The 20+ system improvements all corporate accountants can do no matter what their budget is

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Prepared for _____

I hope this toolkit helps transform the finance team's performance through successful implementations of the systems that matter.

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1. Introduction

With the advent of Software as a Service (SaaS) taking over premises software (or known as hosted applications) the IT departments as we knew it at the turn of the millennium have changed.

Peter Bendor-Samuel in his 2019 article 'How the CIO Role Must Change Due To Digital Transformation' published in called Forbes, summed it perfectly.

> *Digital transformation is upending the C-suite, bringing in new corporate titles and functions such as the Chief Security Officer, Chief Digital Officer and Chief Data Officer. These new roles seemingly pose an existential threat to existing roles – for example, the CIO.*
>
> *Digital transformation now makes technology* <u>*the*</u> *business, rather than technology* <u>*supporting the*</u> *business.*

1.1 The CFO can have the CIO reporting to them if they are upto it

In a Deloitte's survey in 2019 of 510 organisations, 28% of CIOs reported to the CFO, see Exhibit 1.1. This means that the CFO needs to be technology savvy, investing time and energy to fully understand the latest IT developments. Attending IT conferences, active studying the subject and visiting better practice sites would be the very basic of expected activities.

The message is clear if you are not IT competent as a CFO then you have already erased around 30% of the senior CFO positions before you have started.

Exhibit 1.1 Who does the CIO report to in your organisation

Source: Deloitte survey in 2019 of 510 organisations

1.2 The pyramid is going upside down

> *75% of CFOs say they plan to allocate more resources to digital transformation in 2021. PwC survey Nov 2020*

In the past the bulk of effort was spent in transaction processing and little time was left for insight and action. Artificial intelligence, cloud and analytics have turned this on its head, see Exhibit 1.2

Exhibit 1.2 The pyramid of effort up-ended   *Sourced: PwC survey Nov 2020*

1.3 <u>The G/L is now a minor system in the scheme of things</u>

For years there have been finance teams largely focused on their G/L and completely under researching and under investing into the 21st century SaaS systems.

Far too much time and money has been reinvested in upgrading the general ledger (G/L) and far too little on monthly reporting, forecasting, budgeting, accounts payable, and drill-down and consolidation software.

If anything was obvious in the last twenty years is that the finance systems should not be the major investment it often is. Finance teams are investing in complex and costly G/Ls as a risk aversion strategy. With the evolution of other systems the G/L is now only the historical record. Reporting is now done outside of the G/L suite.

To make matters worse the CFO and Financial Controller have not realised the significance of the chart of accounts of clogging up the finance team's research, analysis and reporting processes.

The major investment of the critical IT spend should be focussed in the 'income generating side' of the business.

1.4 <u>The impact of better systems on the accounting team's workload</u>

The impact of the better practices listed in this white paper is to move accounting team work away from the low value processing activities into the more value-added areas, as shown in Exhibit 1.3. This at the same time will increase the accounting team's job satisfaction and appreciation from budget holders.
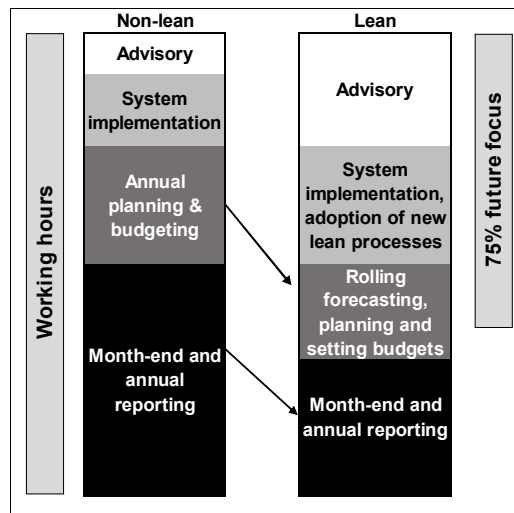
Exhibit 1.3 Changing the balance of work in the finance team

1.5 **Advantages and disadvantages of systems as a service (SaaS)**

Whilst many readers may wish to skip this section it may be worth some to recap on their understanding.

The advantages of SaaS include:

Lower costs. SaaS is the most cost-efficient method to use, maintain and upgrade, especially with the scalable options available.

