Fast Close: A Guide to Rapid Month-End and Year-End Reporting

by David Parmenter

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1. Introduction

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? When I was a corporate accountant, each period end was a disaster waiting to happen. Each month-end had a life of its own. You never knew when and where the next problem was going to come from. Always two or three days away, we appeared to have it under control, and yet each month, we were faxing (email was not on the scene then!) the result five minutes before the deadline. Our fingers were crossed as a series of late adjustments had meant that the quality assurance work we had done was invalid, and we did not have the luxury of doing it again. Does this sound familiar?

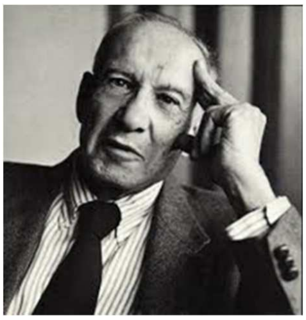
If so, this white paper will show you a way forward, a pathway blazed by some of your far-seeing peers. This white paper is based on the collective wisdom of over 2,000 corporate accountants. To them, we owe a great gratitude.

How do you fare 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 the Board?	☐ Yes ☐ No
Do your staff burn the midnight oil to achieve this?	☐ Yes ☐ No
Are you finding that each month-end is a drama?	☐ Yes ☐ No
Do the monthly reports have a high error rate?	☐ Yes ☐ No
Do the month-end reports go through endless rewrites?	☐ Yes ☐ No
Is the month-end reporting process seen as a negative task for staff and management?	☐ Yes ☐ No

If you answer "**no"** to all of these questions, you are one of the small minority who have got to grips with timely month-end reporting.

1.1. <u>Importance of abandonment</u>



Management guru Peter Drucker[1] , whom I consider to be the Leonardo de Vinci of management, frequently used the word '*abandonment'*. I think it is one of the top ten gifts Drucker gave us all. He said,

"Don't tell me what you're doing. Tell me what you've stopped doing."

He frequently said that abandonment is the key to innovation, in other words, the key to a fast month-end.

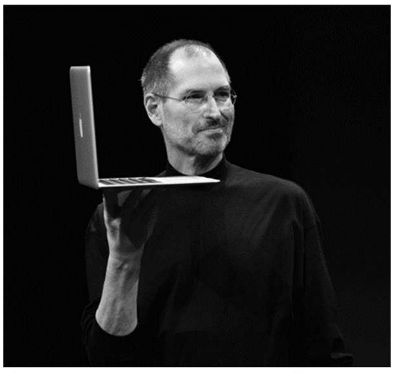
Peter Drucker observed in one organisation that the first Monday of every month is set aside for "abandonment meetings at every management level." Each session targets a different area so that in the course of a year, everything is given the once-over. This process would work well in the finance team except we should meet once a week to discuss at least two abandonments each week!

The act of abandonment gives a tremendous sense of relief to the finance team, for it stops the past from haunting the future. It takes courage and conviction from the CFO. Knowing when to abandon and having the courage to do so are important leadership attributes. In order for these processes in this white paper to work, there needs to be an adoption of:

- an abandonment of processes and procedures
- a letting go of the past
- a commitment to change the rules

1.2. The importance of challenging the status quo

Far too often, we have accepted antiquated and anti-lean practices within the corporate accounting repertoire as the status quo. If the medical profession used our approach, they would probably still be using leeches (well, actually, they still do, I understand, in special cases). The medical profession has breakthrough conferences on a regular basis, and all the practising surgeons in that field attend and adopt the new procedure. This should be the corporate finance model.



In an interview called The Lost Interview, Steve Jobs was asked, "As a 22-year-old worth $10m, and a 25-year-old worth $100m, how did he get his business acumen." He said that over time, he realized that most business was pretty straightforward. He talked about when Apple had their first computerised manufacturing plant for the Apple II, and the accountant sent Steve Jobs his first standard costing report. Jobs asked, "why do we have a standard cost and not an actual cost?" The responses was, "that just the way it's done". He soon realized that the reason was the accounting system. When that was fixed, standard costing reports vanished.

In business, Jobs believes that few managers think deeply about why things are done. He came up with this quote, which I want to share with you. I believe this quote should be on every wall and in front of every workstation in the finance teamwork area.

Your time is limited, so don't waste it living someone else's life. Don't be trapped into living with the results of other people's thinking. Don't let the noise of other's opinions drown your own inner voice." ***Steve Jobs***

1.3. Ranking guide

The following rating scale, see Exhibit 1.1, shows the time frames of month - end reporting across the 5,000 corporate accountants I have presented to in the past 20 years.

Exhibit 1.1: Speed of month-end reporting ranking

Exceptional	Outstanding	Above average	Average
One working day	Two to three working days	Four working days	Five working days

2. The burning platform

There is a burning platform and the finance team needs to jump. Your month-end:

- Does not create much value the horse has bolted, is part of trifecta of lost opportunities (the other two activities to re-engineer are annual planning and annual reporting)
- Forces you to invest too much time and effort as a processing centre instead of advisory time
- Is slower than your peers who are reporting quickly (some are even reporting in one day)

2.1. **Benefits of quick monthly reporting**

As a good friend of mine, who is a CFO of a tertiary institution, said "Every day spent producing reports is a day less spent on analysis and projects". There are many benefits to management and the Finance team of quick reporting, and these are set out in Exhibit 2.1 below.

