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A more agile accounting process

Accounting hub: Employ the power of technology to automate rule based accounting for continuous processing and delivery of timely, accurate, and auditable information

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Take control of your financial data

In today's rapidly evolving and highly competitive global economy, finance and accounting leaders are looking for innovative ways to improve reporting efficiencies, reduce financial risk, and deliver maximum value to shareholders.

Many companies have multiple legacy accounting systems that must be managed actively to maintain the functional integrity of the basic finance architecture. The vast majority of these organizations continue to approach the critical month-end closing process manually. That is, they pull data from various upstream sources and perform a series of disconnected analytical and validation tasks that are difficult to reconcile from an audit perspective.

Over time, the myriad rules that govern the closing process become relegated to a complex and less-than-transparent accounting "black box." Because of the inefficient design of internal source systems, it's often quite challenging to consistently determine how these standards should be applied and how transactions should be processed before they're posted.

As companies continue to adapt to the business disruption brought on by COVID-19, they must find new ways of delivering insight and value. There's never been a better time to move on from the often-inefficient record-to-report model to a transaction-based continuous close approach. A cloud-based accounting hub can be the right solution to build a consistently auditable closing story.
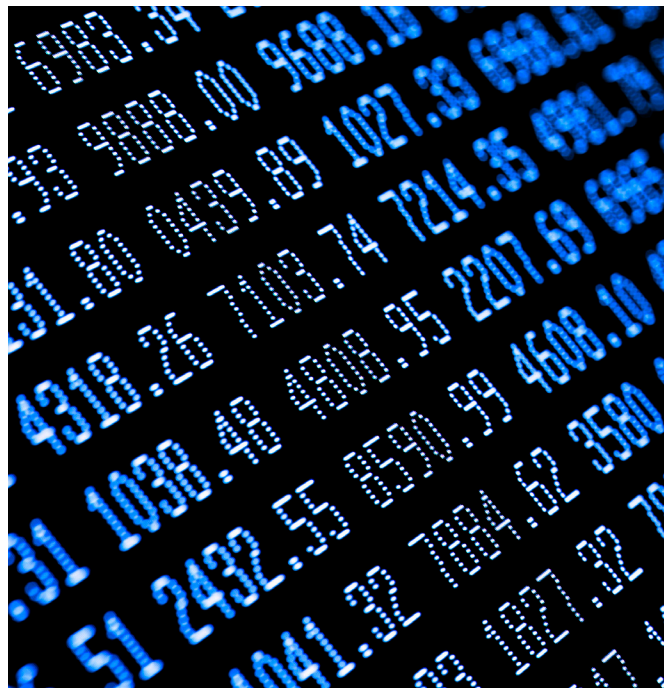
Accounting hub: A transformative digital solution for finance and accounting

System limitations and operational inefficiencies often challenge the ability to achieve a streamlined closing process. Significant resources and time are spent on manual preparation, manipulation, and reconciliation of data rather than value-added analysis. A lack of transparency into source data transactions further impedes analytic and reporting capabilities.

An accounting hub is a centralized repository of the organization's accounting rules, as well as an engine that imports data from disparate sources, including outside of internal ERP systems. The tool automates the entire journal entry lifecycle, linking general ledger entries back to all relevant transactional source data, which can significantly shorten the closing process.

By aggregating and aligning all transactional, business event, and accounting data that comes in from various sources, the accounting hub also streamlines reporting capabilities. With all of this information in one place, companies can create a linked view and "slice and dice" the data in ways that extend beyond the segments that are defined within the company's chart of accounts. This helps build a data-rich subledger, which creates a more efficient general ledger. Ultimately, a "thinner" general ledger will help to clarify distinctions across transactions and minimize redundancy with subledgers that might not be apparent otherwise.

An accounting hub is not only a rules repository, it's also a scalable solution for applying those rules across different business events and scenarios, and providing reporting and analytical insight to support reconciliations and decision-making.

