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## ***Achieving more timely, accurate and transparent reporting***

Smart, efficient close-to-report cycles create a foundation for evaluating performance, supporting business decisions and satisfying external reporting requirements.

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Advisory Services

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*The heart of the matter*

Providing higher-quality  
information faster and  
more efficiently

Companies today are increasingly pressured from all angles to provide accurate and reliable information faster and more efficiently.

Externally, stakeholders and regulators demand more transparent and reliable information in less time. Internally, business leaders require fast, accurate information to support smart, informed business decisions. And, as cost pressures mount and companies strive to report faster and more efficiently with fewer resources, finance leaders find that they can realize only so much speed before accuracy and control are compromised.

To address these external, internal and cost pressures, companies are seeking effective ways to optimize the close-to-report (C2R) cycle. While efforts to address the first five to eight days of the traditional close process are critical, there are significant efficiency opportunities throughout the remainder of the cycle. From where we stand, it is important to take a holistic approach and look at each step in the end-to-end process to explore all opportunities for improvement.

An improved C2R cycle benefits the entire organization. By focusing first on control and accountability as a means to achieve acceleration, truly successful C2R cycles empower companies to make the most of valuable resources who are able to spend less time compiling information and more time providing insight and analysis. As a result, these companies are able to make better, faster, more informed decisions allowing them to be more agile and profitable. Meeting regulatory requirements, minimizing financial surprises and improving transparency in the external message builds confidence in analysts and investors. This reduces their perceived risk of forecasted returns and ultimately lowers the cost of capital.

This paper takes a look at characteristics of successful C2R cycles across industries and suggests some viable solutions built around improving processes, more effectively leveraging resources and, where appropriate, optimizing the use of enabling technologies.

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*An in-depth discussion*

Improving accuracy,  
control and  
transparency

## Today's pressures

Companies are pressured to analyze and deliver results more quickly and thoroughly than ever before. *External, internal and cost* pressures are taking their toll on finance organizations that are struggling to meet the ever-increasing demands coming at them from all angles.

- Externally, market and regulatory bodies demand access to more reliable information in shorter periods of time. SEC filing deadlines naturally place an emphasis on timing; however, speed is not enough. There is also greater demand for accuracy and transparency in certified results.

Sarbanes-Oxley requires it, and today's public markets often reward companies for providing transparency that goes beyond regulatory requirements. Investors and analysts are scrutinizing financial information more aggressively, demanding greater detail and penalizing companies that delay or restate earnings. Even companies not regulated by the SEC must demonstrate greater transparency and accountability to banks, venture capital firms and other financing sources.

- Internally, business leaders across the organization expect Finance to assume a larger role in supporting business and operational decisions. Simply providing results is not sufficient. Finance departments are expected to monitor performance against strategic objectives, analyze results and deliver insight to drive decision making and improved performance. Furthermore, the interpretation of results must be consistent with the external message to build confidence in the capital markets.

Inefficient financial reporting ties up valuable time and resources, obscures transparency and causes organizations to base critical business decisions on incorrect or incomplete information. To improve the ability to analyze results, finance departments must accelerate access to information by minimizing data compilation time and eliminating errors and rework.

- Economic conditions and increased global competition have forced companies to cut costs in order to maintain profit margins. Company leaders who are seeking more value are forcing finance executives to find ways to do more with fewer resources.

Pressed for resources, many companies have responded by merely "tweaking" their processes to save a few days or by simply asking employees to work harder and faster. In our experience, few companies take the necessary steps to achieve sustainable improvement by changing their processes and maximizing their use of technology. As a result, many companies have exhausted "quick wins" when they need to remove significant time and effort from the C2R cycle.

## Identifying opportunities for improvement throughout the C2R cycle

The following provides a structured framework for the C2R cycle. Each step in the cycle should be considered to ensure that the end-to-end process is taken into account and no missed opportunities are left on the table. What appears to be an issue in one area may actually be just the symptom of an issue in another.



### **Transaction Processing and Sub-ledger Close**

This can be viewed as the feeder to the C2R cycle, making standardization and first-time accuracy critical.