Exhibit 2.1: Table of benefits

Benefits to management	Benefits to the finance team
Reporting 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 month - end traditional processes are out of date and inefficient, and these are removed.
Reduced cost to organization of month - end reporting.	Happier staff with higher morale and increased job satisfaction.
More time spent analyzing trends.	Finance staff focus is now on being a business partner to the budget holder, helping them to shape the future.
More time spent on achieving results.	The team has time to be involved in more rewarding activities, such as quarterly rolling forecasts, project work, and so forth.
Greater budget holder ownership (accruals, variance analysis, coding, corrections during month, better understanding, etc.).	More professionally qualified finance staff.
Less senior management time invested in month - end.	Less senior finance team time invested in month – end the change also leads to a very quick year - end.

2.2. **The impact of quick reporting**

The impact of quick month-end reporting is a redistribution of work moving out of the low value processing activities of month-end, annual accounts to the more future focused activities such as rolling forecasting, systems implementation and advisory, as shown in Exhibit 2.2. This is often accompanied by a change in the mix of the finance team, with a higher percentage of qualified staff, which is good news for qualified accountants.

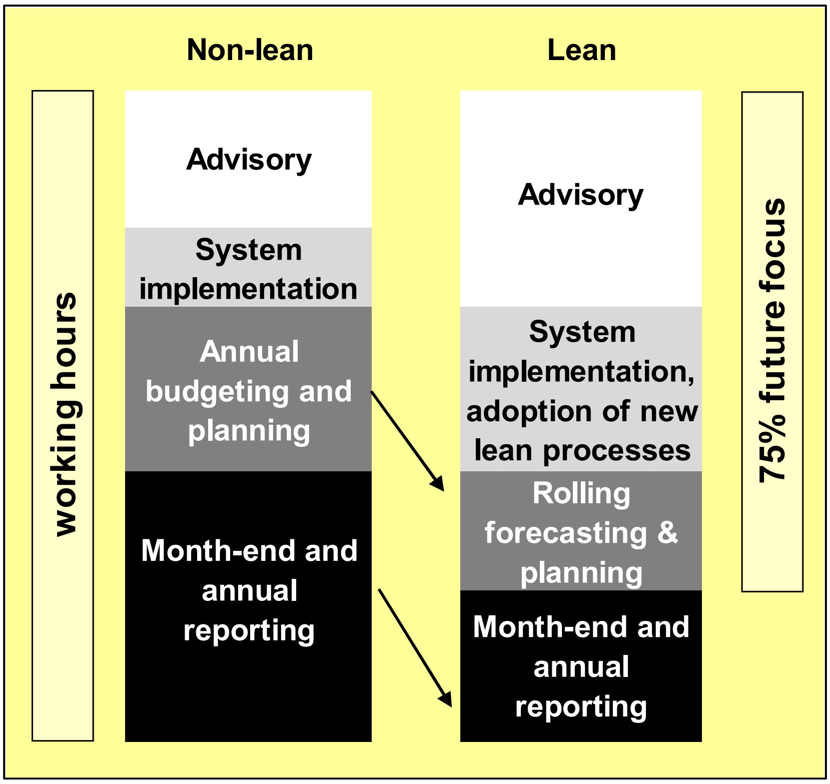


Exhibit 2.2: Changing the focus of our work

The significance of month-end reporting can be seen from this comparison of three reporting timeframes. Quick reporting finance teams are far more advanced in many other areas. They should be, as they have much more time on their hands, as shown in Exhibit 2.3.

Tasks	**Day 1**	**Quick m/e**	**Slow m/e**
	No. of working days a month		
Month-end reporting	**1**	**4**	**9**
Remaining days	**21**	**18**	**13**
Percentage of extra time for project work & daily routines	**60% more time**	**40% more time**	
Based on a 22 working day month			

Exhibit 2.3: Impact of a quick month-ends on a 22 working-day month

3. Lean best practice for your next month-end

3.1. Get the CEO supporting fast month-end reporting

It is important to get the CEO behind a fast month-end. You start by costing out to management and the Board the month-end reporting process.

Such an analysis can be easily performed by a management accountant in 30 minutes, and will be valuable in the sale process of changing month-end reporting time frames.

Exhibit 3.1 Shows the time invested in an organisation with 40 budget holders with around 500 full time staff. The cost estimate is between £0.6m to £1m.

500 FTE organisation with monthly management and Board reports

	Accounting team	BHs	Direct reports	SMT
Accounts payable cut-off				
Accounts receivable cut-off				
Capex, inventory etc				
Accruals				
Adjustments				
First run of GL	2 to 3			
Researching variances by staff		0.5		
Drafting papers		0.5 to 1	0.5 to 1	
Flash report				
Review and redrafting	0.5 to 1	0.5		
Second run of GL				
Preparing consolidated accounts commentary	2 to 3			
Review by CFO and Financial Controller	0.5 to 1			
Presentation to SMT (senior management team)	0.5 to 1			
	5.5 to 9	1.5 to 2	0.5 to 1	
40 budget holder reports		60 to 80		
100 direct reports reporting progress by way of a written monthly report			50 to 100	
Board papers				
Preparing board financial report	2 to 3			1 to 1.5
Review reports before they go to Board				
Preparing business unit progress reports to the Board				4 to 6
Review by CEO				0.5 to 1
Preparing one-off board reports		10 to 20		6 to 10
Working days per month	7.5 to 12	70 to 100	50 to 100	11.5 to 18.5
Average salary cost	$65,000	$80,000	$55,000	$200,000
Average productive weeks	42	42	42	32
	Low	High		
Average personnel cost	$600,000	$1,100,000		
Consultants reports	$100,000	$200,000		
Estimated annual cost of monthly reporting to managers, SMT and Board	$700,000	$1,300,000		

Exhibit 3.1 Costing out the current month-end reporting process

When doing this exercise, remember that senior management barely have 32 weeks of productive time when you remove holidays, sick leave, travelling time, and **routine management meetings**. Thus, a cost of £800-£1,000 per senior management day is not unrealistic. The Excel on which this costing was based is available to all readers of this white paper.

