How much time are you wasting on month-end reporting?

Is your team one of the many who are sucked in by processes that have more in common with the Charles Dickens era than the 21st century? If so, ***David Parmenter*** *believes he can show you the way forward*

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When I was a corporate accountant each period end was a disaster waiting to happen. Each month end (m/e) had a life of its own. You never knew when and where the problems were to come from. Two or three days out it always appeared to be under control, and yet each month we were faxing the result (no email back then!) with our fingers crossed, the last-minute adjustments having negated "quality assurance" work we performed earlier, leaving the result exposed to a late error. Does this sound familiar?

If so, this article will show you a way forward, a pathway blazed by some of your far-seeing peers. It is based on the collective wisdom of over 100 CFOs – to them we owe great gratitude. This is their story, not mine.

How do you rate on these questions?

Does it take longer than three business days for your finance team to complete the monthly reporting package to the CEO and management?

Do team members have to burn the midnight oil to achieve this?

Are you finding that each month end is a drama?

Are you fed up with the error rate in the finance report?

Do the month-end reports go through endless rewrites?

Is the month-end reporting process seen as a negative task for staff and management?

If you answer "No" to all of these you are one of the small minority who have got to grips with timely month-end reporting. Your story should be told!

Based on waymark benchmarking and the experiences of attendees at my "day one reporting" workshop in Australia and New Zealand, there is a rating guide below (figure 1).

What is day one reporting?

Day one reporting (DOR) is the condensing of the monthly reporting process so that it is completed and management reports issued within day one, the first day after the previous month end. Organisations who are achieving DOR complete all of the tasks below by 5pm on day one:

- all previous month's transactions processed
- accruals raised
- consolidations complete
- reports made available to budget holders
- reports prepared for business units
- consolidated reports prepared and commentary/analysis added
- reports issued.

Day one reporting has arrived in Australasia, brought here by visionary accountants who can think outside the square. They have created a precedent that means that reporting five, six, seven or eight working days after month end will soon be a perilous activity for the CFO. How will you explain this time wasting to a CEO who has been used to day one reporting in their previous company?

In other words, it soon will not be acceptable for organisations (and career limiting for CFOs) to be responsible for time-consuming and costly month-end processes.

Benefits to management and the finance team

As a good friend of mine, the CFO of a tertiary institution, said, "every day spent producing reports is a day less spent on analysis and projects". There are a large number of benefits to management and the finance team of quick reporting, and these are included in figure 2.

Figure 1

	Day One reporting	2 to 3 days	4 to 5 days	Over 5 days
Rating performance	Exceptional	Better practice benchmark	Adequate performance	Inferior performance and career limiting!

Figure 2

Benefits to management	Benefits to the finance team
Reporting now plays a bigger part in the decision-making process	Staff are more productive as efficiencies are locked in and bottlenecks are tackled
Reduction in detail and length of reports	Many m/e traditional processes are out of date and inefficient and these are removed
Reduced cost to organisation of m/e reporting	Happier staff with higher morale and increased job satisfaction
More time spent analysing trends – companies who report quickly say their analysis is better!	More professionally challenged finance staff
Less senior management time invested in m/e meaning management can spend more time on achieving results	Finance staff spend more time shaping the future e g quarterly rolling forecasting, implementing new decision-based tools etc.
Greater budget-holder ownership as they need to be more involved in accruals, monitoring expenditure during the month because no corrections are permitted after m/e	Leads to a very quick year-end

The impact of quick reporting on the finance team and the organisation

The impact of quick reporting is a total redistribution of work moving out of low-value process activities into the more value-added areas as shown in figure 3. This is often accompanied by a change in the mix of the team, which is good news for Chartered Accountants.

The significance of faster month-end reporting can be seen from the comparison of three companies shown in figure 4. From the waymark benchmarking study of over 200 accounting teams, quick month-end reporting accounting teams are far more advanced in many other areas. They should be, as they have much more time on their hands.

The extent of the time wasted in reporting can be seen in figure 5. And most commentary is of little value, given that it is discussing variances against a nonsense target – the monthly budget. Such an analysis can be easily performed by your accounting function to ascertain the true cost of month-end reporting in management's and budget-holders' time.

So is DOR easy to do?

