Taking the ‘digital close’ to the next level

Why leveraging digital capabilities throughout the R2R process is critical

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Technology has enabled organizations and their finance departments to transform and elevate the monthly, quarterly, and annual record-to-report (R2R) process (sometimes referred to as the "close and reporting" process). Despite all the advancements in technology that have been made over the past 20 years, the R2R process in most finance departments primarily remains labor intensive and Excel dependent.

Therefore, the concept of a "digital close" has become very attractive to many companies. When executed properly, a digitally enabled close can deliver more timely, targeted, and relevant financials and other reports to all end users of financials, including investors, regulators, boards, and internal stakeholders.

But while many companies have made some strides in adopting a digital close process, to get the most value out of it, they must complete their journey and be more aggressive at leveraging digital options throughout the entire R2R process.

The digital close: Most companies not all-the-way-there yet

When we refer to the digital close, we're talking about the complete R2R process—from the start of the close all the way through the earnings release. There already has been a lot of attention devoted to automating the early days of the R2R period—from the time companies start collecting data until they finalize calculating the numbers and derive a "consolidated trial balance," which typically occurs three to six days later.

In fact, most organizations have already integrated some form of process automation into their monthly closing process—for example, robotic processing automation or cloud reconciliation tools. Others have been even more aggressive, overhauling their current infrastructure and purchasing state-of-the-art technology in an effort to make the R2R process more efficient and effective.

By using automation and other digital capabilities, many companies have been able to reduce their time to derive trial balances by several days (e.g., this phase is completed by Day 3 instead of Day 6; for more details, see Digital Close: Propelling the R2R process into the digital age).

When implemented properly, the finance department receives period-end source data more quickly—with little or no need for correction or for it to play the role of the "fixer." But far too often this is where the digital journey ends.

Benefits of a digital close

When executed properly, the digital close:

- Supports a continuous close and the ability to prepare reports more quickly
- Shifts the mindset during the close cycle to focus on exceptions and anomalies
- Allows resources to be allocated to other, more valuable activities, like analyzing data and anomalies, instead of fixing bad data
- Provides clean and accurate data that can be fed into predictive models that support an organization's business planning and decision support needs
- Lends itself to producing reporting that offers information and insights upon which stakeholders can base strategies and decisions
- Enables organizations to scale services and add value at a minimum cost.

Most companies struggle to digitally enable the rest of the process—the analysis, approvals, and adjustments that need to occur following the calculation of the trial balance through the earnings release and other managerial reporting. Instead, in most cases these steps are done via redundant, manual efforts, including the use of multiple data repositories, Excel spreadsheets, and email communication.

In effect, all the work done following the automated, digitally aided calculation of the trial balance frequently *remains as inefficient and manually intensive as ever*, preventing the R2R process from actually becoming digitally enabled.

> Success with a digital close—and with digital transformation in general—isn't limited by the technology anymore. It's limited by the creativity of humans [or individuals] and their ability to harness it.

Completing the digital journey

KPMG believes the entire R2R process needs to be digitally enabled in order to attain maximum efficiency and effectiveness, while also supporting a greater focus on business enablement. But just as a chain is only as strong as its weakest link, a technology-enhanced R2R process is only as fast as the slowest point in the process.

The more manual components there are in the R2R process, the slower and less efficient it is. And while many companies have transformed their technology and heavily automated their systems for creating and gathering the data at the front end, the back end of the R2R process still requires Excel spreadsheets, corrections, telephone calls, and emails going back and forth. It's as if you put a new, high-powered engine in your car, but didn't change over the old exhaust system. The car might be faster than before, but not nearly as fast as it could be.

So the time and efficiencies that are captured on the front via technology may be frittered away on the back end by an inefficient, ad hoc internal and external reporting process. Fortunately, new digital technologies are available that enable greater workflow integration, data alignment, discussion thread transparency, and quicker approvals all the way through earnings release.

To be clear, it will still take time for the key stakeholders in the finance department and elsewhere to reach conclusions on what to include in the final reports that tell the story behind the numbers to customers, investors, and regulators. But better use of technology can take the delays, speed bumps, and roadblocks out of the equation and speed up the reporting process by allowing them to communicate more quickly, seamlessly, and effectively.

Current work trend dynamics increase need for digital close

Among the many challenges that companies face is that instead of working together in the office, a large percentage of employees are working in a virtual environment. And decision-makers in the finance departments of large and/or global companies often are working in different states or countries and in different time zones.

In the good old days, it generally was possible for people to sit down in a room and hash out what the numbers meant and reach conclusions that would be included in the final report— for example, why there was a 5 percent decrease in sales or a 15 percent increase in unused inventory.