Having performed the calculation, I would then approach the CEO with a 30 second elevator speech to catch their attention.

"We have just done some calculations that estimate that we will spend between £8m-£10m over the next 10 years reporting monthly results well and truly after the 'horse has bolted'. I want to undertake a project to speed up month-end reporting, giving you access to numbers inside three working days and saving over £5m in the next ten years. Could I have 15 minutes of your time to outline the project, its benefits and your role in helping make it happen?"

There is not a CEO on this planet who will not say "I am with you, how can I assist?" Many things happen with the CEO's total co-operation. All communiqués about changes to processes or requests to attend training sessions on the new regime should be sent out by the CEO instead of by the finance team.

Major breaches of procedures should be listed weekly (invoices over £10,000 with no raised order, no receipting of receipt of goods and services over £10,000, budget holders with over three months of outstanding purchase card receipts etc) and the CEO asked to phone the culprits and give a one-minute reprimand making it clear that full cooperation is expected and non-compliance will be career limiting.

3.2. Establish month-end reporting rules within the finance team

I always point out to accountants that we are all artists. Every month we sculpt a month-end result and it can never be the right number, as there is no such thing as a 'right' number, it can only be a "true and fair "number. If 10 finance teams prepared the month-end numbers for one company for five years, there would be 10 different results each month. Each finance team will have made different judgement calls, yet over the five years the cumulative result will be very similar.

The finance team has to realise that they only need to do enough work to arrive at a 'true and fair' view. All work done after this point that has been reached will thus not be adding value. We therefore need some rules that the month-end financial report should:

- not be delayed for detail
- be consistent between months, e.g., same judgment calls, same format
- be a true and fair view and error free e.g. hunting for the perfect number is now unacceptable and the final report will have extensive quality assurance checks to ensure it is free from any report writing errors
- be concise - less than a 10-page finance pack e.g., only include a one-page report on each major business with minor businesses being reviewed by the CFO and omitted from the pack
- be a merging of numbers, trend graphs and bullet point comments all on one page
- Not be changed for adjustments that are likely to be set off by others yet to be found - allowing adjustments to offset each other on an "overs and unders" schedule

See Appendix 2 for the draft set of rules I have prepared for your finance team. These rules are also in the accompanying electronic media.

3.3. Catch all adjustments in an 'overs and unders' schedule

Month-end reporting is not the time for spring cleaning no matter how tempting it can be. This requires a re-education within the finance team and with budget holders.

All miscoding, unless resulting in a material misstatement of the P/L, are processed during the following month. Budget holders are educated to review their cost centre numbers via on-line access to the G/L during the month and are requested to highlight any discrepancies immediately with the finance team.

We want to have a regime where we catch all material adjustments and see the net result of them before any decision is made to adjust e.g. only a material month-end misstatement will result in processing an adjustment. Set up two 'overs and unders' spreadsheets, see Exhibit 3.2, at the close of the last working day. One spreadsheet is to trap major adjustments, say over £5,000, £20,000 or £50,000 depending on the size of the organisation, and the other for smaller items. If they find adjustments, the accountants will enter them on the appropriate spreadsheets that reside on a shared drive on the local area network. More often than not you will note that adjustments have a tendency to net each other off.

If there is a material misstatement of the net result we will process one or two appropriate adjustments and then remove them from this schedule. This will bring the total of the overs and unders to an acceptable figure. We then process all the other adjustments during the quiet time in the following mid-month

Source	Raised by	JV #			Adjustment		P/L impact			B/S impact	
							Dr	Cr		Dr	Cr
xxxxx	Pat	1	Dr		xxxxxxxxx xxxxx xxxx		45				
				Cr	xxxx xxxxx xxxxx			45			
xxxxx	John	2	Dr		xxxx xxxx		10				
				Cr	xx x x xxxxxxxxx			10			
xxxxx	Jean	3	Dr		xxxx xxxx		25				
				Cr	xx x x xxxxxxxxx						25
xxxxx	Dave	4	Dr		xxxx xxxx					15	
				Cr	xx x x xxxxxxxxx			15			
		etc									
							80	70			
							-70				
					Net impact on P/L		10				

Exhibit 3.2: Maintaining an 'overs and unders' schedule

3.4. Avoid a huge wave of AP invoices at month-end

The last thing the AP team needs is to receive a tsunami of invoices on the last day of cut-off, as shown in Exhibit 3.3. It is important to push processing back from month-end by avoiding a payment run at month-end. It is a better practice is to have weekly or daily direct credit payment runs with none happening within the last and first two days of month-end.

Change invoicing cycles on all monthly accounts such as utilities, credit cards etc. e.g., invoice cycle including transactions from 28th May to 27th June and being received electronically by the 28th June. The accruals for these suppliers can then be a standard one, two, or three business days of transactions depending how the working days fall.

