

Accelerating the Fast Close

5 Key Steps to Streamlined Period-end Reporting

In the face of mounting internal pressure for finance business partnering services and external demands for disclosure and transparency, the delivery of a Fast Close is high on management teams' agendas as they strive to achieve and maintain competitive advantage in the marketplace. With evidence suggesting investors and fund managers attach a strong premium to high standards of corporate governance, the topic of Fast Close is too crucial to ignore.

This paper investigates the importance of Fast Close and the recommended structured approach each organisation should take to enable high levels of corporate competitiveness.



Definition of Fast Close

Fast Close is the efficient, seamless and timely period-end data gathering, processing and distribution of financial and non-financial reports to various levels of management, regulatory and market stakeholders.

It is a topic more complex than just an efficient sequencing of events around ledger close. It encompasses monthly, quarterly and yearly management and statutory reporting both at a subsidiary, divisional and/or corporate (consolidated) level covering all elements of data, processes, people, technology and end-quality.

The Role of Finance

The Finance function is rapidly moving away from being a mere scorekeeper and steward of financial data to becoming an advisor and business partner to the wider organisation.

Top tier firms allocate about two thirds of their effort on decision support whereas median firms spend the equivalent on transactional management. Top tier firms also manage to operate roughly three times quicker with a finance organisation roughly a third of the size to that of a bottom quartile organisation. Understanding the underlying enablers of such efficiency is therefore essential for a competitive Finance function.



The Increased Importance of a Fast Close

From an internal perspective, reporting diverts resources away from value-adding activities. The aim should therefore be to allocate fewer reporting resources and more towards acting as a business partner to the internal organisation. More time should be allocated to analysis, accurately developed budgets, forecasts and operational measurement systems leading to enhanced decision making and hence better decisions.

From an external stakeholder perspective, expanding markets and the growing number of information users have lead to increased scrutiny and onerous requirements for in-depth disclosure. Special interest groups, lobbyists, industry regulators, suppliers, customers and trade unions are showing an increased interest in better internal controls, corporate governance and social responsibility practices – demands which the finance function must meet and exceed.

Finance Function Efficiency Benchmarks

Top Quartile	Median	Bottom Quartile
Total finance cost as a % of Revenue		
0.5%	1.0%	1.9%
Total finance headcount as a % of total headcount		
2.1%	2.9%	5.7%
% of finance FTE's in shared services		
29%	12%	5%
Days to submit ledger balances for consolidation		
4	6	12
Average days for period-end closing		
3	5	7
Days to publish financial results		
8	14	28
Days to final sign-off		
38	61	118

A large UK retailer

This organisation had a 2 week cycle for month-end close and publication of the main management pack. It's large finance teams (located in multiple locations) were not able to perform more insightful value-adding activities, such as forward looking dashboards, interpretation and

analysis of results. Kurt Salmon performed an end-to-end review of the close process and implemented a coordinated project, involving critical path analysis, period-end timetabling, collaboration tool implementation, early upfront issue capture and a resolution feedback loop.

The time taken to close the books improved from 9 to 3 days, and the completion of the management pack within 2 days instead of 5, enabling the business to act earlier based on the results and Finance to perform value-adding analysis and engage in forward-looking activities.

“ It is important to take an holistic approach to the Fast Close ”

What does good look like?

Accelerating the period-close process relies on mastering data management, and having an embedded and effective control and process environment. An aligned organisation and relevant collaborative technologies enables an efficient reporting process.

Top tier firms manage and maintain a more effective finance function compared with their competitors by continuously identifying opportunities and areas for improvement instead of continually dealing with the business of issue resolution.

The Challenge of Achieving a Fast Close

The Reporting Supply Chain (“RSC”) and Fast Close is only as fast as the slowest link in the process, with the main (amongst many) contributing factors to a complex environment being:

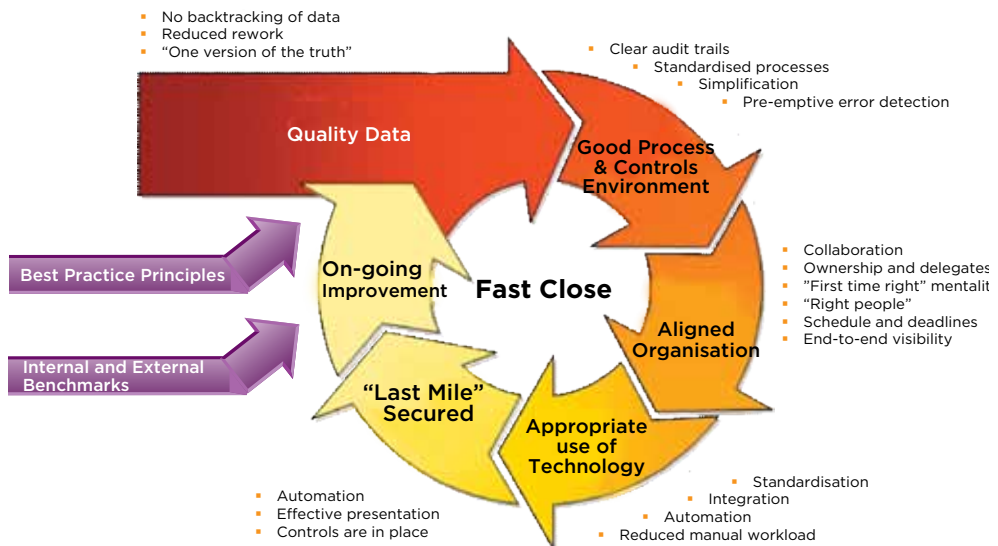
- Different time zones, cultures and languages
- Different, changing and increasingly complex statutory and internal demands for disclosure

- Increasing data volumes, system disparity, and data inconsistencies arising from company growth and corporate acquisitions.

Complexity is most often correlated to the size of the organisation. It is common for larger firms to have more dispersed policies, processes, systems and reporting environments due to M&A activities and perceived low importance of aligned processes across the entire organisation.

Smaller firms often find themselves requiring relatively more resources for reporting than larger firms. This is often due to a limited understanding of Reporting Supply Chain value drivers which leads to limited investment in improvements.

Therefore, the challenge to Fast Close is the true understanding of the environment the organisation is operating in, what is considered as “Best Fit” for a specific organisation, its main Reporting Supply Chain elements and the approach taken to achieve the goal of a more accurate, efficient and value added reporting.





The Road to Achieving a Fast Close

It is important to take an holistic approach to the Fast Close in order to identify all Reporting Supply Chain value drivers, interdependencies and sequence of events from data entry to period-end production and publication of financial and non-financial reports. There are five key sequential steps that need to be taken in this value analysis.



1 Eliminate bad data and non-value added activities

Bad data is poor quality information that arises due to missing, inconsistent and erroneous data. It diverts valuable resources away from other areas. As for any system “bad data in leads to bad data out” - ensuring data quality throughout the Reporting Supply Chain is pivotal to delivering Straight Through Processing (“STP”). Therefore, this is where the initial effort to improve the period-close should be invested. Securing quality data across an entire organisation often presents a greater challenge to organisations than they expect, and several distinct elements to data quality need to be managed:

- Balance level data (i.e. budgets, forecasts, actuals, statistics, prior year comparatives, etc)
- Metadata (i.e. cost centres, account codes, reporting entities and company codes)
- Mappings (i.e. data translation from source systems into a common format required for reporting)
- Materiality (i.e. journal materiality, reconciliation tolerance levels, required data volumes for reporting)

Once the data elements have been addressed, the process by which data is handled needs to be investigated. Good quality data can end up as “bad” data due to errors from recalculations and manual data transfers between non-integrated systems. Common non-value added activities and error-prone processes are:

- Querying and checking information
- Recalculation of numbers
- Tracking back reporting
- Tracking back reporting data
- Adapting MS Excel sheets



2 Build an effective control and process environment

A clearly defined and implemented control and process environment is key to Straight Through Processing and Fast Close. In order to avoid propagating bad data elements into good quality data, a system needs to be in place capable of preventing and/or detecting errors before they occur. The goal should be for timely issue resolution thereby avoiding the often lengthy process of tracking and tracing during the period close. As manual controls are only as good as the last time they were applied, they do not form the ideal basis for a constant and reliable control and process environment.

Therefore, best practice principles advocate automated controls and processes (provided they have been correctly established). Such standardised controls and processes are only manageable within a standardised environment (e.g. systems and mappings).

Focus should be placed on efficient processing, timing / sequencing of events, the critical path and subsidiary and consolidated process interdependencies.

Through frequent review and testing of this control environment, a more efficient Fast Close process can be achieved without sacrificing data quality or accuracy.

3 Align the organisation to Fast Close

Subsequently, focus needs to be placed on the internal and external users and stakeholders of the Reporting Supply Chain - an area often overlooked in the Fast Close.

Without an aligned organisation, any subsequent Reporting Supply Chain activities will be rendered ineffective and non-value adding.

Reporting is commonly viewed by operations as a non-value adding Group-level imposition with a constant stream of varying information requests and deadlines. This is typical for a highly mechanical Reporting Supply Chain lacking end user engagement. Upon encountering errors, unrecognised items and missing information, a non-aligned organisation will experience substantial delays in issue resolution.