Almost unlimited storage. Storing information in the cloud gives you almost unlimited storage capacity.

Backup and recovery. Since all the data is stored in the cloud, this makes the entire process of backup and recovery much simpler than other traditional methods of data storage.

Automatic software updates. SaaS users don't need to make additional efforts to update software. This is done once by the SaaS provider.

Remote working. Once the users register in the Cloud, they can access the information from anywhere, where there is an internet connection.

> *74% of CFOs say they intend to grow remote work permanently(within the finance team). It has never been more important for the applications accountants use every day to be responsive to the way they work. Gartner[1]*

Ease of use. Users can do proof-of-concepts and test the software functionality or a new release feature in advance.

Instant access. SaaS gives the user instant access as the application is already running on the web.

Easier scale of services. It makes it easier for enterprises to scale their service according to the demand as the SaaS provider has effectively limitless capacity.

The disadvantages SaaS include:

Technical issues. Businesses should be aware that SaaS are prone to outages albeit these are rare events as the keep up high standards of maintenance.

Security in the Cloud. You will be surrendering all your company's sensitive information to two third parties. The SaaS providers and their Cloud providers.

This could potentially impose a great risk to the company especially as organisations in smaller countries will have their data stored in another country which have different data laws e.g., encryption of data.

However, it is interesting to note that switching to the Cloud can actually improve security for many SMEs because large SaaS providers have greater resources to invest into security.

Prone to attack. Storing information in the Cloud could make the companies vulnerable to external hack attacks and threat as the large cloud providers are magnets to attackers.

Reliability of your internet connection. Cloud computing makes the user dependent on the reliability of their internet connection and the location of the data centre which can be an awfully long distance away.

Cost. While on the face of it SaaS providers are cheap, the costs rise rapidly when you seek additional features.

Inflexibility. Choosing a SaaS provider often means locking the business into using their proprietary applications in defined ways.

Lack of support. SaaS provider customer service leaves a lot to be desired. They typically make it difficult to get customer service – or at all. I have been using Xero for eight years and have never managed to get their 'help desk' on the phone. The New York Times writes:

> *"The bottom line: If you need handholding or if you are not comfortable trying to find advice on user forums, the cloud probably is not ideal."*

1.6 Corporate systems and the finance team involvement

The CFO and Financial Controller (FC), if they aspire to higher and lofty career opportunities need to be fully conversant with the myriad of opportunities available to organisations through SaaS.

In this table I explore what the finance team leaders should be involved in if their organisation is on the pathway to 'good' and then onto 'being great'.

System name	Role of the finance team
Enterprise Performance Management (EPM) System Reporting tools, Business analytics, KPI monitoring, electronic Board reporting, collaborative disclosure management, planning and forecasting, consolidation, Business analytics, Digital analytics, Data warehousing.	It is a suite of applications designed to support management processes – planning, modelling, consolidation and reporting of data from single or multiple ERP systems as well as analytics. In many organisations EPM stands for **Excel Proliferation Madness**. A costly, error prone and archaic way to operate.
Enterprise Resource Planning (ERP) System Treasury, accounting, monitoring tax sensitive transactions, SaaS add-ons, robotic process automation, artificial intelligence and machine learning for	ERP is focused on transactional processing and coordinating the company's resources, providing operational data to the organization. Initially just the accounting suite and then it opens out into all the operational systems that are

data input, drill-down tool for the G/L, intercompany transactions.	implemented to help expand the organisation's operations.
Procurement Systems (part of the ERP) Supplier maintenance, ordering, receipting of goods or services, purchase cards, AI for processing transactions, expense claim systems, travel and accommodation booking systems, B2B connectivity.	The CFO and FC should be heavily involved in how these systems are established.
Facilities Management System (part of the ERP) Fixed asset and equipment management system.	The interface of the fixed asset management system to the G/L for depreciation
Employee Management System (part of the ERP) Covering the hiring, monitoring, developing and termination of employees.	Valuable performance indicators reside here so the interface to the reporting system is important.
Remuneration Systems (part of the ERP) Payroll, incentives, share options.	The CFO and FC should be heavily involved in how these systems are established.
Information Management System Controlling information, security and data related to the business requirements, including hardcopy, electronic and web.	Handled by the CIO.
Customer Management System E-commerce, CRM software such as sales*force*, which manages the customer experience, from first contact with the new prospect or lead, invoicing product or services, online customer portal, and ongoing account management.	The realm of the marketing and sales team. These are critical income generating systems and there is a move to have the SaaS provider doing the invoicing. The CFO and FC need to ensure there are robust interfaces between the AR and the Sales SaaS provider.
Non-Customer Management System How we communicate via our website to potential target customers	The realm of the marketing team.
Product Development System (part of the ERP)	Valuable performance indicators reside here so the interface to the reporting system is important.