Improve efficiencies while reducing risk

Challenges	Responses
Operating in business and technology silos Lack of real-time data visibility across various functions, limited system integrations across legacy systems, and complications around sharing data across various groups	**Enable disruptive business models** Align the right set of processes, data, and technology to form the foundation of successful enterprise performance management
Homegrown finance and accounting solutions Technical debt haunts organizations as they face the realities of past decisions with limited data transparency and traceability	**Enterprise-class rules-based automation** Accelerate adoption of a rules-based solution that can scale with future requirements while enabling greater transparency across finance and accounting functions
Security and compliance concerns Slow, reactive processes for addressing proprietary and customer data security, privacy, and regulatory and compliance requirements	**Rapid response to risk and regulatory needs** Reexamine and align targeted, proactive strategies around risk management and controls

Many challenges, one solution

Strategic development—mergers and acquisitions, new product lines, global expansion, business or operating model changes—often reveals a disconnect between decision makers in the front office and back office finance and accounting teams. With an accounting hub solution, companies can much more efficiently and quickly bridge the gap between the teams in reacting to and operationalizing on business changes.

The accounting hub addresses all your accounting rules related to activity in the upstream areas of the business. Any changes, developments, or implications from the product side that impact the accounting function downstream can be managed in real time rather than retroactively.

Indeed, when many companies make product decisions, they don't consider the downstream accounting perspective. Accounting typically is not at the table when those decisions are made, which ultimately necessitates the manual adjustments that have to be made when the transactions are being reconciled at the end of the month.

An accounting hub can enhance control over accounting and reporting processes, and enable the agility to adapt to business, industry, and regulatory changes by:

— Reducing the risk of human error by lifting transactional data out of the legacy "black box"

— Providing early access to financial results to start formulating the story behind the financial performance

— Accelerating the closing process through a continuous close model that aligns transactions with the relevant rules and policies

— Offering consistent, standardized management reports and dashboards enabled by automated reporting processes

— Utilizing a transaction-based accounting model that quickly identifies transactional nuances, which, in turn, will empower deeper, more productive analysis

— Facilitating easier implementation and ongoing maintenance of new products and use cases to support evolving business models.
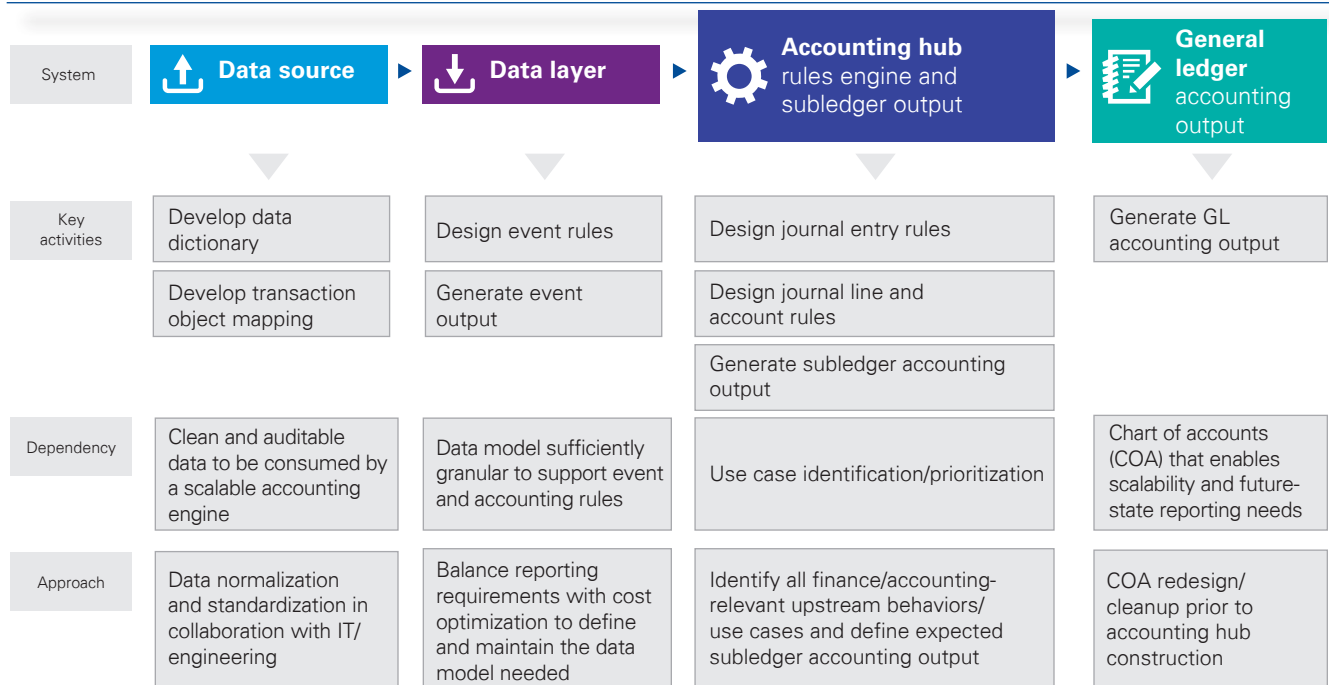
Accounting hub design