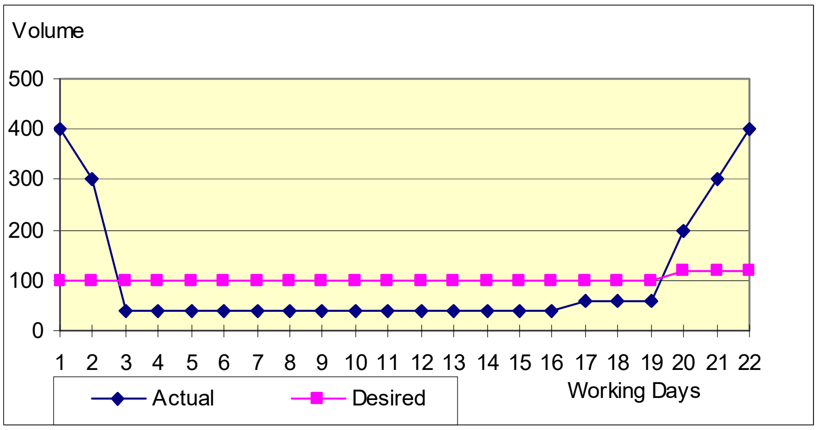


Exhibit 3.3 Purchase invoice processing volumes during a month

3.5. Early closing of the accounts payable ledger

I have not come across a company that can justify closing off accounts payable after the last day of the month. Whatever date you pick to close AP you will never trap all the invoices. Remember we are after a 'true and fair' view and we are sculptors rather than scientists!

If accounts payable is held open after month-end you will find it difficult to complete prompt month end reporting. What benefit does holding open the accounts payable for one or two days do? We could hold the accounts payable open for six months after month-end and still not get the plumber's invoice that arrives when they are doing their year-end and realise they have forgotten to invoice for work done.

Better practice is to cut-off accounts payable at noon on the last working day. In my workshops I have come across organisations that cut-off account payable even earlier, on day -2 and day -3. They manage this by more reliance on recurring reversing accruals supplemented by budget holders' accruals for the larger one-off amounts. They place timeliness above preciseness. This requires good communication to budget holders, and suppliers with the latter sending their invoices earlier through changing the billing timings, as mentioned above.

> "Your month-end result doesn't become more accurate the longer you leave it. It just becomes more expensive to produce."
>
> Quote from a CFO with blue chip international experience

In order to lock in this change, you may need to run a workshop with the budget holders and follow up with one-to-one educational support, as required.

3.6. Close accruals before the accounts payable cut-off

The accruals cut-off does not need to be after the AP cut-off, it can and should be before. Let me explain.

One smart accountant I have come across worked out that budget holders know little more about month end purchase invoices at day +2 than at day -2. So, the accountant introduced accrual cut-off on day -2, the day before month-end. Budget holders were required to send their last invoices for processing to meet the month-end AP cut-off by noon day -2 which gave AP 24 hours to process them before the day -1 AP cut-off. He also told them to prepare their accruals in the afternoon of day - 2, directly into the G/L.

All that is required is a guarantee that all invoices approved for payment by budget holders within the deadline will in fact be processed prior to the AP cut-off or accrued directly by the AP team.

Cutting off accruals early recognises that month-end invoices will not arrive miraculously by day +1 or day +2 so staff will need to phone some key suppliers to get accrual information regardless of when the cut-off is.

3.7. Stop reconciling to suppliers' statements

Supplier statement reconciliations are flawed for the following reasons:

- The supplier accounting systems are often flawed and unreliable
- Missing invoices will be picked up through supplier phone calls
- Supplier reconciliations are not an internal control process, so the auditors do not require it
- The time spent on them costs the organisation more than the benefits derived from doing the reconciliations
- You should invest the time in having good systems in-house picking up liabilities as they arise (the fence at the top of the cliff).
- Join the smart organisations that do not do supplier statements. They simply throw them in the bin.

3.8. Avoid inter-company adjustments

Clever organisations ban all inter-company adjustments at month-end except for major internal profit adjustments. They have automatic interfaces with inter-group transactions where one party does the transactions for both General Ledgers.

When there is a difference, instigate a rule the accounts payable (AP) or accounts receivable (AR) ledger is always right, and adjust accordingly leaving the inter-company parties to sort the issues out in the following month. This change requires a memo from the CEO, see Appendix 3 for a draft.

In addition, there are software solutions where you can automatically post transactions across subsidiaries ensuring the AP and AR match both in amount and timing. No intercompany differences permitted!

3.9. Early closing-off of accounts receivables

Immediately close off accounts receivables on the last working day. If you have high last day transaction volumes it is better to go for a cut-off at noon on the last working day with transactions in the afternoon being carried forward to the first day of the new month. Closing off earlier is more important if you have an organisation where the sales representatives make a lot of sales on the last working day of the month, e.g., car dealers. You simply say to them, "All sales made on the last day of the month will now be in the following month". This will start their game a little earlier.

Remember that training will be required in dispatch and accounts receivable to ensure cut-off is clean each month-end.

3.10. Early capital expenditure cut-off

Why are we performing depreciation calculations at month-end when clever organisations have this already done much earlier? They close-off capital projects at least one week before month-end. Any equipment arriving in last week is therefore treated as if it arrived next month. It still can be unwrapped and plugged in!

The depreciation is calculated and posted by day -3. In my workshops I have found accountants, with organisations where depreciation is not significant, who use the depreciation calculations from the annual plan and correct to actual at month 6, 11 and 12.

3.11. Early inventory cut-off

Sophisticated organisations can get their month-end inventory cut-off immediately at close of business on the last working day (day -1). However, many manufacturing organisations take a few days into the next month to manage this process. This creates an unnecessary delay in month-end accounts.

If your systems are not state of the art, make the inventory cut-off at the close of business on day -2 with all production on the last day being carried forward to the next month. This gives one day to check the valuation and records.