Operations Management System (part of the ERP) Including inventory systems, production systems, time recording systems, freight tracking and many more depending on the industry you are in.	Valuable performance indicators reside here so the interface to the reporting system is important.
Project Management Systems (part of the ERP) Such as Jira	Valuable performance indicators reside here so the interface to the reporting system is important.
Employee Collaboration Systems Such as Zoom, Slack, Microsoft Teams, Trello, Google Docs.	Handled by the CIO.
Blockchain Systems Data access/sharing, data validation, digital currency, ID protection.	While a bridge to far for some it is a reality with many industries investing heavily into it. Read Deloitte' 'Many paths lead to blockchain adoption, and no two are alike' 2019 global survey, 1400 respondents.

2. A vision for IT technology that interfaces with the finance team

Many of the studies done recently emphasize the degree of change in this area. In this section I will summarise some of the visions your finance peers are seeing for this decade. You will need to make a decision to what degree you wish to be following them.

2.1 <u>Banning spreadsheets from core finance routines</u>

Spreadsheets have no place in forecasting, budgeting and many financial reporting routines. Spreadsheets were not designed for many of the tasks they are currently used to accomplish. In fact, at accounting workshops I often remark in jest, that many accountants, if they worked at NASA, would try to use spreadsheets for the US space program and many would believe that it would be appropriate to do so.

A spreadsheet is a great tool for creating static graphs for a report or designing and testing a reporting template. It is not, and never should have been a building block for your company's finance systems. Two accounting firms have pointed out that there is approximately a 90 percent chance of a logic error for every 150 rows in a spreadsheet[2].

Some of the common problems with spreadsheets are:

Broken links or formulas. An individual might add or eliminate a row or column so that, when a group of spreadsheets are rolled up, the master spreadsheet is taking the wrong number from the one that was modified.

Consolidation errors. Often, a spreadsheet will lock up or show a screen full of "REF", "REF" "REF" errors, because it was not designed to be a tool for handling a rollup of dozens of different worksheets.

Input of the wrong numbers. Entering the wrong number can happen in any process, but spreadsheet-based systems often require rekeying of information, which can produce data inconsistencies. A spreadsheet might use a look-up table that is out of date or an entry might have been inadvertently or mistakenly overwritten.

Incorrect formulas. A subtotal might omit one or more rows, columns or both. An individual might overwrite a formula because they believe the replacement is more accurate. Or an allocation model might not allocate 100 percent of the costs.

No proper version control. Using an outdated version of a spreadsheet is very common.

Lack of robustness. Confidence in the number a spreadsheet churns out is not assured. Many times, you cannot check all the formulas because they can be found in any cell of the spreadsheet.

Inability to accommodate changes to assumptions quickly. What would you do if your CEO asked, "If we stopped production of computer printers, what would be the financial impact? I need the answer at the close of play today." Forecast spreadsheets are seldom designed to be able to provide that quick answer.

Design has been done by accounting staff who are not programmers. Most accounting staff have not been trained in system documentation and quality assurance, which you would expect from a designer of a core company system.

Lack of corporate office control. Many people in a business can use spreadsheets to create their own view to a ridiculous level of detail. This can lead, as a friend once said to me, "To the march of a thousand spreadsheets."

Jeremy Hope[3] of Beyond Budgeting fame and more recently author of the groundbreaking book 'Reinventing the CFO' points out that Sarbanes - Oxley may be the sword that finally removes the spreadsheet from key financial monthly routines.

