Monitoring the financial close process

Coordinating Tasks and Storing Evidence in the most important Internal Control.

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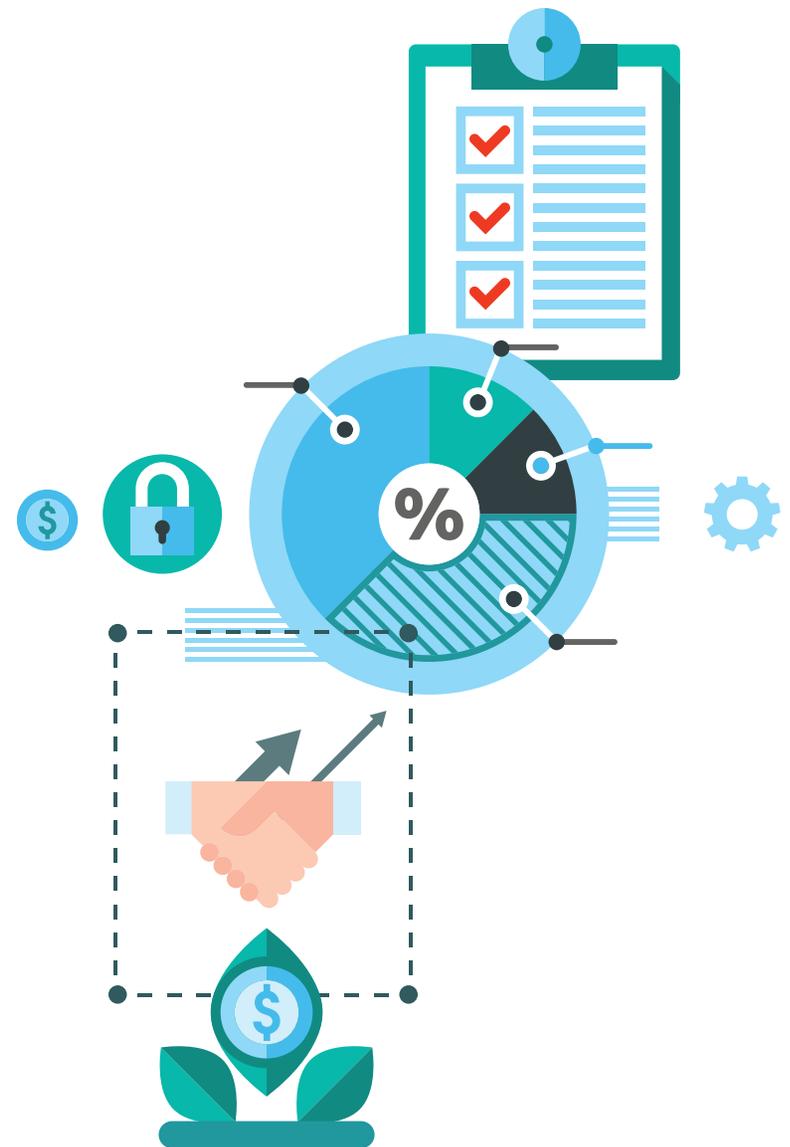*Move Forward with Confidence™*

INTERNAL AUDIT

Overview

Anyone with exposure to either the finance functions or the audit functions of any organization knows that the **Financial Close Process** is always a key control. While the close process is ostensibly run in an accounting department, it attempts to coordinate tasks across many departments in graceful ballet, from publishing the timetable, to submitting disclosures.

This all stems from the precepts that the external auditor has ingrained in him or her, probably while still in the womb: conservatism and accruals. *Thou shalt never preempt thy revenues and always preempt thy costs, and, Thou shalt always match thy costs in the period with thy revenues in the period.*

It is this last phrase of accruals or matching that gives rise to the need for a coordinated close process. You have to ensure that the costs in the measurement period and the revenues in the measurement period are from the same period of time.

This means all of the activities that change balances in the financial ledgers need to have tickets to the dance: manufacturing shipping, receiving, payables, receivables.

The role that is held accountable for the close process though is most certainly finance. The CFO will generally stay above the fray, but the controller will be intimately involved in managing the process. The question on everybody's lips after the books have closed is "what are the results?". Having some visibility into the likelihood of being able to publish on the prescribed day will allow the controller relaxed and and peaceful sleep. Of course, the real nightmare for the controller and the CFO is that not all activities have been completed or were completed in the wrong order and that the results must be restated.