But this new virtual environment tends to slow the process down on the back end, requiring cumbersome email exchanges and multiple telephone calls that may not include all of the parties that are needed to reach a conclusion.

For these companies, completing the digital journey and speeding things up on the back end is essential.

Digital reporting tool capabilities driving benefits beyond trial balance

The reporting process that follows the creation of a trial balance consists of further calculations and a lot of storytelling, discussions, versions, and approvals. This heavy manual effort can be digitized by new capabilities offered by reporting vendors:

- Removing 99 percent of export/import activities through a common data model linking to a single reporting repository
- Configuration and automation of all reports including complex reports such as cash flow
- Developing a process to support commentary creation and approvals within the pages of the report
- Eliminating unnecessary or duplicative extracts and Excel models
- Streamlining communication and discussion by removing emails as the primary discussion forum
- Enabling a more digital process of comparing differences/changes between current and historical periods
- Streamlining the process automation connections between similar external and internal reports.

The five pillars of the digital close

While these five pillars can be treated and implemented as separate concepts, an organization derives the biggest benefit from a digital close when all five elements work seamlessly with each other.

Exception-based close mindset

An exception-based close is an organizational commitment to forcing the upstream data to be valid; it is corrected prior to close in the data lake, or resolution is moved out of the close.

Exploit R2R technology

R2R technologies are extremely powerful in today's world. These technologies are most successful when they are used throughout the close and tightly integrated with the enterprise resource planning (ERP) and consolidation engine.

Structured data lake

There will never be perfect data in the close. Even with a well-designed ERP, there are too many data sources to ensure complete data alignment. A well-designed data lake supported by cloud data tools will automate the normalization of data and eliminate hundreds of spreadsheet tabs.

Exception-based COE

Every close has a brand new event or input that was not anticipated. After an organization creates the exception-based close it needs to deal with the exceptions that occur. An exception-based Center of Excellence (COE) will make the hard calls on resolving exceptions.

Exception engine

Exception engines apply statistics, rules, and digital technology to identify anomalies during the month and correct or adjust prior to the start of the close. Exception engines utilize COE resolutions to anomalies, enabling continuous improvement.

Connecting the dots: Five keys to an effective digital close process

As we've noted, it takes more than the right technology to implement a fully effective digital close. In our experience, it takes time and a will to do the hard work and break through the culture and siloes that have built up in many organizations over the years.

Below are some key steps to help your department start the journey to improve its R2R process and execute a successful digital close:

- **Develop a roadmap of the journey:** Do a target operating model assessment that includes people, process, technology, controls, governance, and sourcing:
  - This is by no means an easy task. It will take time and effort to get this step right. But it is essential to have this as the starting point in your journey; it will be the foundation of the process you will be building.
- **Include all relevant stakeholders in the process:** This is necessary so you can carefully and fully dissect your current R2R process to understand how different departments are impacted and where redesign is necessary. Equally important, it will help foster consensus building and breaking down of siloes between various departments:
  - Never settle for the answer, "because this is the way we've always done things." People may be reluctant to change what they've been doing, especially if it requires more work in the short term.
  - Question and challenge why things are done the way they're done until you get a logical and satisfactory answer. You'll be surprised to find that in many cases people don't really know the answer, or the reason that existed for doing something at one point no longer exists.
- **Make sure that your technologies are aligned.** To execute an effective digital close, all the various tech systems used by different departments that are part of the R2R process must seamlessly integrate with each other.
  - This may require customization of the software you may already have in place to connect these various systems (see Case Study on the following page).
- **Only touch data once:** Once data is finalized, it should be placed in a data repository where it can no longer be "touched." It becomes the "final source of truth" and can be used by everybody:
  - There should be no need to manually transfer, copy-and-paste, or email the data or to manually populate spreadsheets. This not only speeds up the process, but also reduces the chances of human error.
  - Ultimately, spreadsheets, PDFs, and other items that require manual effort should be eliminated from the process.
  - If for some reason the source data needs to be revised, this change should automatically be reflected wherever it's been used, and all relevant parties should instantaneously be made aware of the change and its flow-through impact.
- **Evolutionize the process to support organizational needs:** Delivering accurate and timely "actuals" that comply with the rules is no longer enough. To remain relevant and effective, finance leaders need to align their R2R process with their organization's strategic forecasting needs so that it delivers more timely, targeted, and valuable information to all end users of the financials, including regulators, auditors, shareholders, investors, and so on:
  - The process should support the creation of regulatory reporting, such as 10-Ks and 10-Qs, as well as investor/shareholder communications and also internal discussions regarding strategy.
  - Solutions should be designed to readily answer questions such as: "Did this occurrence happen in a prior year(s)?," "What did we do when it happened before?,"and "What was the result?" This will make your department far more relevant and important to the organization than just being regarded as number crunchers.