> *"In theory at least, every change to a formula or even a change to the number of rows needs to be documented."* Jeremy Hope

Rule of 100 Rows for spreadsheets

I believe you can build a model in a spreadsheet application within 100 rows without much risk. Pass this threshold and you expose yourself, your finance team and the organisation.

Finance teams require a robust tool, not a spreadsheet that was built by an innovative accountant and that, now, no one can understand. I always ask in workshops, "Who has a massive spreadsheet written by someone else that you have to pray before you use it?" You can see the pain in the instant response. Most people know that the person who built the spreadsheet certainly was not trained in operational systems design. The workbook will be a collage of evolving logic that only the originator has a chance to understand.

Often, the main hurdle is the finance team's reluctance to divorce itself from the spreadsheet program. It has been a long and comfortable marriage, albeit one that has limited the finance team's performance.

New CFO finds an error

A financial controller came to me with a great tale. He had just completed the annual budget that his team had been working on for many weeks long into the night and on weekends. Proudly, one Friday afternoon, he walked into the office of the recently appointed CFO and announced the first cut of the annual plan. The CFO spent five minutes looking at the plan and after quickly calculating some numbers said, "This annual plan is wrong; the numbers do not make sense."

The financial controller was taken aback, because he had made a special effort to conduct quality assurance on the numbers, and he had done comparisons to last year's plan, along with a few other things. He had wanted to make the best impression.

The CFO called him over to look at his brief calculation, "Pat, we know the planned sales have been signed off already, gross profit margin historically has been around ___ percent, overheads are roughly $___, and thus, I am expecting a number around $___- $___." The financial controller could only agree.

That weekend, the team poured over the spreadsheet, which was enormous and included the consolidation of many worksheets from many sources. Late on Sunday, team members experienced an "eureka" moment. An error was found, and the news was rushed to the financial controller. As they processed the correction, they looked with disbelief because the new number was within the outline the CFO had suggested. "We have a pretty smart CFO; let's see how long this error has been around. Please look at the last two year's annual plan models," Pat requested.

> As the financial controller recalled to me, with a wry smile, the error had been in the plans for the previous two years and had gone completely undetected.

Career Limiting

As a corporate accountant, being an expert at Excel will show you are a technical dinosaur, one who has not embraced modern tools and does not understand the inherent risks in running core financial systems with a high-risk tool.

To those readers who believe spreadsheets are still appropriate for financial systems, I say to them, why not build your general ledger in a spreadsheet program and while you are at it, all your operational systems? Try explaining to the CEO that only one person knows how these systems work and he or she left four years ago. You might as well clear your desk now.

2.2 Exponential rise in the level of marketplace disruption

Many businesses are encountering another shift in the form of marketplace disruption from a new breed of competitors who are exploiting technology to:

- **Reimaging solutions to age-old problems** with a fresh perspective for business model costs and new forms of engagement. For example, Airbnb disrupting the hotel industry.

- **Emerging through industry convergence to reshape a market**. For example, insurance companies offering tailored automotive coverage based on real-time GPS tracking of the vehicle.

- **Delivering more value to consumers using new data-enabled products and services**. For example, Whirlpool building connected appliances that improve their customers' experience and proactively address maintenance issues.

2.3 'Best of breed' or integrated systems approach

The decision here I believe rests with the degree of confidence the senior finance leaders have in their grasp of the IT options available to them. Any sign of weakness or lack of knowledge will be exploited.

In the recent '*The Future of Finance Systems'*, Blackline & The Modern Finance Forum Global Survey 2019'[4] CFOs were asked what was their intended approach for the IT systems. Only 22% of CFO respondents were confident enough in their knowledge for their organisation to prefer the 'best of breed' approach.   50% of participants chose some form of hybrid approach of integrated suite and 'best of breed'. This left nearly one in three preferring the expensive and often sub-standard option of an integrated suite sourced from one software vendor.

Consolidation of SaaS providers – Sales*f*orce a case in point

The integrated system providers are busy hoovering up best in breed SaaS providers to further enhance their offering, see Exhibit 2.1. These providers work with IT implementation partners who are expensive and of varying capabilities. Only large SaaS companies have the budget or the patience to go through such painful integrations.

SaaS providers through their buoyant market valuation are busy buying up other SaaS providers.