01 Lower Costs
02 Reduce Risks
03 Product Safety
04 Improve Predictability
05 Superior Quality
06 Enhance Process Consistency
07 Greater Brand Protection
08 Simplified Operations

The current state

Standard operating procedures

The increase in controls consciousness brought about by the scandals and resulting legislation over the past years has meant that companies at least have to show the process that they should be following. Standard operating procedures or process narratives have been a minimum bar to get past internal and external auditors. They scan the document looking for control points and design testing procedures to confirm compliance.

Checklists

Some companies have distilled control activities into checklists to get better delegation and better evidence that control activities have been performed.

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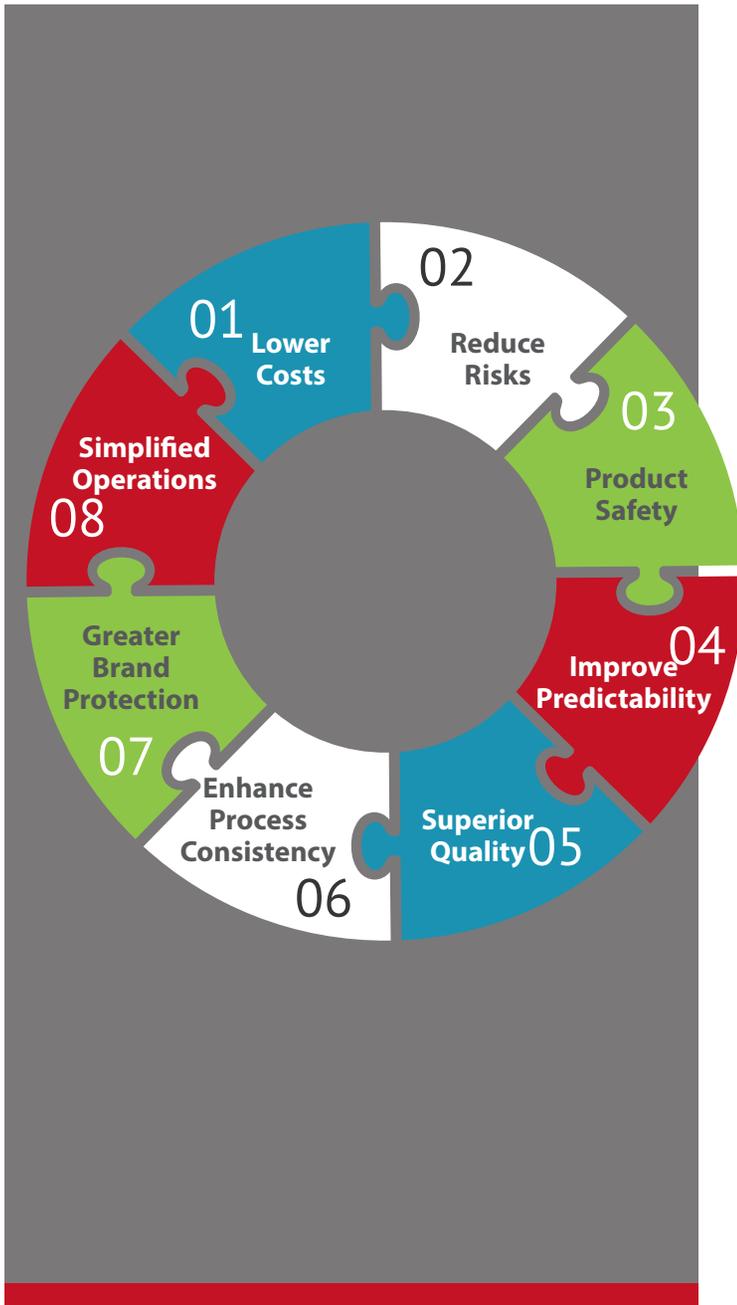
Where financial close management is headed

The standard operating procedure and checklist model are both necessary components of a financial close monitoring solution, but they are rather static representations of the flow of work.

