How to implement month-end reporting in day 3 or less - Part two

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In my article "How much time are you wasting on month-end reporting" July 2005 I talked about the irrelevance of late reporting and about some case studies. This article will look the lessons and guidelines for implementing quick month-end reporting(QMR).

To anyone who has seen the film "The day after tomorrow" a late month-end has the same relevance as the scholastic competition Sam was in with his sweetheart just before the ice age began.

As mentioned in the preceding article this is not an area I can claim any success. When I was an corporate accountant each month end was a disaster waiting to happen. Each month end had a life of its own. You never knew when and where the problems were to come from. Does this sound familiar? Fortunately I have benchmarked this area and held workshops with over 1,500 accountants, as far field as Dublin, and many interesting insights have emerged.

When the key activities should be completed at month-end

In summary the key activities of a month-end are set out below:

Day-3 & earlier	Day-2	Day-1	Day +1	Day+2 & 3
G/L a/cs reconciled mid month Payroll accrual finalised Fixed assets closed off by Day -5 Depreciation finalised by day -4	Close-off m/e accruals Bank a/c reconciled	Close-off AP , AR , WIP, time sheets, noon or earlier First close of GL Numbers available to BHs by 5 pm Bank a/c reconciled	Bank a/c reconciled Flash report of net profit by 5pm to CEO Second close of GL BHs complete their 2 page report	Draft report Quality assurance procedures Report preparation Issue report to SMT

Quick month-end case studies

Iconic Australian Entertainment centre. The Finance Director had years ago been used to very quick reporting with Black an Decker, so you can imagine his surprise when he found out the reporting was at day 12 or worse. He brought 20 of his team along to a session I ran in September and on the 3rd of November, we were talking over the phone and he had the final accounts in his hand, day three reporting within 6 weeks!!

Australian Broadcasting enterprise. The Financial Controller flew all her management accountants from around the country for a one day "post-it" re-engineering workshop. For some it was the first time they had met. The workshop was a fun day and members could laugh at the bottlenecks that they in some cases had created. Excel spreadsheets where tossed out and I rang her two weeks, on the 2nd of June and asked how the month end was going. She replied "what do you mean going, it is finished". Two day reporting down from day 8 in two weeks truly amazing.

Uecomm. Stuart Cronin, Financial Controller attended the workshop "50+ways to improve the accounting function" which covered quick month-end reporting and then sent his AP team and management accountants to the workshop "month-end reporting by day three or less". They the ran the "post it re-engineering workshop" by themselves and within one month are now reporting on working day three.

Common month end bottlenecks and how to get around them

These bottlenecks and techniques are sourced from the waymark benchmarking study of accounting functions which has over 200 accounting teams from all sectors comparing their practices and achievements against each other.

Bottleneck	Proposed course of action
1. High processing at month-end	Pushing processing back from month end by avoiding having payment runs at month end. Better practice is to have weekly or daily direct credit payment runs but none happening within the last two and first two days of the new month. The last thing you need is to receive a swag of invoices. Change invoicing cycles on all monthly accounts such as utilities, credit cards etc. e.g. invoice cycle including transactions from 26th May to 25th June and being received by the 28th of the June. The accruals for these suppliers can then be a standard four or five business days depending how the working days fall. Consolidate as many high value low volume invoices by national contracts and the use of the purchase card e.g. all stationery supplied by one entity, on one consolidated invoice received by the 28th each month.
2. Inter-company adjustments	Ban all inter-company adjustments at month-end except for the elimination of internal profit. All others have to occur during the month.
3. Closing-off accounts payable	All organisations can close off accounts payable on the last working day, or better still noon on the last working day with transactions in the afternoon carried forward to the first day of the new month. There is no company I have come across that can justify closing-off accounts payable after the last day of the month.
4. The accruals	Close off accruals on day -2, no point waiting for month-end invoices to arrive, you could wait months. One smart accountant I have come across worked out that budget holders know little more about month end invoices at day +2 than at day -2. So, the accountant introduced accrual cut-off on day -2, the day before month-end. This recognises that month-end invoices will not arrive miraculously by day +2, so a phone call to consulting firms working on a project etc. is