Always avoid a month-end stock count as these should be done on a rolling basis and be held no nearer to month-end than the third week of the month e.g., one jewellery chain I know counts watches one month, gold chains the next month at a quiet time during the month. The close - off transfer of work in progress to finished goods also is done on day – 2, with day – 1 production treated as belonging to the next month.

These early cut-offs will require cooperation between accounts payable and inventory staff to ensure raw materials arriving on the last day and the matching liability are treated as the next month's transaction or accrued.

3.12. The critical first 24 hours

What happens in the next 24 hours is critical to the success of month-end reporting.

At 5pm on the last working day all the cut-offs should be done. We can print off the first cut of the numbers. This report would be designed for a detailed review and would contain the current month, the last three to six months' numbers and the month's numbers from last year in a series of columns. All the reporting and management accountants should take a copy home and look for areas where they think the numbers could be wrong.

Budget holders should be sent their accounts and they should be given until noon Day +1 to complete their commentary on major variances. The variance must be over $___ (based on materiality level for whole organisation) and >10% of budget before a comment is required.

At 9 am. the following day, all the accountants meet to discuss the areas where further work is needed to be sure that the numbers are "true and fair. " At the meeting, "Who is reviewing what?" is decided and a time is set to meet again before the flash report numbers are finalized that day.

Between 3 and 4 pm. on the first day, you call all the accountants back and ask, "What did you find?" and then look at the net effect of all adjustments on the 'overs and unders' schedule. More often than not you will note that adjustments have a tendency to net each other off. Book only the adjustments required to restate the numbers as "true and fair". You are now in a position to prepare the one - page flash report for the CEO.

3.13. Deliver a flash report at the end of day 1

Issuing a flash report on the (P & L) bottom line to the CEO stating a level of accuracy of, say, + / – 5% or + / – 10 by the close of business on the first day is a very important practice. There is not a CEO on this planet who would not welcome a heads-up number on such a timely basis. See Exhibit 3.4 and 3.5 for examples of flash reports.

Flash report for the Month Ending 31 December 20__

	This month $000s			
	Actual	**Target**	**Variance**	**>$100K**
Revenue				
Revenue 1	5,550	5,650	(100)	⇔
Revenue 2	3,550	3,450	100	⇔
Revenue 3	2,450	2,200	250	✓
Other revenue	2,250	2,350	(100)	⇔
Total Revenue	13,800	13,650	150	⇔
Less: Cost of sales	(11,500)	(11,280)	(220)	⇔
Gross Profit	2,300	2,370	(70)	
Expenses				
Expense 1	1,280	1,260	(20)	
Expense 2	340	320	(20)	
Expense 3	220	200	(20)	
Expense 4	180	160	(20)	
Other expenses	170	110	(60)	
Total Expenses	2,190	2,050	(140)	⇔
Surplus/(Deficit)	110	320	(210)	✗

✓ major positive variance, comment required

✗ major negative variance, comment required

⇔ Within expectations, no comment required

Areas to Note

1. ____________________

2. ____________________

3. ____________________

4. ____________________

Exhibit 3.4: Flash report to CEO at end of day one

It is important not to provide too many lines because you may find yourself with another variance report on your hands if you have a CEO who fails to look at the big picture. Remember to state your degree of accuracy (e.g., +/−5%, +/−10%). Never attempt a flash report until the AP, AR, and accrual cut-offs have been successfully moved back to the last working day of the month. Otherwise, you will be using the accruals to change final numbers so they can closely match your flash numbers, a practice I would not recommend.

The flash result will act like a great appetizer, and the CEO's appetite for month-end information will be largely satisfied. This creates a great opportunity to reduce the CEO final report to an A3 Page, as shown in a later section.

> One Tyre distributor monitors key financial data and some performance measures on a daily basis, Branch by Branch. The SMT have a 9 o'clock news report every morning, giving yesterday's sales by branch as well as information about sales of key products. This is followed up by further weekly information on other key drivers such as payroll costs, gross margin.
>
> At the monthly management meeting to discuss the results the CFO places the finance report face down in front of each senior team

member and says, "Guess what the bottom-line is?" Even the HR manager is able to enter the sweepstake guessing the month-end result. The HR manager may think 'We had 17 out 23 good sales days and the other 6 were not that bad, costs were in control so we must be between $100-155K. I will go for $120k'.

The month-end has now become less important and consequently the board papers reduced to 15 pages.

Flash Financial Report xxxxx 2020

Newly built	Buy Ins	Total Public Homes	Total Public & Supported Homes*	Vacant to ready to let days	Occupancy rate
Redevelopment New Build	YTD	YTD change	YTD change	days behind target	better than target

	Home Delivery Programme	October Actual	October Forecast[2]	October Variance	Year to date Actual	Year to date Forecast[2]	Year to date Variance	Full Year Budget[1]	Full Year Forecast[2]
Homes	New Public Homes								
	New Supported Homes								
	SPE 3.1 New Public and Supported Homes *(Target 2,400)*								
	Other additions								
	Disposals								
	Adjustments[4]								
	SPE 3.2 Net increase in Public and Supported Homes *(Target 1,900)*								

	Metric	October Actual	October Forecast[2]	October Variance	Year to Date Actual	Year to Date Forecast[2]	Year to Date Variance	Full Year Budget[1]	Full Year Forecast[2]
Capex $m	Construction								
	Property maintenance								
	Infrastructure assets & projects								
	Total Capex Expenditure								
FTE	FTE								
	% Gross Personnel Cost to Total Cash Spend								
	% Capitalised Personnel to Gross Personnel								
Cash	Cash Invested								
	EBITDA/Interest Expense								

	Tenancies started & ended (month)	Tenant Rental Debt	Vacant Homes Public & Supported	Response to urgent Health & Safety queries (YTD)	Sustain tenancies 12+ months (YTD)
Oct Sep	⇧ ⇩				
	Started · Ended	Value · Tenants	Long Term · Short Term	target 4 hours	⇧ previous year

[1] Budget prepared in February 2020 before COVID-19 effects. [2] September Forecast Update. [3] EBITDA % is normalised for asset write-off and net contribution from affordable housing. [4] This includes demolitions awaiting write-off.
** Includes Porirua transfer homes.*

1

This flash report has been clearly designed by someone who understands visual design and customer experience.