Workflow

What is clearly needed of a workflow automation tool is that it will notify people when prerequisite steps are complete, allow evidence to be captured, and record confirmations of complete actions in an auditable store. Most workflow solutions show users their task list mimicking a checklist well. They tend to communicate via email, lowering the learning threshold.
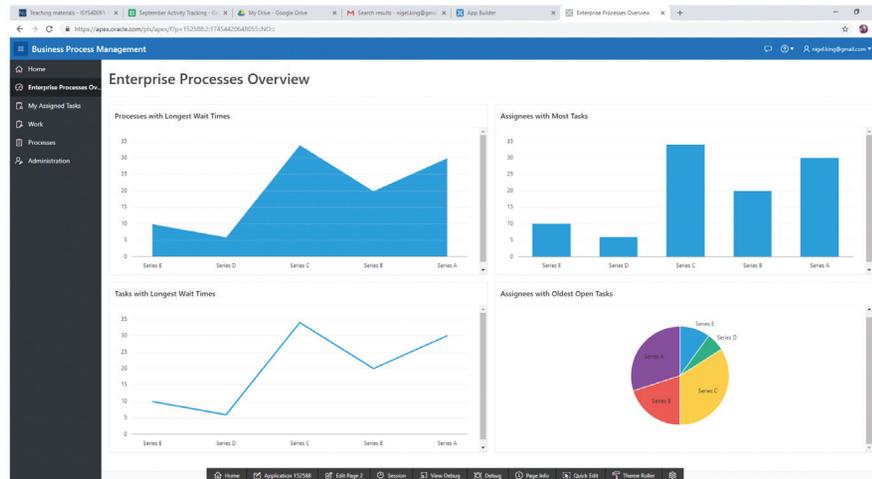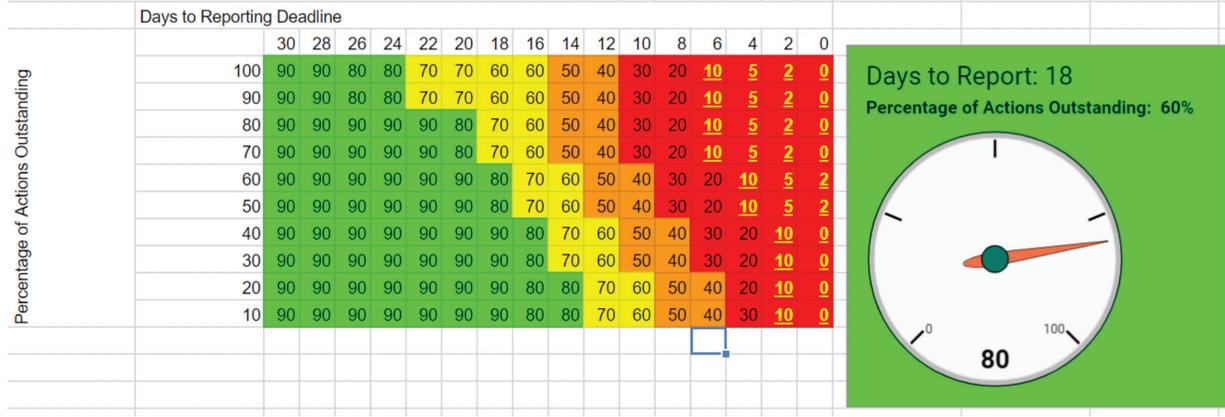
Financial Period Close – Process
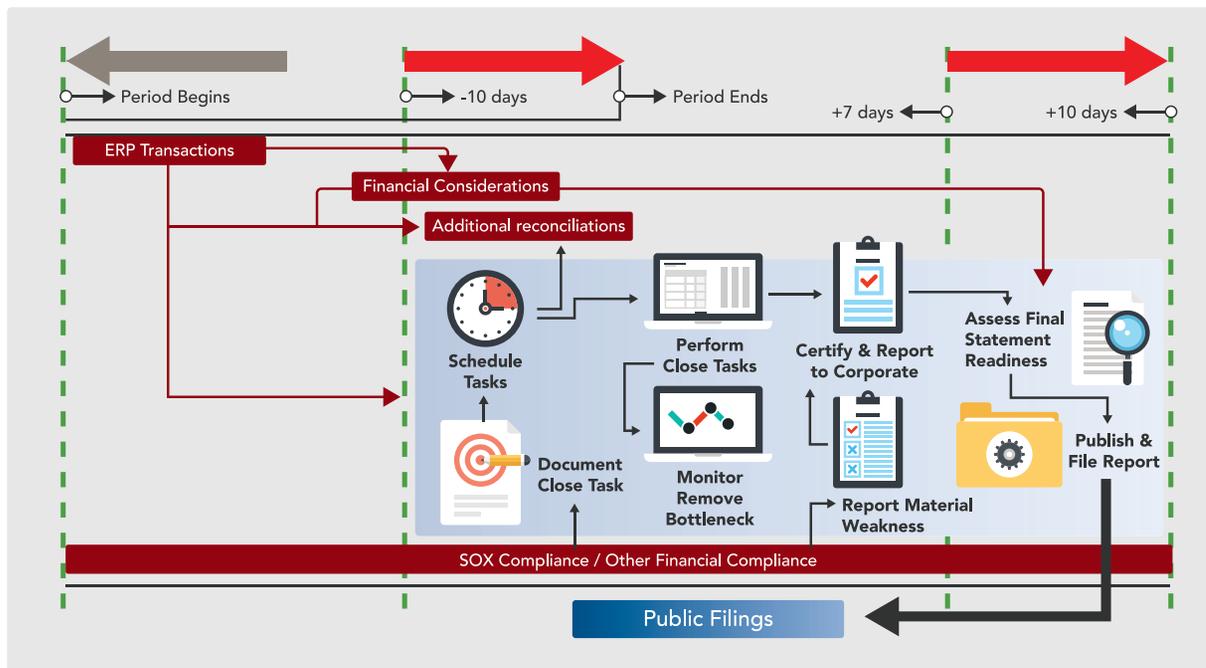
Dashboards and Analytics

