The digital close

Propelling the R2R process into the digital age

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Transforming finance leaders from fixers to "futurists"

In this fast-paced and ever-changing business environment, chief financial officers (CFOs), chief accounting officers (CAOs), and controllers are finding themselves being forced to transform the way their departments prepare monthly financial statements and reports. Regardless of industry, it's no longer enough to deliver period-end "actuals" that are timely and comply with generally accepted accounting principles (GAAP) reporting requirements (although these are, of course, still table stakes).

In order to remain relevant and effective, finance leaders need to transform the monthly record-to-report (R2R) close process so that it aligns more closely to the strategic forecasting needs of the organization. And, by necessity, this means changing the mindset of their organization and implementing an operating model that is more proactive, efficient, cost-effective, and insightful.

To achieve an enhanced operating model, more companies are leveraging a digitally enabled close process, the "digital close," to produce their financial statements. The digital close is not just about using new and improved technology. It's about changing the way you think about and approach the R2R closing process so that it delivers timely, more targeted, and valuable information to all end users of the financials. It's about understanding what these specific end users are looking for when they read financial statements and then creating reports that are at the right level of detail to become an integral part of their decision-making process.

When done properly, the digital close:

- Supports a continuous close and the ability to prepare statements 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, such as 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 financials that offer information and insights upon which stakeholders can base strategies and decisions
- Enables your organization to scale services and add value at a minimum cost.

Equally important, you'll be able to avoid the fire drills that typically accompany your monthly, quarterly, year-end—and even daily—closings, often as a result of having to fix data and underused process automation.

Why the need for change?

Despite all the advancements in technology that have been made over the past 20 years, the R2R process in most finance departments remains labor intensive and Excel dependent. While many organizations have integrated some form of process automation into their monthly closing process—for example, robotic process automation (RPA) or cloud reconciliation tools—the results have not met expectations or been fully realized by most organizations.

It certainly hasn't been enough to keep up with the demand to digest and share insights from the increasingly vast amounts of detailed financial data that is generated. As a result, the monthly close remains one of the most manual processes in finance; it continues to be a nerve-racking race against the clock to gather the data, input the data, detect and correct errors, and then generate the financial statements.

A constant thorn in the side of finance is the need to make last-minute corrections of flawed data received from other departments. The finance department has historically been forced into playing the role of the "fixer" during month-end.

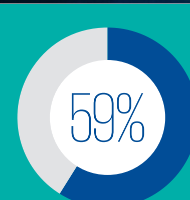
What's more, the resulting financial statements often aren't as up to date, detailed, or useful as they need to be when it comes to enabling senior management and other departments (e.g., sales, marketing, supply chain, production) to:

— Create digital models that forecast what lies ahead

— Drive better decision-making that delivers on their strategies.

These days, the demand for information is daily, not monthly. This puts even more pressure on finance organizations to create more detailed actuals that better support the forecast models—quickly and frequently—and allow stakeholders to factor in up-to-the-minute information that may challenge their strategies.

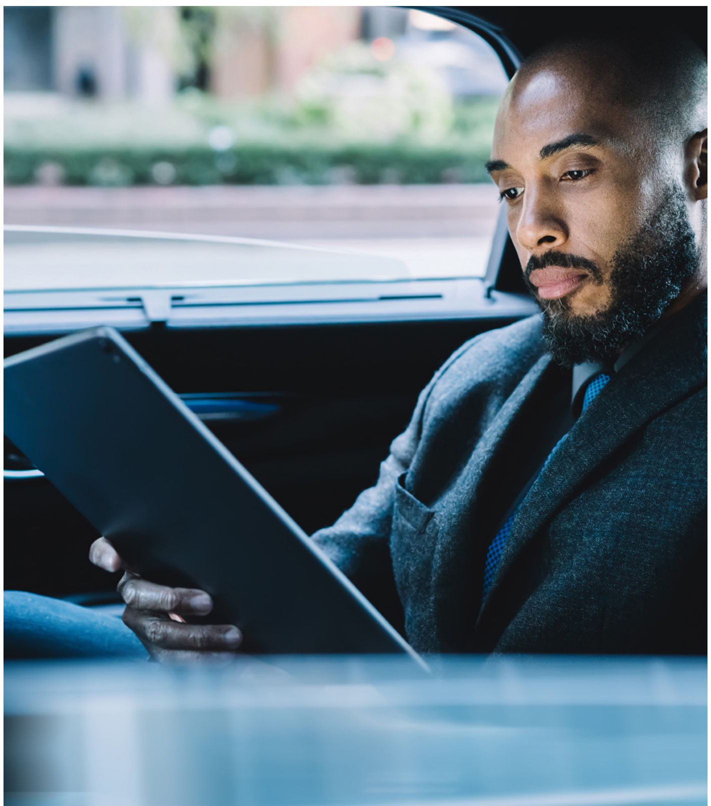
"Overall, 59 percent of C-level executives would like to see the CAO take the lead on data and analytics." — KPMG, CAO journey: 2020 was a bump in the road



Digital close disruption

A digital close focus disrupts the traditional R2R process. It encompasses not only using new and innovative technology, but also a fresh way of looking at how to program and deploy it. When fully embraced, the digital close ensures that finance receives period-end source data as expected—with little or no need for correction—and that information reporting is being done continuously.