No. In fact, if you approach it using conventional processes and techniques it is almost impossible! You need to think outside the square. The finance team needs to challenge the status quo and a huge paradigm shift needs to occur.

Recently I was working with a finance team in a monthly reporting workshop. When the financial controller kicked off the morning saying "the new goal for the month end is five working days" there was total silence. They have dramas reporting at eight working days! But by the end of the day there had been such a dramatic shift that the team was already planning for day three reporting.

History of DOR

Literature about DOR dates back to about 1980, and one of the first companies

Figure 3 Balance of work

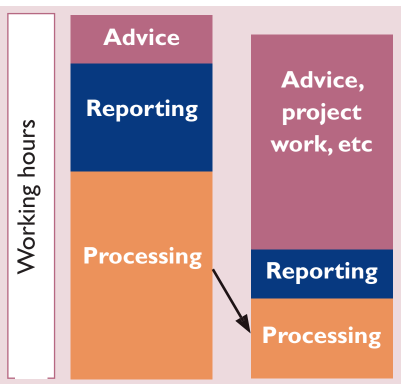

Figure 4 Comparison of three companies

Tasks	Day 1	Quick m/e	Slow m/e
	No. of working days a month		
Month end reporting	1	4	9
Project work and daily routines	21	18	13
	60% more	40% more	
Based on a 22 working day month			

Figure 5 Senior management time invested in m/e

	Days
Drafting papers	2 to 4
Reviewing and redrafting	1 to 2
Total days of effort by each unit	3 to 6
Say five business units	15 to 30
Support function reports	10 to 15
Review by CEO etc and redrafting	1 to 2
Total senior management effort each month	26 to 47

to do it was an American multinational. They had not realised there was a real problem until benchmarking against other companies. They found to their horror that their two weeks to close was resulting in their company "paying more to have monthly reports later". In other words the quicker companies had less accounting resource. This spurred them into action and the reporting deadlines came down as follows:

September 1991 – eight days
March 1992 – three days
September 1992 – two days
September 1993 – one day

Day three reporting was achieved by:

- all management being made aware of the problem
- obtaining buy-in (marketing)
- setting up a multifunctional project team (reporting, marketing, operations, IT, production planning)
- empowering the project team to make decisions
- focusing on continuous improvement and teamwork
- adhering to deadlines.

At day three they hit the wall and a complete paradigm shift by the finance group was now required, so they:

- re-engineered the month-end process
- identified non-value tasks which could be done earlier or eliminated, e g the posting of automated journals that occurred on day one, journals being reviewed before entry into the G/L, last month's production not finalised until day two
- rigorously applied the Pareto principle (80/20) focusing on the big numbers, and establishing levels of relevancy – manual journal entry line items were reduced by 80%
- eliminated all interdepartmental corrections at m/e – these had to be done during the month
- eliminated management review of cost centres before final close, as budget-holders now had responsibility to resolve all issues relating to their cost centre
- condensed the management report into one page of key indicators, plus one-page business unit reports
- used estimates to avoid slowing down the m/e process – they found that the differences between estimate and actual were never significant
- did not accept late changes to m/e report formats
- required budget-holders to track activity throughout the month, eliminating the usual surprises found during the close process
- processed allocations without seeing departmental spending
- moved preparations for m/e close to before period end, instead of after
- replaced reconciling accounts in days one and two with variance analysis.

DOR around the world

The United States is leading with prompt reporting. The virtual close for month-end reporting has been achieved by organisations such as CISCO, Motorola, Oracle, Dell, Wells Fargo, Citigroup, JP Morgan Chase and Alcoa to name but a few. A study performed recently by PricewaterhouseCoopers found no evidence of DOR taking place in Europe. This study, based on 160 "European-headquartered" organisations, indicated some frightening statistics including:

- spreadsheets still being used for consolidations (principally by the slow reporters)
- the top 25% for speed of close at month end still ranged up to nine working days post-month end
- 81% used spreadsheets for reporting
- 60% stated that they were dissatisfied with using spreadsheets.

In another study, nearly 50% of respondents have introduced flash reports on day one, reporting a result for the P/L within +/- 10%. From my workshops most accountants stated that they could issue day one flash reports within +/- 5% – and show me a CEO who if offered a flash one-page report would not welcome it! ■

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