- Determine the flow of information into the general ledger and analyze the quality and consistency of source data
- Work toward common data structures and account definitions
- Take advantage of opportunities to leverage estimates and accruals

### **Corporate Close and Consolidation**

This represents the core of the process. Control and accountability are critical to ensure that nothing is missed during this time-sensitive period.

- Complete traditional process reengineering, sequence dependant tasks and distribute workload away from period-end
- Eliminate bottlenecks, duplication of effort and non-value added activities
- Automate consolidation activities, including eliminations and data validation

### **Analysis and Reporting**

This represents the output of the cycle. Duplication of effort and non-valued added activities are common if the outputs are not streamlined to efficiently meet reporting requirements and provide effective decision support.

- Determine information needs to provide decision support and external reporting
- Re-engineer data flows and process steps so that unnecessary activities are eliminated
- Leverage technology to avoid the risks associated with off-line spreadsheets

## Our perspective

A smart, efficient C2R cycle creates a foundation for evaluating performance, supporting business decisions and satisfying external reporting requirements.

With external, internal and cost pressures placing increased demands on finance departments, now is the time to establish a faster, smarter C2R cycle. Initially, finance executives must focus on quality, control and accountability rather than speed. Timeliness, accuracy and transparency are critical, and unfortunately, there is no “silver bullet” that can transform the cycle overnight. It is through incremental wins that companies are able to create sustainable solutions.

Attributes of a successful C2R cycle:

- **Focus on accuracy** as opposed to speed
- **Improve accountability and control** throughout the cycle
- **Simplify and standardize processes** to eliminate unnecessary complexity and inconsistencies
- **Streamline and optimize the entire cycle** by appropriately sequencing work steps while eliminating bottlenecks, duplication of effort and non-value-added activities
- **Align with stakeholder needs** to provide effective decision support and regulatory compliance
- **Focus on process and effectively leverage technology**

An improved C2R cycle will allow you to better utilize your valuable resources, reduce the risk of financial surprises and support the organization’s compliance with SEC regulation. This begins with the process of closing the books.

### **Are the books really closed?**

Leading companies are able to produce consolidated reports in five business days. However, companies that claim a five- to seven-day close cycle are frequently unable to produce reports for several more weeks. In many cases, this accelerated cycle is followed by a series of post-close adjusting entries that continue right up to the release of earnings. From our perspective, the books are not closed until the numbers stop moving. Continuous adjustments are one of the most prevalent problems facing companies today.

Keep an eye out for other indicators that improvements to your C2R cycle are necessary including:

- **Lack of speed.** Companies need to accelerate the cycle if they:
  - Take more than five days to close and generate consolidated results
  - Require more than 30 days to publicly release earnings
  - Provide information too late to support business and operational decisions
- **Insufficient accuracy and control.** Companies need to improve accuracy and enhance control if they:
  - Record significant adjustments or corrections after the books are closed
  - Have difficulty balancing inter-company transactions
  - Create external financial reports that differ from internal management reports
- **Dependence on manual processes.** Companies need to leverage technology more effectively if they:
  - Manually perform journal entries, account reconciliations and consolidations
  - Rely on off-line Excel spreadsheets
  - Employ multiple charts of accounts and disparate systems
- **Ineffective decision support.** Companies need to improve the timeliness and accuracy of relevant information to the organization if they:
  - Have difficulty identifying potential financial surprises
  - Capture excessive detail and focus on immaterial matters
  - Utilize complex reporting and legal entity structures

#### **Once the books are closed, what's next?**

Companies can optimize their use of consolidation and reporting technologies to better monitor performance and automate activities such as data collection and validation, intercompany eliminations, currency conversions and cash flow preparation. These technologies can support both management and legal entity reporting while also integrating with Tax systems.

However, effective reporting requires much more than just looking at past performance. Companies need to know how they performed against expected results and what key drivers impacted the variance. Corporate Performance Management is about translating strategy into sustainable performance by integrating budgeting, planning, consolidation, reporting and analytical solutions to provide insight and decision support. Leading companies use this approach to set and communicate strategic goals, identify early warning signs of a problem and decide on corrective action.

