Financial Close & Compliance Automation for Midsize Companies

A Practical Guide for Controllers & Accounting Professionals at Fast-Growing Companies

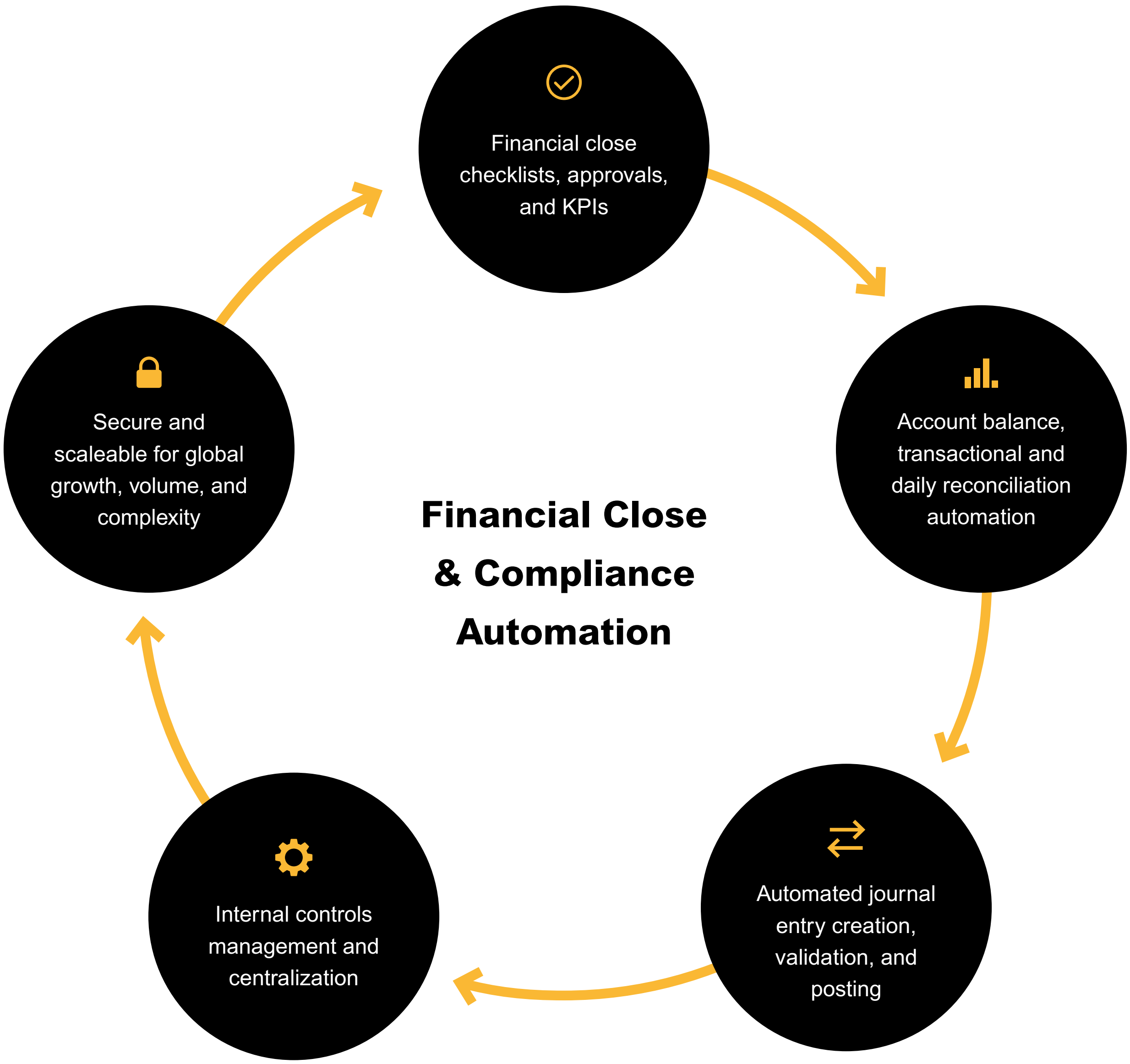
Why Focus on Financial Close & Compliance Automation?

Fast growing midsize accounting and finance organizations face a different kind of pressure. They are often under resourced amidst a rising volume of tasks and responsibilities—all while contending with a rapidly evolving technology landscape, which includes new billing, revenue recognition, and contract management applications.

With ongoing growth, there are often significantly more ad hoc processes for everyday accounting tasks, such as approvals, journal entries, variance analysis, and reconciliations that both reduce efficiency and increase risk.

Financial close and compliance automation technology focuses on gaining control of the entire accounting process. One element is tracking and approving each step of the financial close.

This is an essential first step, but moving the dial on efficiency and lowering risk requires applying automation to everyday accounting tasks, not just managing a checklist. It also provides a technology scaffold as the company develops, centralizing internal controls, ensuring segregation of duties, and scaling with balance sheet complexity.