	necessary and these can occur earlier.
5. Closing-off accounts receivables, especially handling the last days sales invoices	Immediately close off accounts receivables on the last working day, or better still noon on the last working day with transactions in the afternoon carried forward to the first day of the new month.
6. Inventory cut-off including the handling of WIP	Make the cut-off of WIP on day-2, ignore the WIP on the last working day, it is immaterial, or it can be covered by a standard reversing journal.
7. Last weeks time sheets	<u>For non-revenue generating time sheets</u> • Get staff to complete by day -3 • include best guess for remaining two days <u>For revenue generating time sheets</u> • time sheets from staff required by noon on the last working day (day-1) • with best guess on for the afternoon If the staff do not know what they are doing for the rest of the day at noon on the last day of the month maybe they should be working for your opposition!!
8. Old accounting system	Much can be achieved with an old accounting system. This is not an excuse for not reaching day three reporting!! If you still believe it is you need a paradigm shift in your thinking.
9. Supplier interfaces	Look to sort out those major suppliers. Consider "self invoicing" supplier invoices where you are having late or error prone supplier invoices. "Self invoicing" is where you raise the supplier invoice based on delivered quantity times contract price. The involve contains all details such as GST number, unique invoice number using say the first three letters of your company, 2 letters of theirs and 4 numbers e.g. dsbd7865
10. Awaiting budget holders reports	Budget holder reports can be reduced significantly. Only a one page report should be required which focuses on the year to date "variance to budget" as these less prone to timing differences. I once saw a pile of reports on a finance manager's desk, when asked what they were he said the budget holders month-end reports. "What do you use them for "I asked. "I do not use them, I ring them if I need an explanation of a major variance" he replied. Hundreds of hours of budget holder time were wasted each month which could have been better spent getting home at a reasonable hour!!
11. The report writing stage	One organisation has made a major cultural change to the extent that the CEO has committed the company to a major training programme to assist managers (including the senior team) to "coach" and to avoid rewrites at all costs. The GM can always put a caveat on the report "whilst I concur with the recommendations the report was written by Pat Carruthers". The organisation have learnt to delegate and empower their staff so that the SMT and Board papers are being written with

	limited input from senior managers and are being tabled with few amendments (provided that the senior management team agree with the recommendations. This step requires trust and training. The Board needs to understand that the report is not written in senior management team "speak". Board members are encouraged to comment directly to the writer about strengths and areas for improvement. The writers are also the presenters, where necessary. The senior management team has a much more relaxed week leading up to the Board meeting having largely delegated the report writing and the associated stress. The rewards include, motivated and more competent staff and general managers being free to spend more time contributing to the bottom-line.
12. The monthly forecast which is performed before the results can be issued	Replace the month end forecast with a quarterly rolling forecast. Typically monthly re-forecast of the year-end position are a meaningless forecast by the Finance team talking with SMT based on an error prone Excel spreadsheet. This needs to be changed to a robust quarterly rolling forecast that is prepared by budget holders using a light touch (forecasting a maximum of 12 categories per BH) and designed in a planning tool management. This change will save time in this area that often is the last thing to delay the month end.

Implementing QMR in a SME (up to 500 FTEs)

Set out below is a draft implementation plan which should be used in conjunction with the QMR implementation checklist. Both of which are available electronically on the waymark website. www.waymark.co.nz

The suggested steps below incorporate the key stages. Each organisation will need to tailor their plan to suit their own needs.

	Quick month-end reporting project (weeks)	pre	1	2	3	4	5	6	7	>15
	Create focus and vision for initiatives									
1	Sell change to the SMT and senior budget holders (BHs) and ask them to attend the first session of the workshop									
2	Organise the workshop									
	Hold workshop for all accounting team and all others involved in year-end activity									
3	Workshop with accounting team and selected BHs (a complete paradigm shift is required by all of the finance team, re-engineer through post its)									
	Applying pareto's 80/20 to the processes post workshop									
4	Identified all non value tasks and reschedule (e.g. Posting of automated journals, allocations, inventory movement entries)									
5	Establish levels of relevancy (materiality levels)									
6	Manual journal entry line items to be reduced by >75%									
7	Eliminated all interdepartmental corrections at m/e									
8	Ascertain where estimates can be used to avoid slowing down process and implement									
9	Minimise BH reporting to no more than 30 minutes of time									
10	Design the day one flash report for the CEO (limit to 5-8 lines)									
	Training									
11	Monitoring of management accountants to ensure they are lifting themselves out of detail									
12	Training of BHs to write brief reports, load accruals directly into GL and comply with tight AP and expense claim cut-offs									
	Reducing month end timeframes									
13	Month end reports completed by day 3									
14	Month end reports completed by day 2									
	System requirements									
15	Major suppliers providing electronic invoices									
16	Purchase card implemented to process all the low value high volume transactions									
17	Change month-end to close on the same day each month, the nearest Friday, Saturday etc									
17	Paperless reporting system for BHs, SMT and the Board									

Implementing QMR a large organization (over 500 FTEs)

	Project weeks	pre	1	2	3	4	5	6	7	8	9	10	11	12	13
	Create focus and vision for initiatives														
1	Make all management aware of the problem														
2	Sell change to the accounting team														
3	Sell change to the SMT and budget holders (BHs)														
4	Establish multi functional project team (reporting, marketing, operations, IT, production planning)														
5	SMT to empower project team to make decisions														
	Asses what changes need to be made within existing system constraints														
6	Workshop with accounting team and selected BHs (a complete paradigm shift is required by all of the finance team, re-engineer through post its)														
7	Identified all non value tasks and reschedule (e.g. Posting of automated journals, allocations, inventory movement entries)														
8	Establish levels of relevancy (materiality levels)														
9	Manual journal entry line items to be reduced by >75%														
10	Eliminated all interdepartmental corrections at m/e														
11	Ascertain where estimates can be used to avoid slowing down process and implement														
	Communication														
12	month														
13	Develop a flash report which spreads the good news of achievements (intranet)														
	Report redesign														
14	Interview key users to determine information requirements														
15	BH's management report condensed into one page of key indicators plus one page BU report														
16	Cease issuing large computer print outs														
17	Develop snapshot report for 5 pm day one														
	Training														
18	Training accounting team														
19	Training BHs														
	Reducing month end timeframes														
20	month end reports by day 5														
21	month end reports by day 4														
22	month end reports by day 3														
	Ascertain system requirements														
23	Ascertain what upgrade systems to avoid duplication of data entry & to provide on-line real time information to budget holders														
24	scope planning tool for reporting and forecasting purposes														
25	An automatic generation of user friendly management reports requiring only limited analysis and insightful comments														