While automation provides significant efficiency, opportunities to improve after the books are closed are not only limited to technology. Process improvements through standardization and simplification are equally available in the latter half of the C2R cycle. Duplication of effort is common for activities, such as variance analysis, that can be streamlined to better support reporting and external audit needs. Through process improvements, companies can combine certification activities with information gathering to support the identification and preparation of disclosures.

**Is there a better way to manage the entire C2R cycle?**

Leading companies are leveraging new solutions that allow them to more effectively manage the C2R cycle. Web-based workflow and collaboration tools can improve control and accountability while automating manual activities and providing centralized access to documents. These tools can be customized to:

- Improve internal controls and promote accountability
- Provide real-time status and increase visibility for management
- Serve as a repository for support material and accounting documentation
- Facilitate the flow of information to SEC Reporting and Investor Relations
- Enhance communication and coordination throughout the organization
- Support document storage and version control
- Further accelerate the closing cycle

## Taking a holistic approach

When evaluating opportunities to improve the C2R cycle, it is important to consider the breadth of underlying issues and factors that can either hinder or benefit the process. It is too easy to approach problems and solutions solely from the perspective of one's own experience.

A holistic approach that considers factors across all business dimensions—strategy, structure, people, process and technology—creates a C2R cycle that is highly sustainable and scalable.

### **Strategy—Align processes and tools with the overall strategy of the organization.**

**Leverage key drivers to monitor performance.** An organization's strategy drives C2R activities through key performance indicators (KPIs). To measure performance and provide decision support, companies must link financial and operational KPIs to the corporate strategy, market conditions and competitive environment. Eliminate non-value-adding activities that are not in line with the KPIs or corporate strategy.

**Achieve consistency in planning, reporting and analysis.** Leading companies are leveraging standardized processes, technology and data models across the enterprise to improve financial planning and reporting and decision-support activities. Consistency is critical to be sure the entire C2R cycle is efficiently linked with organizational strategy.

**Improve collaboration throughout the organization.** Optimal C2R cycles require a strong degree of interaction between finance, operations, IT and business unit managers. Without coordination, it is very difficult to align strategic objectives.

### **Structure—Organize the finance function to meet the needs of internal and external stakeholders.**

**Evaluate alternative operating models.** The degree of centralization—or decentralization—is a critical factor in the close and reporting cycle. A centralized organization provides greater control and economies of scale while a decentralized model provides greater insight into business unit and operational matters. Both are viable structures if there is standardization and an environment of control and accountability, but this is much more difficult to achieve in a decentralized model.

**Align your structure to meet specific stakeholder needs.** A finance service delivery model ensures alignment of skills and competencies with the needs of internal and external stakeholders. Services provided may be organized into a three-tiered structure comprising front office, middle office and back office.

- **Front office.** Focusing on creating value through insight, the front office provides decision support and analysis, e.g., management reporting, budgeting and forecasting, and long-term planning.
- **Middle office.** Focusing on protecting value through compliance and control, the middle office provides specialty services, e.g., tax, treasury and SOX compliance.
- **Back office.** Focusing on realizing value through efficiency, the back office delivers transaction processing services, e.g., billing, payables and the closing the books in an effort to realize value for the money.

### **People—Enhance the effectiveness of your resources.**

**Assign clear roles and responsibilities.** Different departments play supporting roles in C2R processes. Make sure that all involved understand their role in the process and how they can contribute to a more efficient C2R cycle. From accounting, tax and treasury to legal, IT and investor relations, you must identify who is responsible for specific activities and assign clear due dates for completion and approval. If people do not fully understand their responsibilities or deadlines, the risk of wasted time and duplication of effort increases.

**Establish a calendar with defined milestones to support accountability.** Employees are far more likely to complete measured activities than those with vague parameters. It is essential to establish a calendar and hold people to it. Inventory all activities and confirm assigned responsibilities and due dates. If deadlines are missed, take immediate and firm corrective action.

**Enhance workload distribution and resource alignment.** Throughout the C2R cycle, it is critical to strategically align resources with the appropriate skills and training. Effective workload distribution goes hand-in-hand with the proper sequencing of close and reporting steps. Uneven workload distribution results in overtime and bottlenecks that can lead to errors and high turnover. Furthermore, it brings into question the productivity of resources during non-peak times.