Exhibit 3.5 Flash report to CEO

3.14. Stop monthly reforecasting of year-end

One process that corporate accountants have done, without really thinking about it, has been the monthly reforecasting of the year-end position.

Reforecasting the year-end position, monthly, is wrong on many counts:

- The task is done after the month-end numbers are known and it now delays the month-end results. Producing a number, which due to time constraints, has little input and no buy - in from the budget holders. I call these forecasts 'top-top forecasts', where the finance team members talk among themselves and with senior management.
- Why should one bad month, or one good month, translate into a change of the year - end position? We gain and lose major customers and key products rise and wane. This is the life cycle we have witnessed many times. Besides, if you change your forecast each month, management and the board know whatever number you have told them is wrong — you will change it next month. As shown in Exhibit 3.6.
- Reforecasting should occur only four times a year, using a bottom-up process and a proper planning tool, as explained in the section on rolling forecasting. Only businesses that are in a volatile sector would need to forecast parts of their operations monthly (e.g., the airline industry would update exchange rates, passenger volume predictions and aviation fuel costs).

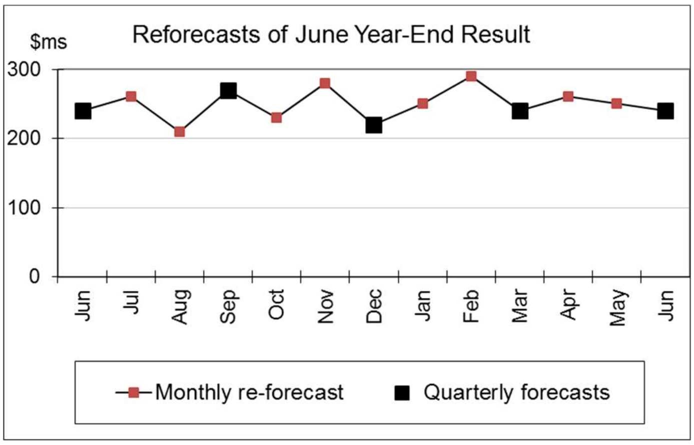


Exhibit 3.6 Removing the number noise of monthly reforecasts

3.15. The key month-end activities on a day three month-end

The key activities in a day three month-end are set out in the exhibit 3.7 below.

Exhibit 3.7: The key activities of a quick month-end

Day -3 & earlier	Day -2	Day -1	Day +1	Day +2 & 3
Payroll accrual finalised Depreciation finalised G/L a/cs analysis Daily bank a/c reconciliation (DBR)	Close-off accruals DBR	Close-off AP , AR , work in progress (WIP), WIP to finished goods, production for last day, time sheets, noon First close of G/L Numbers available to budget holders by 5 pm DBR	Flash report by 5pm to CEO Second close of G/L Budget holders complete their 2-page report DBR	Report preparation Quality assurance procedures Report preparation Issue report DBR

DBR= Daily bank a/c reconciliation

To help I have included a checklist on all the steps in this section in Appendix 1

4. Winning agile practices to improve month-end

There are five agile techniques to adopt for this month-end.

4.1. Adopting Peter Drucker's abandonment

As mentioned, abandonment needs to be incorporated into this process. Common abandonments include:

- Spring cleaning at month-end
- Supplier reconciliations
- Small accruals
- Delayed cut-offs
- Large spreadsheets
- Endless small adjustments

4.2. Run a "post-it" re-engineering workshop on your month-end processes

Running a re-engineering process can be a complex and expensive task or a relatively easy one. The choice is yours. Many organisations start by bringing in consultants to 'data-flow' the existing procedures. This is a futile exercise as why spend much money documenting a process you are about to alter radically. When it is done, only the consultants will understand the resulting data-flow diagrams.

The answer is to "Post-it" re-engineer your month-end procedures in an in-workshop.

There are seven stages.

Stage 1 Invitation

Having set the date, get the CEO on board and ask them to send out the invites. See Appendix 3 for a draft. The finance team needs to send out instructions a week or so prior workshop, outlining how each team is to prepare their post-it stickers, see Exhibit 4.1.

Suggested attendees include all those involved in month-end, including accounts payable, financial and management accountants, and representatives from teams interface with month-end routines, e.g., someone from IT, payroll, etc.)

Exhibit 4.1: Post-it re-engineering instructions to be sent out to attendees

Whilst our month-end has been streamlined in our pursuit of continuous improvement, we need to eliminate more waste from the process. I have organised for _____________ to run a breakthrough lean technique to streamline the processes. During the session, ________will talk about the leading practices from around the world. This session will enhance your job satisfaction as you spend more time in the future scoring goals.

Date & Time: ________ 8.45 for refreshments, start 9 am, Finish at 4.45 pm

Location: Room_________, ___________________________

Your presence at the workshop is important. In order to run this workshop we need you to prepare a list of all the processes you undertake as a team at month-end.