We believe that organizations stand to realize huge value in terms of time-savings, cost-savings, efficiency, data quality, and increased reporting insights. In addition, these reports are increasingly being demanded and scrutinized by investors, external auditors, and regulatory authorities. So, the more detailed, informative, and trustworthy the financials are, the better.



Digital close boosts client data quality
A KPMG client recently underwent a transformation process that included incorporating many of the digital close concepts addressed in this paper, including anomaly detection to ensure the general ledger data was fit for purpose and of appropriate quality for use in the financial and regulatory reporting.

Building blocks of the digital close

The digital close is built upon the five pillars below. Note that although they can be viewed and implemented separately, an organization reaps the maximum benefits when they're integrated seamlessly with each other.

Developing an "exception-based" focus: This requires changing the mindset of both the finance department itself and the organization as a whole from regarding finance as the "fixer." The foundation of an exception-based close is ensuring that all—or nearly all—of the data provided to the close be valid.

This requires establishing and implementing processes to catch and correct flaws in the data before it gets to the close. When this is achieved, the finance department will no longer be forced into spending time scrambling to correct the same data problem every month and instead have time to focus delivering the relevant and timely information to the business.

Exploiting R2R technology: Technology is constantly evolving and growing more powerful and cost-effective. It's capable of absorbing and analyzing incredible amounts of data. But it needs to be configured properly, used throughout the month and not just during the close, and tightly integrated with the forecasting needs of the organization.

Creating a structured "data lake": A well-designed data lake, supported by cloud data tools, helps automate the standardization of data and eliminates the need for hundreds of spreadsheets.

There likely will never be perfect data in a close—there are just too many data sources to ensure complete data alignment. But having a well-designed and structured data lake that's used in conjunction with properly configured rules and process automation makes the monthly closing far more efficient, with less errors to correct, and leads to more accurate and useful actuals.

Establishing a center of excellence (COE) that employs an exception-based close: In almost every close, there will be a new event or input that was not anticipated. Even after an anomaly check capability is implemented, a COE will need to make sometimes difficult decisions in terms of resolving the exceptions or anomalies that will likely arise.

However, the COE can more effectively manage the ever-changing data sources with a consistent, knowledge-based process and exploit a structured, rules-based maintenance process that can include leveraging machine learning for continuous improvement.

Introducing exception engines into the technology: Exception engines apply statistics, rules, and digital technology to identify transaction-level anomalies during the month so they can be corrected or adjusted prior to the start of the close. This eliminates the time it takes to unwind account balance variances and drives increased value from your R2R process automation tools.

Rather than having finance personnel fix these errors at the last minute, a properly configured anomaly check capability automatically flags questionable data and presents it to the COE for review and/or correction by the department that submitted it well before the close. The exception engine will automatically apply the decisions that the COE makes to the anomalies that are detected, thus enabling continuous improvement and an increasingly faster, smoother close.

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

An exception-based close is when the close process commits to not correcting the same problem every month. A close is built that forces 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 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 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.

The time is now

Business as usual for your monthly closings is no longer an option. To remain a valued part of your organization, the R2R process must become faster and more efficient, and provide up-to-the-minute information that's closely aligned with the forecasting needs of your organization.

Implementing all five elements of the digital close at the same time may seem to be a daunting task. But it's not necessary to do everything at once to see significant results.

In fact, we often recommend beginning by introducing one or two elements into an organization's monthly close process—for example, an anomaly detection engine, extreme use of R2R technology, or the exception-based close are ,all good starting points. This often can be done using the technology you already have, and programming it leveraging information you also likely already have.

And once you achieve results with these changes, it should make it easier to secure buy-in from leadership to implement the other elements of the digital close.

> By using advanced analytics in more of their transformation and business partnership work, CAOs can begin to change leadership's perception of the value they bring to the company.
>
> — KPMG, CAO journey: 2020 was a bump in the road.

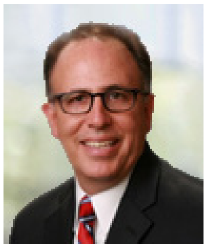
How KPMG can help you

Our experienced and industry-focused financial, accounting, and tax professionals create practical approaches designed to help clients achieve their business objectives while effectively assessing and managing business risk. With fully integrated, cross-functional teams, we are committed to providing meaningful insights to clients using both traditional and disruptive digital technologies and D&A innovations.

Our goal is to be a go-to adviser 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 KPMG to help you transform your finance team from "fixers" to "futurists."

Contact 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 website or contact the professionals below:



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