**Communicate effectively throughout the organization.** Improved communication significantly enhances finance leaders' ability to proactively manage issues and avoid surprises. Due to the number of dependent steps in the cycle, being able to share knowledge and status is essential.

**Measure and reward performance.** A closing scorecard that measures performance across costs, quality and time can be a very effective way to evaluate progress over time. Accounting personnel should be measured against specific goals and targets. Incentives and performance measures beyond the finance department may also impact the C2R cycle and should be evaluated to ensure they are driving the right behavior.

### **Process—Streamline, simplify and standardize processes throughout the C2R cycle.**

**Properly sequence activities and look for opportunities to move work away from the close.** The C2R process is a series of interdependent steps that can often be expedited if they are appropriately sequenced. Determine interdependent steps and the time needed to complete all activities. Conduct a critical path analysis and identify opportunities to improve sequencing. Many activities traditionally performed during the closing cycle may be moved before or after the close.

**Use estimates and materiality thresholds intelligently.** Effective use of estimates and accruals can significantly accelerate the C2R cycle. Explore opportunities to establish early cut-offs for payroll, payables, receivables, etc. Then develop sound estimates and accruals to ensure accurate month-end numbers. Work with finance and operations leaders to plan the specifics of using estimates and develop a clear methodology for how they are produced. Leverage materiality thresholds to save time and focus effort. Continually analyze actual results after the close and adjust them accordingly.

**Proactively manage accounting issues and perform root-cause analysis.**

Unexpected accounting issues can result in significant reworking and duplication of effort. Develop a formal issue escalation process and proactively manage issue resolution. Assign responsibilities and due dates and plan to resolve issues with finance and operations leadership in an orderly manner. Incorporate root-cause analysis as part of the escalation and resolution process to identify upstream process enhancements and establish a culture of continuous improvement.

**Strengthen the quality and value of the monthly C2R cycle.** Given the external reporting requirements, there is greater emphasis—and significantly more time and effort—placed on the quarterly close cycle. By taking advantage of the monthly process, leading companies are able to better distribute much of that effort throughout the period for activities such as identifying required disclosures, performing account analysis and beginning to craft the external story. In some cases, the overall effort is less since it is much more efficient to perform analysis and interpret major events closer to the transaction date. A consistent month-end process is more effective than overloading the quarterly cycle.

**Technology—Expand your ability to leverage systems.**

**Identify opportunities to further leverage technology.** Look at systems as support mechanisms that help to analyze and communicate data. Key indicators that a company is not fully leveraging available technology include excessive reliance upon Excel spreadsheets, too many manual journal entries, manual account and bank reconciliations, decentralized document storage and version control, and hard-copy report distribution. Work with finance and IT leaders to validate, prioritize and pursue opportunities to use technology more effectively.

**Where possible, use existing IT systems.** Effective use of technology is essential to gaining timely, accurate and transparent data. However, buying new applications is not necessarily the answer. In fact, some companies already have too many applications with overlapping capabilities that can cause redundancies that interfere with achieving success. Ensure that you leverage existing technologies that reach—or can be optimized to reach—across all areas of the organization to generate reliable financial and operational results.

**Train your employees to get the most out of current systems.** Training empowers people to succeed in new environments. To achieve a better C2R cycle, ensure employees understand the capabilities in the systems they use and expose them to potential valuable tools that other departments may be using.

**Automate manual activities and create templates.** Review all manual tasks that contribute to your closing process and identify opportunities for automation. At the same time, create 10Q and 10K templates that can be easily populated with relevant data after you close. Every word in those documents cannot be known in advance, but many can.

**Capture data appropriately to meet your reporting needs.** For the C2R cycle, this begins with an effective and efficient chart of accounts structure designed to capture data consistent with the company's needs. An overly complex structure, or one that is not standardized, increases risk and limits a company's ability to meet reporting requirements without significant manual intervention.

**Leverage tools for real-time status tracking.** In addition to core financial systems, companies can leverage workflow and collaboration tools to more effectively manage the C2R process. These tools can be customized to meet your specific needs while monitoring the status of all activities, facilitating communication and coordination, and providing centralized document storage and version control.

