage.

Achieving a faster close

This section outlines the steps required to overcome the challenges of achieving a faster close. As more of these steps are implemented, departments will begin to fully realize the benefits of a faster close.



Raising the profile of the annual report and statements

Traditionally, the reporting process has been viewed as the respon–sibility of the finance department. However, the most efficient and accurate reporting and closing involves the entire organization. This includes the support of senior staff. Senior management can raise the importance of the faster close, and can drive the importance of the project through the entire organization. This ensures that proper business practices are followed, ultimately lowering the number of errors and lessening the burden of tracking down inconsistencies.

In addition to supporting the faster closing processes, senior management must act upon the information that is reported. This ensures that staff is aware of the importance of the information that they provide. Reports should be reviewed on a regular basis, and delays or slippages can be followed up on immediately. Senior management can also act as a point of quality control. The senior management team should review the reports prior to submission, ensuring there are no surprises, and so that they can be prepared for auditors. This will allow the management to provide feedback on the usability of the accounts and clarity of the narrative provided to a lay reader of the accounts.

This level of commitment from management needs to be disseminated down through the organization. The information prepared by individual departments needs to be accurate and produced in a timely manner. Raising the awareness to all staff is therefore a key factor to successfully closing faster.

Engaging audit committees early

An audit committee can provide process direction and experience with best practices. Engaging auditors, both internal and external, early in the process will help avoid pitfalls and will provide support and improvements on systems that are put in place. Auditors can provide regular feedback on the progress made against a project plan throughout the implementation of a process, and can challenge staff on delays. In addition to the guidance, auditors can provide feedback on the quality of the data and of the systems and procedures in place.

Improving financial control

Having effective financial management controls in place is crucial to managing a business effectively. This same system of control also allows auditors to conduct their audits more efficiently. Many systems are available to manage gathering, tracking, and changing data with a high level of auditing built into the system. Implementation of these systems will help identify the organization's control framework and will provide a means of assessing how a company will react and mitigate risks. When auditors deem that the controls are operating properly, only small sample sets will be tested as opposed to thoroughly examining large samples of transactions. An important test of the financial control system is preparing monthly and quarterly statements.

Developing the management reporting function

Regular management reports have numerous advantages. Producing information throughout the year makes preparing the year-end reports easier, and it will also help departments track their resources and expenses throughout the year. This improved approach should, in turn, facilitate better decision making all year around. Up-to-date financial statements will also allow departments to re-allocate and re-prioritize their resources during the year to ensure corporate goals are met. This will not only benefit a faster close at year-end, but more effective management throughout the year as well as improved accuracy and efficiency.

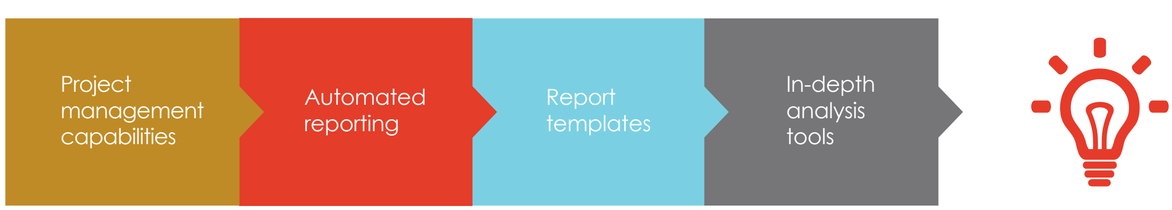
To be effective at year-end, the in-year reports should be produced on a tight time scale in the same format as the year-end reports, and of course they should be scrutinized by the management team. These in-year projects can serve as a "rehearsal" for year-end close.

Ensuring effective project management

It is essential that each department manage their reporting projects effectively. Project planning should be part of the system used to manage and deliver year-end reports. Some tools in the marketplace offer workflow management functions incorporating project timelines and automated reminders. Staff should be well briefed at the outset to ensure that expectations regarding the timeliness and quality of the information required are clear.

Opportunities for innovation

There are numerous challenges to achieving a faster close. This guide has presented suggestions on mitigating those challenges. There is further opportunity to innovate in this area with tools available in today's marketplace. Many tools such as Prophix include project management capabilities, automated reporting, report templates, and in-depth analysis tools. These tools track changes and are auditor friendly. In addition to the ability to automatically deliver reports, these types of solutions also consolidate many sources of information and track when reports have been viewed and approved by senior management. These solutions are very effective in collaborating across the entire enterprise bi-directionally and support various reporting types and formats while enabling strong financial control.



Conclusion

Faster closing gives an indication that the organization takes seriously its responsibility to report its financial position internally and externally and provides evidence of sound financial systems and procedures. Properly implemented techniques to achieve faster closing will bring improved financial information to decision makers throughout the year.

The benefits of a faster closing are summarized below:

1. Reliable financial information for users is available earlier knowing the real financial position allows management to make prompt, informed and effective decisions; and internal management can be better equipped in planning processes.
2. Weaknesses in financial systems can been identified and corrected at the earliest opportunity, and the preparation and audit of financial statements provides a major opportunity for building this assurance about financial records.
3. Improvements in financial procedures and systems necessary for earlier closure can have a much wider benefit for the administration of the authority.
4. The production of financial statements with an unqualified audit report provides everyone with assurance of good financial governance.
5. Early compilation of the financial statements allows members and officers to concentrate on current-year financial matters and future plans.

Early and effective publication of the statement of accounts is being promoted as a key indicator of good financial management.

Summary checklist

Raising the profile of the annual report and accounts

- Identify key stakeholders
- Identify the requirements of each stakeholder
- Ensure operating and financial review includes details of key figures and explains importance to user of the accounts
- Present accounts timetable to the management
- Review progress against timetable at each management meeting
- Management to consider annual report and accounts prior to submission for audit

Engaging the audit committee

- Consult audit committee for suggestions of best practice from their own experience
- Provide regular feedback on progress to audit committee
- Present final reports to audit committee before submission for audit

Improving internal financial controls

- Internal audit to provide copies of internal audit reports to external auditors
- Internal and external auditors to discuss how they will work together
- Use a performance management system that supports documented procedures, workflow and collaboration tools, reporting tools that expedite report creation and distribution, and automation tools to remove manual steps

Fully implementing resource accounting and budgeting in year

- Review IT systems' capabilities
- Prepare reports on a regular basis throughout the financial year
- Review skills of staff in the finance team and address skills gaps as necessary

Effective project management

- Agree on a detailed timetable with auditors
- Translate this into a project plan
- Allocate tasks and brief staff on their responsibilities

About Prophix

Prophix develops innovative software that automates critical financial processes such as budgeting, planning, consolidation, and reporting—improving a company's profitability and minimizing their risks. Thousands of forward-looking organizations in nearly one hundred countries use software from Prophix to gain increased visibility and insight their into business performance. Prophix and its partners deliver superior value by combining high-end functionality with low cost-of-ownership and fast implementations.

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