This process is quite simple, all it requires is:

Each team is to list all their processes on the "Post-it" stickers allocated to them prior to the workshop and document each process with a black whiteboard marker pen as set out in the example below. It is important that these stickers can be read from four to five metres.

+2

Close-off Accounts Payable

One procedure/process per Post-it (please note, every Excel is a process and thus has a Post-it sticker)

State when it is done—time scale is -2, –1 (last working day), +1 (first working day), +2, etc.

Set up a schedule to ensure all the main teams have a unique coloured post-it sticker, see Exhibit 4.2.

Exhibit 4.2: Allocation of post-it stickers so every team has a unique colour

Accounts payable	Yellow
Accounts Receivable	Green
Financial Accounting team	Blue
Management Accounting Team	Purple
Capex	Pink
Payroll	Etc

Stage 2 Stand-up workshop around the whiteboard

With everyone assembled, go through the agenda items, starting with an introduction to best practices. See Exhibit 4.3 below for an outline of the workshop.

Exhibit 4.3 Proposed workshop timetable

Reengineering Month-End

Agenda for Workshop

Learning Outcomes: After this workshop, attendees will be able to:

Discuss and explain why ___________ should have quicker month-end reporting.

Implement the steps required to move month-end reporting back to day 3 or less.

Describe better practice month-end routines.

9:00 A.M	Welcome by Financial Controller
9:10	**Setting the scene**—a review of better practices among finance teams that are delivering swift reporting. Topics covered include: Cost of reporting in _____ Benefits of quick reporting to management and the finance team Advice from Steve Jobs and Peter Drucker Lean month-end better practices Senior management and a selection of budget holders (who are based locally) will be invited to attend this session, "setting the scene."
10:30	**Workshop One:** When activities should start and finish, where separate teams look at the different issues (we will cover month-end close-off of the various teams, listing bottlenecks within and between teams, reporting and forecasting issues, reconciliation issues, etc.)
10:45	Morning break
11:00	**Workshop Two:** To analyse the month-end procedures, using each team's coloured sticky notes
12:30	Lunch
1:00	Workshop Two, To analyse the month-end procedures, continues
2:00	Agile processes (Scrum and Kanban) and quality assurance steps to make the reports bullet proof
2:30	Afternoon break
2:45	The changes one can make in the next six months to month-ending reporting
3:15	**Workshop Three:** Set out the appropriate implementation steps to implement quick reporting. Each team prepares a short presentation of the key steps it is committed to making (teams will use PowerPoint on laptops).

4:00	Each team presents reports to the group regarding what changes it will implement and when. The team can also raise any remaining issues. Those SMT and budget holders who attended the first session will be invited to attend this session.
4:45	Wrap-up of workshop by the Financial Controller
5:00	Finish

When you get to the stage in the agenda for the Post-it re-engineering, you ask a representative of each team to place the "Post-its" in time order under column headings day -2, day -1, day +1, day +2, and so forth using a white board. When all the post-it stickers are on the board, it will look like Exhibit 4.4.

Then remove all desks near the whiteboard, and ask all the staff present to come to the whiteboard, standing in semi-circles, hopefully with the "height challenged" staff at the front. The standing-up is critical as it brings everybody in sight of the stickers and, more importantly, as the meeting progresses, ensures swifter and swifter agreement as nobody will enjoy standing for over two hours.

Exhibit 4.4: Post-it re-engineering on a white board

Stage 3 Missing processes

Then you ask, "What is still missing from the list?" There will always be a forgotten process. I probe until at least two additional processes are put on the board and I ask each person in turn to acknowledge that they agree that the whiteboard represents all the processes.

Stage 4 Removal of duplication

I then ask, "What processes have two stickers when there should only be one?" (we want to remove any duplication).

Stage 5 Abandonment

I then ask, "What processes do we not need to do anymore with and therefore should abandon?" There is often a pause here as staff look bewildered. 'Why would we do something that was not required? They all are thinking'. At this stage I talk about Peter Drucker, the great management thinker's abandonment philosophy, discussed in section one of this paper.

I recommend that you buy a dozen movie vouchers before the workshop so you can give one to every attendee who points out a process that can be removed as it is not necessary (the process was done because it was done last month)—each procedure that is removed is like finding gold because it means less work, fewer steps. These stickers are removed, see Exhibit 4.5. After the first movie ticket handout, you will notice a greater focus from the attendees!

Exhibit 4.5: Abandoning processes by removing the "post-it" stickers

I will spend up to two hours to ensure all the superfluous processes are removed.

Stage 6 Rescheduling

The next stage is to reorganise the key processes and bottlenecks based on better practice. I start by pulling off the AP close-off sticker and ask, "When can we finish this exercise if we were to adopt best practices?" The answer I am looking for is "noon on the last working day" which has been discussed in an earlier section.

With each rescheduling of a process, it is important to seek consensus. Invariably, some members of the team will believe the world will end if the cut-off is moved earlier. I question the logic and allow a dissenting group to have their objections noted. "If you are proved correct, next month, we owe you a morning tea. If, however, you are proved wrong, you owe all of us a morning tea". With that statement, I move the sticker to where the majority have agreed. See Exhibit 4.6.

After 45 minutes of standing, these disagreements will recede due to peer pressure.