KPMG uses Workiva to accelerate a client's R2R process

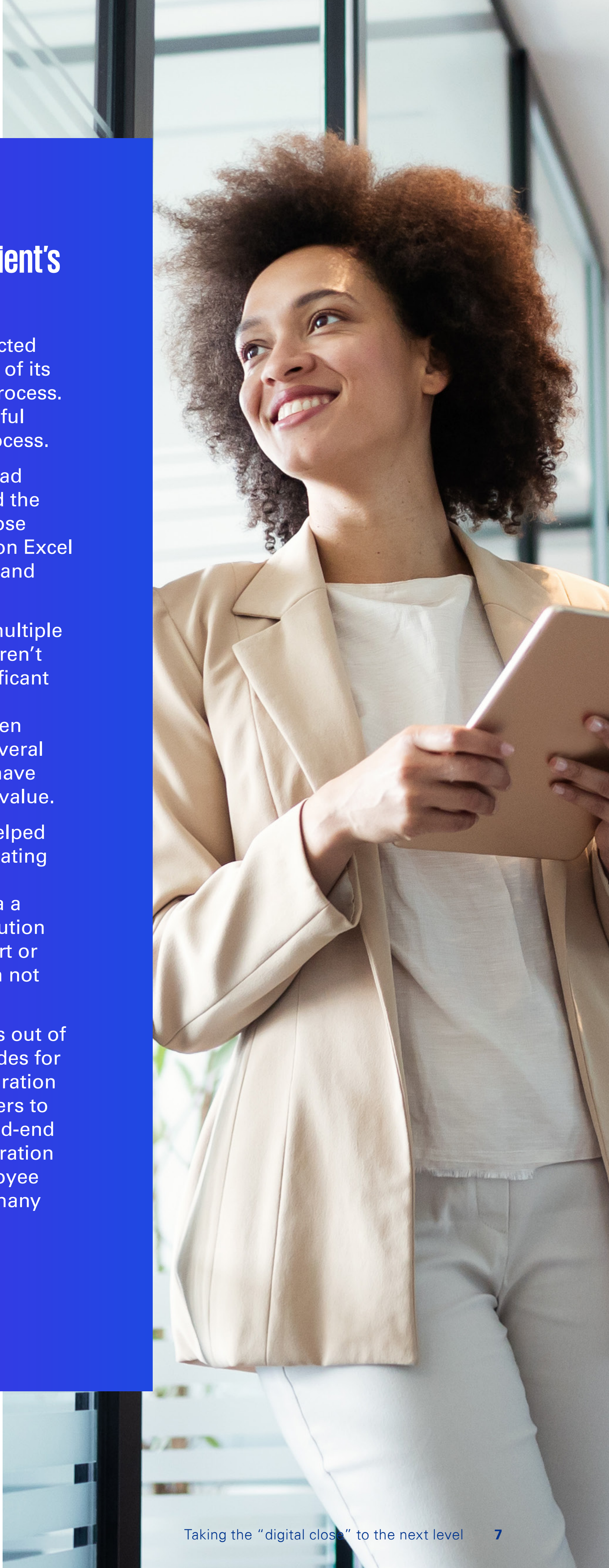
A Fortune 500 manufacturing company contacted KPMG with a request to take several days out of its month-end, quarterly, and annual reporting process. The first thing we did was to undertake a careful beginning-to-end review of the entire R2R process.

We found that while the company generally had the state-of-the-art technology that automated the collection and assembly of data, the actual close process was still very much manual. It relied on Excel spreadsheets, copying and pasting numbers, and sending out emails to verify data.

Also, the company had reports prepared by multiple departments using disparate systems that weren't integrated with each other. This meant a significant amount of time spent on re-keying data that was already contained in other reports and then reconciling the information. We also found several imbedded governance and "rules" that may have made sense at one time but no longer added value.

Working with appropriate stakeholders, we helped the company redesign its R2R process, eliminating "legacy" steps that were no longer needed, and configuring and connecting all reports via a customized Workiva solution. The Workiva solution also allowed us to eliminate the need to export or import data from one report to another, which not only saved time but also reduced errors.