We should however not forget that the key users of this system are not auditors; they are the CFO and controller. Their information requirements are to know the probability that they will be able to publish on time, and where any bottlenecks or issues are, so the work can be reallocated.

Probability of a Timely Close

Days to Reporting Deadline																
Percentage of Actions Outstanding	30	28	26	24	22	20	18	16	14	12	10	8	6	4	2	0
100	90	90	80	80	70	70	60	60	50	40	30	20	10	5	2	0
90	90	90	80	80	70	70	60	60	50	40	30	20	10	5	2	0
80	90	90	90	90	90	80	70	60	50	40	30	20	10	5	2	0
70	90	90	90	90	90	80	70	60	50	40	30	20	10	5	2	0
60	90	90	90	90	90	90	80	70	60	50	40	30	20	10	5	2
50	90	90	90	90	90	90	80	70	60	50	40	30	20	10	5	2
40	90	90	90	90	90	90	90	80	70	60	50	40	30	20	10	
30	90	90	90	90	90	90	90	80	70	60	50	40	30	20	10	0
20	90	90	90	90	90	90	90	80	80	70	60	50	40	20	10	0
10	90	90	90	90	90	90	90	80	80	70	60	50	40	30	10	0

Days to Report: 18
Percentage of Actions Outstanding: 60%

0   100
80

Business Process Management

Home
Enterprise Processes Ov...
My Assigned Tasks
Work
Processes
Administration

Enterprise Processes Overview

Processes with Longest Wait Times

Assignees with Most Tasks

Tasks with Longest Wait Times

Assignees with Oldest Open Tasks

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Balance Sheet quality

Another component of the close process is to confirm the balance sheet quality through reconciliation. Clearly, there are many control accounts whose balance must equate to the underlying subledgers. In most general ledger systems there are facilities to confirm this on a daily basis. However, there are still many balance sheet accounts whose balance is not supported by a formal subledgers, and whose balance is backed by other working papers. Examples of this might be provisions for non invoice discount, or warranty liabilities. These can give great latitude to move the profit number and their balance should be regularly verified and justified. While not formally part of the close process, balance sheet reconciliation will feed into a close process to ensure that the accounts are periodically reconciled and that balance sheet quality is maintained.