Quick month-end reporting post-it re-engineering workshop

One of the key steps in the implementation plan is a one day in-house workshop. Set out below is a workshop I have used to great affect. The key points are:

- setting the scene of how quick month-ends are and how companies are doing this with the SMT present
- the post-it re-engineering technique which came from Motorola which effectively replaces $30,000 consultancy fees with $3 of "post-it "stickers!!, see below for explanation.
- staff buying into the change and presenting at the end of the day back to the SMT the way forward and who has what responsibilities.

It makes a good day with plenty of activity which is forward not backward focused. Here is a suggested agenda.

8.30am	Welcome by CFO
8.45	**Setting the scene** - a review of better practices among accounting teams, that are delivering swift reporting **General Managers will be invited to attend this session**

9.45	**Workshop #1 on when activities should start and finish** where separate teams look at the different issues
10.15	Morning tea
10.30	**Workshop #1** continues
10.50	Feedback from work groups and action plan agreed (date and responsibility)
11.15	**Workshop** #2 to analyse the month-end procedures using post-its
12.30pm	Lunch
1.15pm	**Workshop #2** to analyse the month-end procedures using post-its continues
2.00pm	Feedback and pulling it together, participants will document agreed changes and individuals will be encouraged to take responsibility for implementing the steps
2.30 pm	Afternoon tea
2.45pm	**Implementing a quick month end - the implementation plan, the issues to look at presented**
3.00 pm	**Workshop #3** to set out the appropriate implementation steps to implement quick reporting -each team prepares a short presentation of the key steps they are committed to making (teams will use PowerPoint on laptops)
4.00pm	Each team presents to the group what changes they are going to implement and when. They can also raise any issues they still have. **GMs will be invited to attend this presentation session**
4.45pm	Wrap up of workshop by Financial controller and CFO
5.00 pm	Finish

The post-it re-engineering process
Each team lists all there processes on to a post -it prior to the workshop. Accounts payable using say yellow, financial reporting team using blue, accounts receivable using red etc.
The "post its" are placed in time order under column headings day-2,day-1, day+1, day+2 etc. using a white board (the post-its fall off walls!!)
Cinema voucher is given for each process that can be removed as not necessary (they were done because they were done last month). Each one removed is like finding gold as it means less work, fewer steps
Reorganise the key processes based on better practice e.g. bring accounts payable close-off to noon on the last working day and related steps can thus be brought forward

Rules

1: one procedure per post-it
2: state when it is done - time scale is -2,-1(last working day,+1(first working day),+2
3: write in big letters (must be seen from 15 feet)

e.g.

+2 Close-off Accounts payable

Writer's biography

David Parmenter is the CEO of waymark solutions. David specialises in assisting organisations measure, report and improve performance. waymark helps organisations streamline their: month-end reporting and annual planning processes, implement quarterly rolling forecasts, adopt the principles of beyond budgeting, develop decision based reports, and adopt performance measures that will improve performance. He has had speaking engagements in 2007 in Wellington, Auckland, Christchurch, Sydney, Melbourne, Brisbane, Canberra, Adelaide, Perth, Kuala Lumpur, Singapore, Dublin, Edinburgh, Glasgow and London.

John Wiley & Sons Inc are publishing two of his books in 2007 “Key performance indicators – developing, implementing and using winning KPIs” (January 07) and “Pareto's 80/20 Rule for the Corporate Accountant” – better practices from winning finance teams (April 07).

David has an in-depth understanding of better practices of corporate accountants across all sectors. David has also worked for Ernst & Young, BP Oil Ltd, Arthur Andersen, and Price Waterhouse. David is a fellow of the Institute of Chartered Accountants of England and Wales.

He has written over 30 articles for the accounting and management Journals in Australia, Malaysia, Ireland, England and New Zealand. His articles published include: “quarterly rolling planning - removing the barriers to success”, “Throw away the annual budget”, “Maybe its time to look at your KPIs”, “seven time wasters”, and “quick month end reporting”, “Beware corporate mergers”, “Implementing a Balanced Scorecard in 16 weeks not 16 months”, “Convert your monthly reporting to a management tool”, “Smash through the performance barrier”, “Is your board reporting process out of control?”
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