The accounting hub facilitates an infrastructure that integrates with the upstream business platform to enable a flexible, but thorough accounting rules engine. This source system captures and stores critical event data that can be utilized to activate the core accounting rules.

Understanding the source data schematic and identifying financial and accounting platform activities are key to the initial design of the accounting hub. Once the business event, accompanying data models, and event lifecycle are defined, corresponding event and accounting rules can be designed and configured in the accounting hub. The applicable rules will be automatically executed based on a predefined frequency to generate detailed, auditable, and reconcilable accounting output.

As a result of the complexities arising from multiple systems/applications associated with the design process, each design step has its own dependencies and recommended approach that need to be considered if a successful accounting hub implementation is to be achieved, as outlined below.

High-level accounting hub design process

System	Data source	Data layer	Accounting hub rules engine and subledger output	General ledger accounting output
Key activities	Develop data dictionary	Design event rules	Design journal entry rules	Generate GL accounting output
	Develop transaction object mapping	Generate event output	Design journal line and account rules	
			Generate subledger accounting output	
Dependency	Clean and auditable data to be consumed by a scalable accounting engine	Data model sufficiently granular to support event and accounting rules	Use case identification/prioritization	Chart of accounts (COA) that enables scalability and future-state reporting needs
Approach	Data normalization and standardization in collaboration with IT/engineering	Balance reporting requirements with cost optimization to define and maintain the data model needed	Identify all finance/accounting-relevant upstream behaviors/use cases and define expected subledger accounting output	COA redesign/cleanup prior to accounting hub construction

Ultimately, the accounting hub is an accounting transformation engine with extensive validation and accounting rule repositories. Accounting hub design is a highly structured process intended to achieve optimized system performance, and thus needs to reflect holistic accounting and financial reporting requirements. Subledger journal entries created in the accounting hub are transferred to the general ledger application, which provides summarized actual account balances and activity by ledger, balancing segment, and account segment.

Accounting hub in the real world: Optimizing finance systems and capabilities

A major pre-IPO global hospitality platform company had an internally developed accounting subledger that required extensive manual data enrichment and custom code to apply core accounting rules. On a monthly basis, finance users were required to manually extract the summary subledger data, perform extensive manual reconciliations and validations, and record manual allocations for management reporting needs before posting summarized journals to the general ledger. These constraints, combined with poor data quality and limited confidence in the integrity of upstream systems, resulted in an inflexible solution that could not adapt to the rapidly evolving needs of the business.