Exhibit 2.1 The last four acquisitions made by Sales*f*orce

demandware move faster, grow faster	MuleSoft	tableau	slack
Provides retail cloud commerce solutions.	Enables applications to talk to each other and exchange data.	An analytics platform.	A collaboration hub.
June 2016 $3B	March 2018 $7B	June 2019 $16B	December 2020, $28B

The pressure CFOs face to go the structured route

One cannot underestimate the pressure large integrated system suppliers exert on a wavering CFO. The answer is of course to know as much if not more than they do. As knowledge breeds confidence and better decision making.

2.4 Wide adoption of SaaS tools

In the recent 'The Future of Finance Systems', Blackline & The Modern Finance Forum Global Survey 2019'[5] 80% of CFO respondents said they expect to have over half of their systems in the cloud within five years. The move to SaaS has changed the finance team's penchant to customise. Deloitte put it this way in a paper.

> *"Today cloud technologies provide companies with world-class automation capabilities that allow them to replace lagging systems faster, with better functionality and at a significantly lower cost and time to implement."[6]*

Vanilla is the common order today

A common trait in most organisations is the "We are different," and thus they come to the table from the standpoint that customization of the system is a prerequisite.

This as we know starts a problem: the implementation takes longer, the users experience a slow and unreliable system and many functionalities never work the way they were intended to.

As one tech savvy CFO reminded me the other day.

> *"SaaS providers are doing major changes at least every quarter. Those customers silly enough to customized the package have a short window to work through the ramifications before the new software is live for all clients."*

Steve Jobs always reminded us that business is in reality simple. In most cases your organisation is the problem. Many business models are far too complex and could do with some simplification and standardization to industry norms. This will lead to a more enhanced customer experience.

2.5 Repositioning sales activity to the chosen sales tool

In the 2020s sales come from a myriad of diverse channels from:

- **E-commerce** where the customer has a minimal interface with the sales force. They have already done their homework and simply want the service or product. In many cases the payment occurs before the invoice is emailed and service received.

- To the more **traditional relationship sales**, where the sales staff have been in discussion, sometimes for months, with the prospective customer.

Neither of these two types of transaction works well in the traditional accounts receivable module. Activities of receiving the order, customer credit check, sale approval, goods dispatch, invoicing and finally offsetting payments received are too slow and not customer focused.

The top of the range SaaS sales tools such as sales*force* work best when:

- All customer data including credit worthiness and outstanding debt and the credit check is made and authorized in the tool

- Sales staff can raise the invoices remotely, at the client's premises and the invoice is received as a readable pdf. This change adds speed to the process and improves cashflow. The sales details are then updated in the AR.

- Quotes and order management are likewise centralised in the tool.

- The inventory system is linked to the sales tool so that realistic delivery dates can be offered to customers.

- There is a 'pay now' button facilitating immediate payment from certain customers.

2.6 Having a thin G/L

The concept of a 'thin vs. thick' GL refers to the two alternatives of maintaining a general ledger. A 'thick' GL is where the finance team, in the 'client service mode' add more and more accounts, segments, fields and make endless journal entries so the GL can meet all possible reporting requests. Bespoke and complex, the system then becomes clunky and difficult to manage and takes the living breath out of the finance team as one month-end reporting merges into the next without a break.

'Thin' general ledgers have limited account codes, the better practice being less than 60 for the P/L. Granular data is held in a subledger which is connected to the source system.

> *The system is left to do what it's meant to do which is focus on delivering statutory accounting and reporting as quickly as possible.*

2.7 Using a sub ledger / accounting hub

Whilst this is the domain of multi-national companies an 'accounting hub' (AH) will be adopted by modern SMEs, in increasing numbers, as it offers many advantages. AHs can enhance and replace manual accounting processes, consolidate disparate data sources and improve the performance and usefulness of General Ledgers.

An accounting hub or subledger is a database used to store a detailed subset of accounting transactions. A subledger contains data at the lowest, most granular level and feeds summarized entries, automatically, into general ledger. The subledger integrates and retains all transactional and event level detail, providing a linkage point between the source systems where the data originated and the target systems (GL, Analytics & BI solutions, AI tools, etc.) that can turn that data into reporting and insights, as shown in Exhibit 2.2.