Optimization

Eventually, once the close process has become stable and predictable, attention will shift to how to shorten the close process. Using critical path analysis you can find those tasks whose dependencies chain to form the shortest time in which the process as a whole can be completed. Compressing time out of the plan can be either through crunching time out of the task or seeking better parallelization, examining dependencies and seeking to allow tasks to happen concurrently.
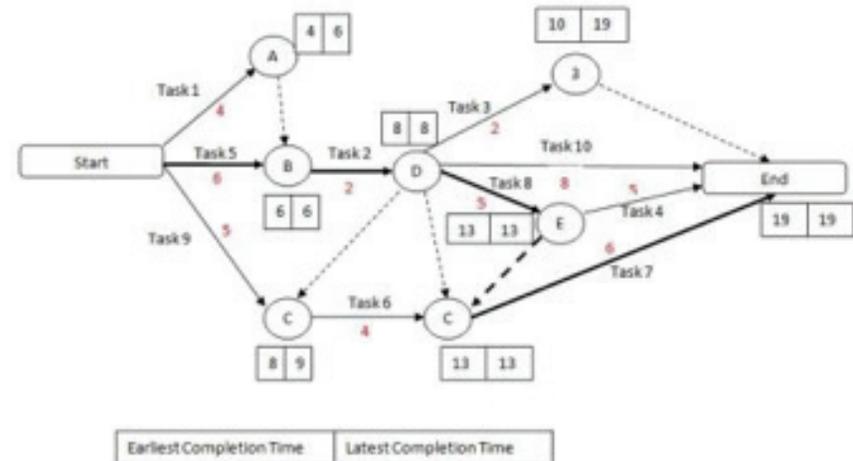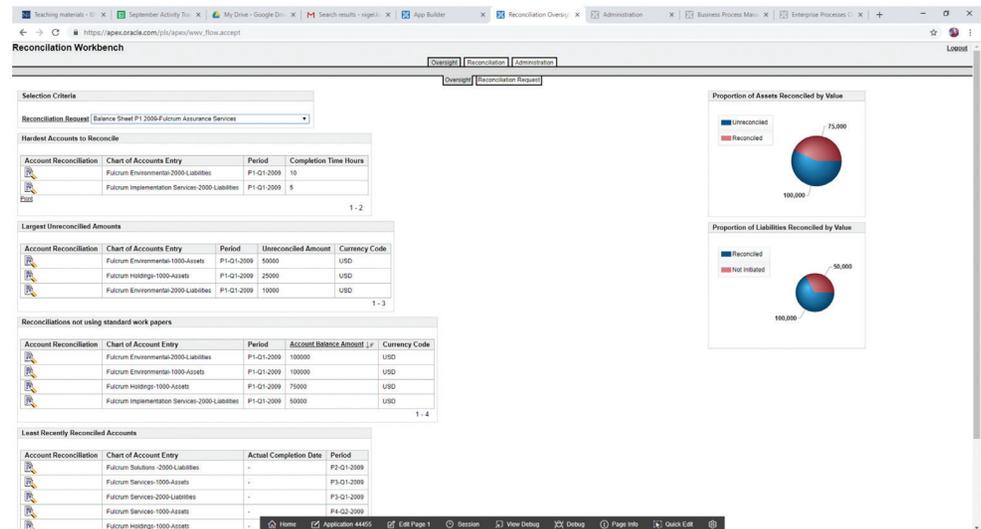
Financial Close operating models

There are a couple of different models that we need to consider when thinking of the workflow.

Independent subsidiaries submitting trial balance for consolidation
In the case where subsidiaries are independent, the close process may only start to come together when results are being consolidated. The coordination between subledgers is happening within the boundaries of the legal entity.

Shared service center servicing multiple subsidiaries
In the counter example, the subsidiaries may be using shared service centers for back office functions. In these cases many companies may be processed in a single subledger that closes as a single unit. Here all of the companies will be closed in an upstream department before the close activities start in the downstream department.