Leveraging the KPMG Powered Enterprise approach, the company was able to define standardized finance processes while centralizing accounting derivation for business operations to improve financial insight and revenue recognition. Multiple cloud solutions were deployed, including a leading-class accounting hub and Cloud ERP solution. KPMG also implemented the KPMG Cloud Integration Framework with a platform-as-a-solution (PaaS) service to support integrations between the Cloud ERP and key platform applications. Lastly, KPMG conducted a series of report rationalization and chart of accounts design workshops before initiating the system configuration, leading to the reduction in the complexity of reporting, removing multiple versions of the truth, and providing additional financial insight and analytics.

In addition to the successful automation of crucial aspects of the company's month-end close, including a number of manual and previously nonscalable accounting processes, the company was able to end its inefficient dependency on custom database solutions and Excel.

Ultimately, the company was provided a central reporting repository to generate financial and management reporting, as well as the analytics needed to support their growth while supporting public company readiness requirements (e.g., Sarbanes-Oxley, internal controls, etc.).
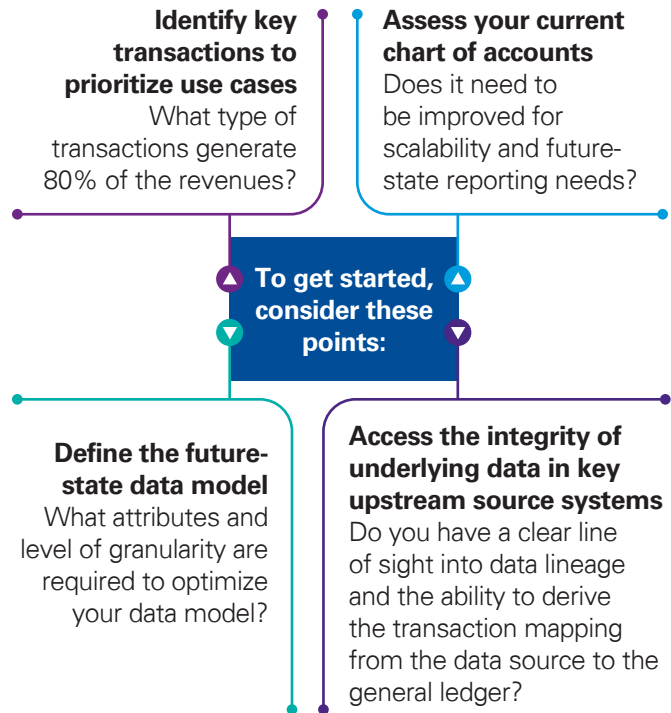
Take action

Clearly, COVID-19 has disrupted the way companies think and operate, and the speed at which they react. Decisions that are made by the front office need to be quickly translated so that the back office can easily reconcile and report on those developments. That's where an accounting hub becomes valuable.

Ultimately, companies would be well served by tightening up and automating their financial and reporting processes. Regardless of the industry, it starts with data—transactional data, operational data, financial data.

By the time financials are reported, the source data—after being reviewed and manipulated multiple times across the value chain—is considerably different from where it started. Therein lies the fundamental challenge. An automated accounting hub provides centralized control, ensuring that disparate, yet related data sets are consistent and reliable from the outset.

Identify key transactions to prioritize use cases
What type of transactions generate 80% of the revenues?

Assess your current chart of accounts
Does it need to be improved for scalability and future-state reporting needs?

To get started, consider these points:

Define the future-state data model
What attributes and level of granularity are required to optimize your data model?

Access the integrity of underlying data in key upstream source systems
Do you have a clear line of sight into data lineage and the ability to derive the transaction mapping from the data source to the general ledger?

KPMG can help

In an ever-changing business environment, finance leaders must evolve beyond the traditional role of transactional and historical reporting to that of a true partner. Finance is challenged to drive profitable growth, reduce costs, and assume a broader set of strategic responsibilities within the enterprise.

The Finance Transformation practice at KPMG supports the growing agenda and increased responsibilities of today's finance and accounting leaders. With a globally focused team of knowledgeable professionals, we can help strengthen your finance operations by addressing such key priorities as strategic decision support, efficient operations, strategic growth, and governance.

Our services can help improve transparency and information integrity, as well as help organizations prepare for and adapt to impending change.

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