Various methods and tools are available which collectively help the organisation to align for the Fast Close:

- A clearly communicated close schedule detailing information needs, dependencies, data ownership and strict reporting deadlines
- A broad range of collaborative technologies (e.g. workflow, process visualisation, etc) re-connecting users to the process by giving them the end-to-end visibility of the Reporting Supply Chain thereby aiding the understanding of individual responsibility and enhancing “end user experience”
- Finance portals and Instant Messenger can also assist the creation of a broader communications network, helping to resolve issues that would otherwise create delays

Common Technology Architecture Scenarios

Element / Scenario	“Bottom”	“Mainstream”	“Right Direction”	“Better Practice”	“Best Practice”
ERP/FMS	Different	Different	Different	Multiple Instances	Single Instance
General Ledgers	Multiple	Multiple	Multiple	Integrated	Integrated
Chart of Accounts	Different	Different	Single Standard	Single Standard	Single Standard
Consolidation Solutions	Spreadsheets	GL or Custom	Packaged Solution	Packaged Solution	Packaged Solution

4 Use the best technology

Ideally, companies should aim to achieve the “Best Practice” scenario as per the table above. However, the value of achieving this depends on the diversity and scale of the organisation; often, a more practical target may be to achieve the “Right Direction” scenario.

Nevertheless, as a company grows, more pressure will be placed on the organisation to standardise their processes. However, this may not be a realistic solution for larger organisations operating in disparate business environments with diverse requirements.

With technology moving in the right direction, the latest generation of products provide considerable flexibility around multiple hierarchies and multidimensional design - these features enhance analytical and trend reporting. This also allows for wide ranging combinations of statutory, management and regulatory reporting from a single application - a concept that is becoming integral in light of the context of transition to IFRS.

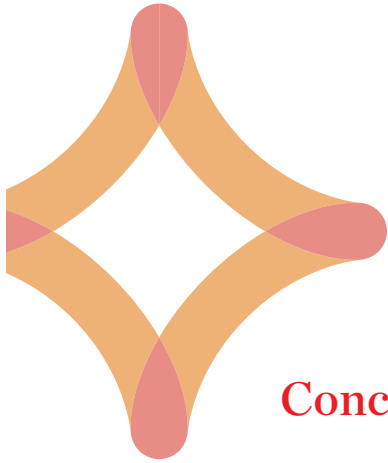
5 Secure the “Last Mile”

The “Last Mile” of Finance is about presenting the final consolidated results within the Board report or production of the Annual Report and Accounts.

This is an area rife with fertile opportunities for step changes in process efficiency . To some extent, it relies on all the previous 4 steps to be addressed up-front. If not addressed appropriately there is a risk that all downstream Reporting Supply Chain activities unravel and subsequently do not add any value whatsoever.

Traditionally, this is an area heavily reliant on manual data transfers without appropriately defined processes and safeguards. These tasks are often dynamic and analytical in nature and frequently occur outside any formal recording systems.

Both technology and process improvement initiatives can help secure the “Last Mile”. These typically involve simplified and automated document generation and updates (e.g. automatic production of management reports using dynamic linking from source to target documents).



Conclusion

The case for a Fast Close process is becoming increasingly relevant to companies. With growing pressure on Finance to operate as a Business Partner to the wider organisation, improving the Fast Close process can support competitive advantage in a rapidly changing marketplace.

However, streamlining the Reporting Supply Chain remains a challenge and it is important to take an holistic approach.

Accelerating the process relies on mastering data management, embedding an effective control and process environment and having an aligned organisation supported by the best technology, thereby enabling it to secure the “Last Mile”.

For more information

JOHANNES STARKHAMMAR

E: johannes.starkhammar@kurtsalmon.com

T: +44 20 7710 5200

ANDREW DAVIDSON

E: andrew.davidson@kurtsalmon.com

T: +44 20 7710 5200

Our Offer

- Dedicated teams in the Finance & Performance Management and Enterprise Performance Management areas
- Experienced teams in large Fast Close and Efficient Finance engagements
- A flexible and pragmatic approach to identify your specific business requirements and objectives

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Kurt Salmon, formed by the merger of Kurt Salmon Associates and Ineum Consulting, is a global management consultancy of more than 1,600 consultants in 15 countries across five continents. Our clients are industry leaders who benefit from our deep industry and functional expertise.

As trusted advisors, Kurt Salmon partners with clients to design, and then drive, strategies and solutions that make lasting and meaningful impact. We are committed to delivering measurable results for our clients through executional excellence.