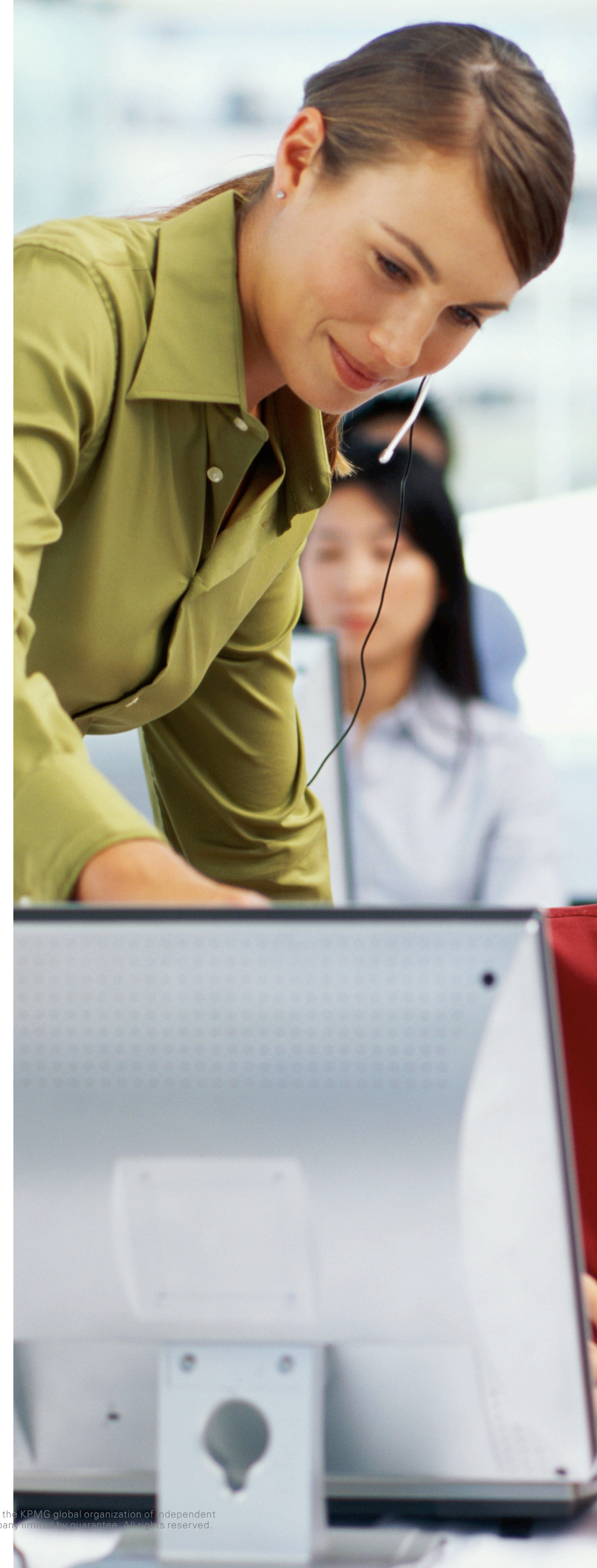
Result: The company was able to cut five days out of their R2R process. The new system also provides for automated cash flow reporting and data integration and has enabled report preparers and end users to have faster, single-source access to ERP period-end data. The company also noted greater collaboration among stakeholders and an increase in employee morale because the new process eliminates many redundant steps.



Final thoughts: Graduating from fixer to futurist

When fully and properly implemented, a digital close advances the finance department from "fixer" to futurist. You'll no longer spend your time scrambling to make last-minute corrections of flawed data received from other departments. When it comes to you, the data is clean and accurate, so there's no need for monthly or quarterly fire drills. But it's critical to keep in mind that digitization of the work doesn't end with the consolidated trial balance. There must be a digitized process where the output from the general ledger gets seamlessly combined with other content, sorted, aligned, and approved and then reports are prepared for all dimensions of users.

Your organization stands to realize huge value in terms of time-savings, cost-savings, efficiency, data quality, and increased reporting insights. Not only will the data you receive require little or no need for correction, but also you will find it easier and more efficient to prepare your reports. What's more, your reports will be more up-to-date, detailed, and useful to senior management and other departments, such as sales, marketing, and operations. In addition, your reports will help your organization satisfy the increasingly loud demands of investors, external auditors, and regulatory authorities. That, in turn, will help increase the visibility and reputation of your department—a true win for everyone.



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How KPMG can help you

Our experienced and industry-focused financial, accounting, and tax professionals create practical solutions designed to help clients achieve their business objectives while effectively assessing and managing business risk. With fully coordinated, cross-functional teams of 1,400 professionals and partners, we are committed to providing meaningful insights to clients using both traditional and disruptive digital technologies and data and analytics innovations.

Our goal is to be a "one-stop shop" solution for CFOs, CAOs, and controllers, offering broad perspectives on organizational design, talent management, workforce shaping, internal controls transformation, and digitization capabilities. In some cases, it means helping our clients execute a change in mindset and culture; in others, it means creating transformational technology platforms that are essential to staying relevant.

Connect with us

For more information about how to adopt a digital close process and other ways to transform the way your department prepares monthly financials and reports, please visit our Digital Close website or contact any of the professionals below:

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