The choice of operating model really depends on the level of integration. If an Enterprise wishes to keep very tight control on operations and very close-ly manages the back office operations, it can drive out some costs but the subsidiary will be very tied to the parent company. It will be harder to spin out such companies.
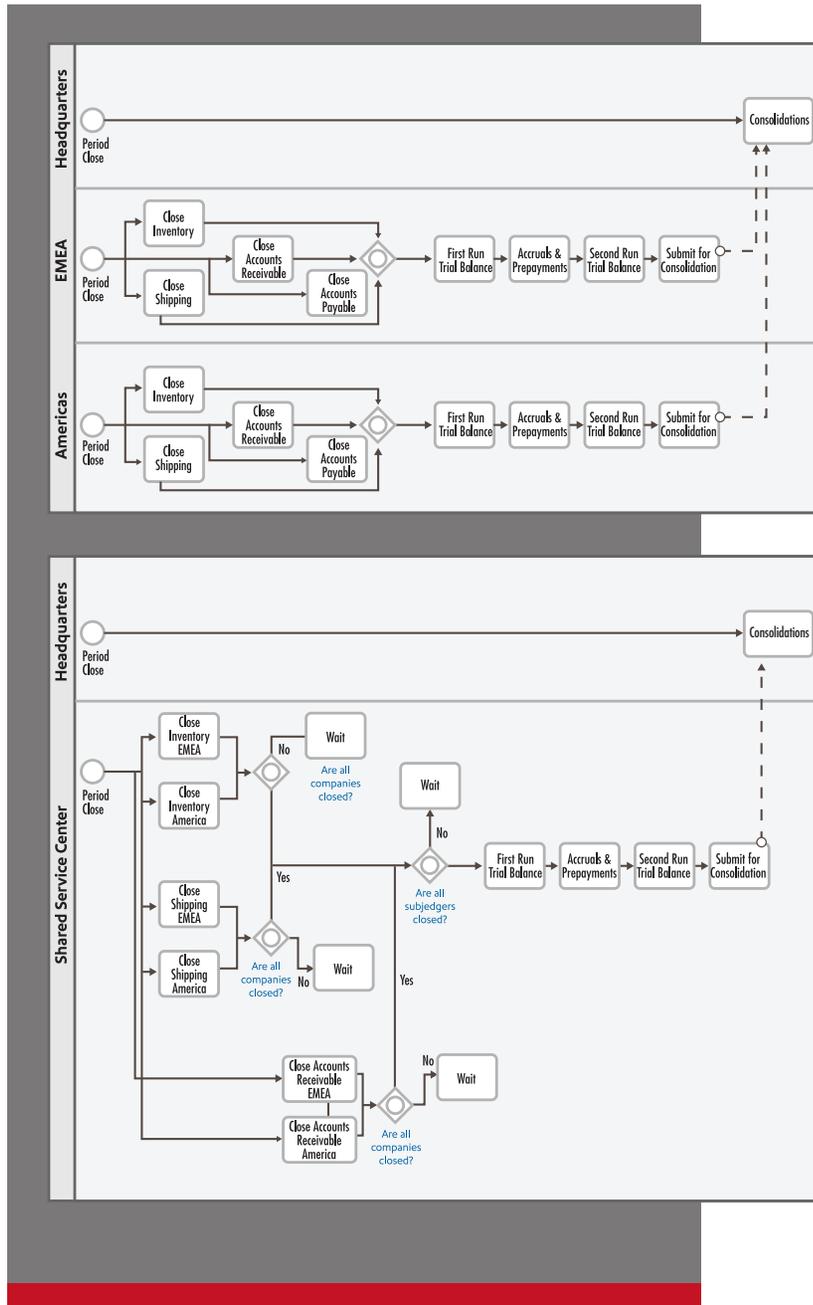
Conclusion

As you can see, monitoring the financial close is vital to ensure accurate and timely information to stakeholders. While the process is generally managed from an accounting department, it spans the Enterprise. As such interacting with the close process needs to have very light learning requirements. The heavyweight users are senior managers within the accounting department that need dashboards to understand the progress and bottlenecks in the process. Only SafePaas has the tools and expertise to give the senior managers confidence that the close process is well controlled, bottlenecks identified, and tasks fully tracked and auditable.

Contact Us

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- **Audit-Risk-Compliance PaaS:** Maintain enterprise risk library, plan audit engagements, schedule resources, execute audit procedure, manage issues and remediation plan, manage all audit work papers

- **ProcessPaaS: Financial Close Manager:** Streamline close process by replacing manual checklists and procedures with a simple web-based task preparation, review and approval of each step in the close process. Monitor your close calendar activities such as list of manual journals, departmental tasks, SOX compliance controls.

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