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***What this means for your business***

Reaping the benefits  
of a smart, efficient  
C2R cycle

The benefits of a smart and efficient close are many, but achieving more timely, accurate and transparent reporting takes focus and discipline. Below are some leading practices that we have seen companies adopt in their quest for a faster, smarter C2R cycle.

**Look for leaders, not silver bullets.**

There is no easy way to achieve a faster, smarter C2R cycle. It takes vocal and visible commitment on the part of top-level leaders, both inside and outside the finance function. Success requires determination and attention to detail at all levels within the company. At the top of the organization, CEOs and CFOs must set the tone, making the initiative a priority by ensuring that the organization focuses on achieving closing and reporting objectives. This message must then be effectively cascaded down to all levels of the organization.

The most successful projects seize opportunities to make small, high-impact modifications early on. While it is important to maintain focus on long-term, sustainable change, implementing “quick-wins” can help process-improvement projects gain momentum and inspire widespread support.

**Take a holistic approach and identify enhancement opportunities across the entire process.**

When evaluating opportunities to improve the C2R cycle, it is important to consider the breadth of underlying issues and factors. Companies must take a *holistic* approach that spans all business dimensions—strategy, structure, people, process and technology. Furthermore, while efforts to address the first five to eight days of the traditional close process are critical given the need for first time accuracy, there are significant efficiency opportunities throughout the remainder of the cycle. Sustainable improvement requires comprehensive solutions that uncover potential improvements across all dimensions and throughout the C2R cycle.

## **How PwC helped a global manufacturer enhance controls and accelerate the timeliness of the close-to-report cycle**

### ***The client's challenge***

A global manufacturer faced a large scale restructuring effort and remediation of a SOX material weakness assessed on the company's financial close process. Steps to redesign the close-to-report cycle and corporate accounting organizational structure included:

- Evaluating finance service requirements and performing workload analysis to identify resource and competency gaps. Facilitating the design and implementation of the future state organization structure and supporting processes.
- Providing technical accounting expertise to update policies and draft position papers related to new pronouncements and other complex accounting matters.
- Designing and implementing new controls to remediate gaps and enhance the effectiveness of the controls framework.
- Performing detailed analysis of accounts and journal entries and implementing new reconciliation solutions and processes to perform balance sheet and income statement analytics. Aligning trial balance and account ownership with the new organizational structure.
- Implementing C2R Manager, PwC's proprietary tool, to facilitate the global close process through a single platform designed to house and monitor all close activities and support material; provide real-time status through workflow and electronic sign-offs; proactively manage close and accounting issues; and centrally store all close and accounting documentation (policies, position papers, standardized templates, etc.)

### ***The impact on the client's business***

The company was able to respond to the rapid changes in the Finance organization while remediating significant control deficiencies and increasing workforce efficiency. Standardized close processes along with clearly defined roles and responsibilities enhanced control, efficiency and accountability. As a result, there was a significant reduction in time and effort to perform the financial close, allowing more time for analysis, performance monitoring and interpretation of results.

## Reaping the benefits

A successful close-to-report cycle will allow companies to:

- Gain earlier access to financial results and spend more time analyzing information
- Achieve acceleration through focus on quality, control and accountability
- Streamline the cycle by effectively distributing workload while eliminating bottlenecks, redundant tasks and non-value add activities
- Reduce volatility in financial data and improve confidence when certifying financial statements
- Obtain more timely and accurate information to support business and operational decisions
- Automate consolidation activities and minimize adjustments
- Streamline the flow of information to support disclosures, MD&A and other statutory and regulatory reporting requirements
- Improve credibility in the market and within the organization
- Respond to regulatory requirements and lower overall compliance costs
- Improve control and minimize the risk of material weakness or restatement
- Take advantage of opportunities to pursue other strategic objectives and value-added activities

*An improved C2R cycle benefits the entire organization, not just the finance function. Companies that succeed in achieving more timely, accurate and transparent reporting create a foundation for evaluating performance, supporting business decisions and satisfying external reporting requirements.*

***To have a deeper conversation  
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