Finance Transformation

Quarterly Business Update

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CONSULTING

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Top Tips for Year-End Closing

The environment in which CFOs operate is constantly changing and is often disruptive. This is particularly true in the current market, which this year is again underpinned by uncertainty and volatility. As such, the quality of the financial close assumes even greater importance as an indicator of the robustness of a company's financial processes. In particular, investors and analysts are looking for evidence of a well-run company, and visible issues or errors in the reporting process can create some unwanted publicity.

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A well-managed close process is important for building market and investor confidence in a company. Additionally, the financial process that generates your external process is also likely to play a key role in internal management reporting. Ensuring leadership efficiently receives critical, accurate management information is imperative if management is to react swiftly to changing markets and business scenarios.

Why is the Process so Painful?

The challenges in the close process are well documented and known to most organisations. Most finance functions breathe a sigh of relief when the results are checked, audited, approved, and finally out.

Particular challenges can include:

- New or amended reporting requirements
- Changes to accounting standards and disclosure requirements
- Lack of discipline around deadlines
- Coordination of multiple business units
- New tax requirements
- Time consuming control processes
- Lack of technology support during the process
- Complex valuation processes
- Availability of qualified and high quality accountants
- Changes in legal entity structures
- Late adjustments
- Correcting data integrity issues from source systems
- Understanding what is driving the numbers
- Time constraints around completion of the necessary work.

KPMG

cutting through complexity

Top 5 Year-End Practices

1. Planning

In our experience, 90 percent of organisations have a close calendar in place that guides them through the process. Good practice is to ensure the plan is followed and is actively managed by an individual or team leading the close. This is usually underpinned by a close checklist to guarantee that all key deadlines are well understood and managed. Some companies have also successfully deployed points systems to incentivise all their business units to follow processes and meet deadlines. Strong planning, monitoring and active communication is absolutely essential for a successful close.

2. Automation

Automating components of your closing process can add a lot of value and does not necessarily involve significant costs. Simple web-based tools or packages are available to help you set and manage milestones, automate teamwork and workflows between departments, and link and allocate activities. They can also indicate bottlenecks and flag issues requiring escalation, automate journal entry or control processes, set reminders, and report on the status of the process overall.

3. Centres of Excellence

Organisations with a disparate footprint, which is often the case in Asia, can benefit from centralising large parts of the close activity in a centre of excellence. This will bring consistency and quality and can also result in cost reduction benefits as an outcome of a more efficient and effective process.

A centre of excellence will allow you to build and centralise knowledge and create a learning environment, which ultimately makes it easier to drive specialisation and implement new reporting requirements. It also offers a clear career path for a larger team of finance professionals.

4. Standardisation

Standardisation is key to achieving an efficient and effective process and does not necessarily require expensive investment in technology. The risk of error can be reduced by ensuring that departments or business units are implementing consistent processes and controls, and uniformly managing and reviewing figures.

5. Integrated finance architecture

Finance architecture integration may be the holy grail of an effective close process and will certainly bring benefits to organisations who have the means to implement it. A standard ERP set up will improve data integrity, reduce manual intervention, provide automation to large parts of the process, reduce interfaces, reduce reliance on individuals and spreadsheets, automate controls, reduce the time to close, and ultimately reduce the risk of errors.

KPMG - Supporting Finance Change

As part of our commitment to helping businesses define a new role for Finance, we will be providing the 'Finance Transformation Quarterly Business Update'. If you would like continue to receive these updates or have any questions regarding the information provided, please contact:

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Top 5 Quick Wins for 2012

With only a few weeks remaining before the 2012 closing period starts, here are a few suggestions on quick wins.

1. Close meetings

Surprisingly, many organisations do not use a formal closing meeting as part of their close process. We have found that an official kick-off meeting can be very beneficial. It helps ensure that everyone understands and has the correct training on the overall process, deadlines, new requirements or templates, and appropriate contacts in case of delays or issues. In addition, bringing the whole team together can improve the morale and communication throughout the close.

2. Start early

This may not be popular, however, a lot of time can be saved during the busy close period by starting early and performing a soft close. There are a number of housekeeping tasks that can be done such as reviewing sales and purchase ledgers for unusual items (e.g. negative balances), reviewing and cleaning suspense accounts, tackling existing reconciliation issues or starting reconciliation and control processes, reviewing master data used in the process, collecting accruals information, or reviewing substantial projects. Similarly, you can ask your auditors to bring some of their work forward to pre-closing. In the end, every hour you save counts.

3. Conduct a financial close post-mortem

Many organisations are just happy that the close has been completed and there can be little appetite for a review of how things went. However, investing time in an internal post-mortem can be a very valuable exercise. Identifying previous challenges and issues can lead to improvement opportunities in the future.

4. Streamline the process

A quick review of most close processes will identify at least a couple of tasks that are historical and add very little value. In particular, many companies implement controls that achieve similar objectives or address the same risks. Similarly, there are often system workarounds that are no longer necessary. By streamlining the process, you can save valuable time and effort.

5. Stay positive and celebrate success

Finally, it is essential to maintain a positive team morale, especially when late nights or weekend work is needed. Giving time in lieu or organising a closing lunch or dinner can make a big difference. At the end of the day, a successful close and the release of clean, audited financial statements is a milestone and should be celebrated.

Good luck with your 2012 Year-End!