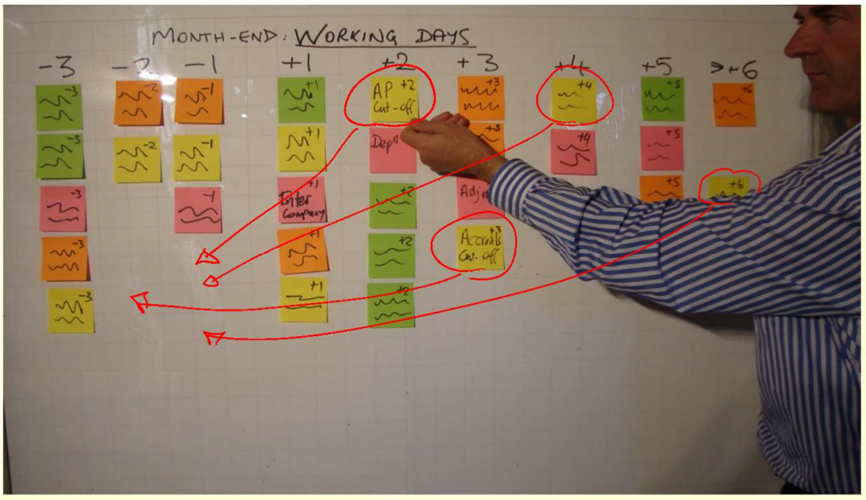


Exhibit 4.6: Moving the bottlenecks to the earliest time they can be completed

Stage 7 Spreading the workload

Look at the Day-1 steps, as you may have too many. Move the non-time-critical ones between Day 2 and Day +1 to better spread the workload.

Document the "post-it" stickers on a spreadsheet. This documentation is the only record you need. Any person who, for health reasons, cannot stand can be assigned this documentation process.

You will find it hard to justify any task needing to be done after day 3! You can review a YouTube video of me demonstrating a 'post-it re-engineering exercise on https://cfo.davidparmenter.com/re-engineer-month-end-5-post-it-stickers/.

Some case studies that used the 'post-it' re-engineering

Organisations in both the public and private sectors have improved their month-end reporting using the post-it re-engineering workshop.

> The CFO of a famous entertainment centre in Australia brought 20 of his team along to a session I ran in September. They all went back and re-engineered their month-end. On November 3rd, we were talking over the phone, and he had the final accounts in his hand— day three reporting within six weeks! The CFO had for years been used to very quick reporting with a U.S. company, so you can imagine his frustration when he first arrived at his new position. The 'post-it' re-engineering process unlocked the potential he knew was there.

> A CFO of a radio station conglomerate 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 were tossed out along with other low-value month-end activities. I rang the CFO two weeks later, on June 3rd and asked how the month-end was going. She replied, "What do you mean going? It is finished." She achieved two-day month-end reporting, down from day eight in two weeks.

4.3. Introducing daily scrums to the month-end process

This is a technique that was developed to radically reduce the time it took to write new software applications. It recognized that teams in very intense work periods do not always function properly.

Scrum (an Agile technique) – started off as a rethink of project management by Jeff Sutherland, a US fighter pilot in the Vietnam War. He saw that combat fighter planes and big projects had a lot in common. They had to avoid being shot down. He noticed that large projects were:

- Characteristically late with lots of pressure and no fun
- Having too many long dysfunctional meetings
- Slowed even further when more resources are applied to help speed them up, as the new staff are tripping over each other with unnecessary duplication
- Frequented with duplication of effort
- Often over-planned, only for the project team to find out that the game has changed
- Constantly hitting roadblocks, with members not having the skills or internal authority to fix the problem by themselves.

Sutherland had a challenge to produce a new product in six months. He discovered:

- A 1986 HBR study "The New Product Development Game" by Hirotaka Takeuchi and Ikujiro Nonaka that noted best teams looked like sports teams, all linked together, overcoming obstacles with intensity
- Discovered a company called Borland who thrived on - communication saturation - a daily SCRUM meeting.

The features of SCRUM are best illustrated in Exhibit 4.7.

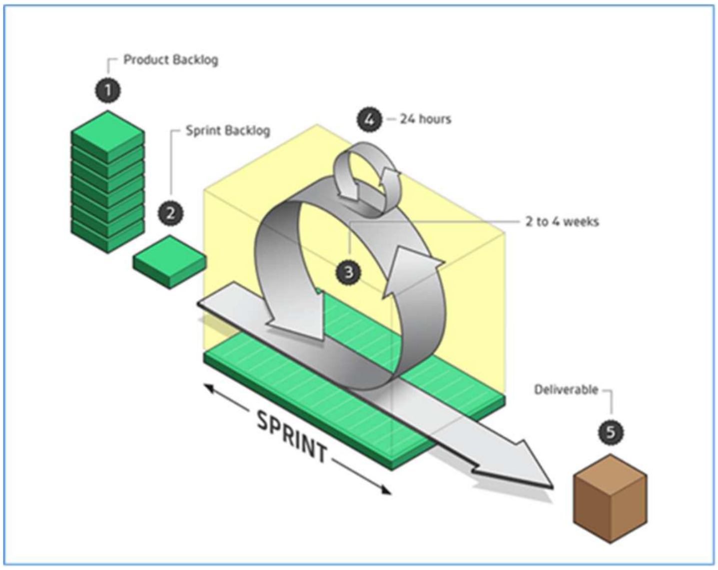


Exhibit 4.7: How SCRUM works

Source: Boost Agile. Visit www.boost.co.nz/blog

Planning in detail only two weeks out

Instead of over planning one needs to have a clear vision of what you are after. With this shared vision you take a small chunk of work, saying, "If we deliver this feature, we will progress the project". We thus do not need a massive project schedule befitting an Apollo space programme.