Financial close checklists, approvals, and KPIs
Account balance, transactional and daily reconciliation automation
Automated journal entry creation, validation, and posting
Internal controls management and centralization
Secure and scaleable for global growth, volume, and complexity
Financial Close & Compliance Automation

Financial close and compliance automation can:

1	**Improve accuracy and reduce the effort required to close the books**	Speed and integrity must go together. Close automation ensures that financial close tasks, like reconciliations, are consistently and efficiently repeated every month, within a governance and controls framework.
2	**Cut the monthly fire drills**	Without a task workflow, it's easy to end up with ad hoc activities or missed financial close steps. A clearly defined process reduces risk by ensuring that tasks around AR, AP, prepaid expenses, deferred revenue, journal entries, reconciliations, account analysis, tax, SOX, and reporting are all sequenced, routed, and reviewed.
3	**Elevate financial controls, policies, and procedures**	Many midsize organizations rely on manual controls and have vaguely defined close activities, which can create weaknesses. Technology that provides preventive controls and pairs clearly defined responsibilities with automation helps close the gaps.
4	**Improve balance sheet integrity**	Manual reconciliations and journal entries, lax approvals, and limited account analysis elevate financial statement risk. Automation and centralization of supporting detail provides a dedicated backstop.
5	**Faster reporting and complete KPIs**	A quick, clean close is instrumental in equipping the CFO to deliver accurate and complete information to the management team, investors, and the market. Financial close automation and task management can also provide KPIs that deliver a clear perspective on which aspects of the close process are inefficient, and which are vital for continuous improvement.

In this guide, you'll learn the five practical considerations for upgrading your financial close and compliance processes—what to avoid, along with insights from accounting and finance leaders at some of the fastest growing midsize companies.

1. Keep a Laser Focus on Automation

Defining and managing the close checklist and related tasks is often one of the first practical steps in any accounting journey, but the need for automation quickly follows.

Consistently automating repetitive processes, like reconciliations and journal entries, is integral to ensuring ongoing balance sheet integrity and freeing up accounting resources. The key is to centralize matching rules, variance checks, and data in one place so automation can fully take place.

While spreadsheets will always have a place in Accounting and Finance, when considering financial close management and automation, there are real risks when too many are left in play in too many critical areas.

The more copying and pasting, formula maintenance, and folder organization that occurs to perform tasks, the less they can be automated and the higher the opportunity for error and fraud. For example, according to the ACCA, 90% of spreadsheets have errors, but 90% of accountants think they are error-free—a recipe for substandard financial statement integrity.[1]

Minimally, this means that accounting is spinning unnecessary cycles, and checking cells and formula references due to a lack of trust in the numbers.

By centralizing accounts, rules, tasks, and data, applying automation and only using spreadsheets when appropriate, accounting teams can achieve auto-certification rates of 50% or more, while also ensuring an easy-to-follow audit trail—which means more accounting efficiency and better risk avoidance.

What to Automate: Account Reconciliations

Account reconciliations can take up a significant amount of accounting effort and create risk if left spreadsheet-centric. The key is to connect the general ledger balances and subledger detail from your ERP and other applications into an account reconciliation automation workflow.

By doing so, you can achieve nearly complete automation of the following everyday account reconciliations:

Bank Reconciliations	Fixed Asset Reconciliations
Credit Card Reconciliations	Suspense of Deferred Account Reconciliations
Prepaid Account Reconciliations	Intercompany Reconciliations
Accounts Payable Reconciliations	STAT to GAAP Reconciliations
Accounts Receivable Reconciliations	P&L Reconciliations

[1]Talking technology – spreadsheet solutions, ACCA Think Ahead

What to Automate: Transaction Matching Processes

Account reconciliations are only part of the automation opportunity. For many high-growth midsize companies, reconciling subscriptions, invoices, or purchase orders can be an even more significant issue.

AI-based intelligent matching rules can perform fully automated matches or provide suggestions that require user review and confirmation.

Transaction matching opportunities include:

Accruals	Intercompany Transactions
Bank to General Ledger	• Purchasing Cards
Credit Card Matching	• Lockboxes
Subscriptions	• Benefits and Payroll
Invoices and Purchase Orders	• Payments and Receipts

What to Automate: Daily Reconciliations

Finally, high-frequency accounts offer a further opportunity: to automate in real-time, daily or as needed, rather than waiting until the end of the period.

Examples include:

Suspense Accounts	Bank or Credit Card Accounts
Lockbox or Unapplied Cash Receipts	Accounts Payable
Credit Card Matching	Point of Sale Processes

Red Flags to Avoid

Excel is an essential tool for exporting results, double-checking the numbers, and creating formatted reports—but your financial close automation strategy shouldn't depend on it. This is because individual spreadsheet calculations, per account spreadsheets, cell references, uploads, downloads, manual folder organization, and keeping supporting detail together, all become unwieldy as your company grows.

The more logic that becomes embedded in spreadsheet files, the less automation that can happen, and the more opportunity for a spreadsheet-related error to occur.

Case Study: Saddle Creek Logistics

Founded in 1966, Saddle Creek is a family-owned company offering comprehensive logistics services. The company has more than 16 million square feet of warehouse space and 37 locations nationwide. They wanted to ensure that Excel was never part of their reconciliation process.

Saddle Creek has recently experienced tremendous growth, and this has meant more general ledger accounts for the accounting department—as well as a more time-consuming month-end close.

"It was challenging to keep track of who had the reconciliations, which ones had been approved, or who had a folder. Plus, attachments that backed up the reconciliations weren't always included," says Paige Williamson, Assistant Controller at Saddle Creek.

Putting Spreadsheets in Context for Financial Close Automation

"Accountants love Excel, so hesitation is natural. Our main goals were to improve efficiency and free up our accountants to focus on analysis and reporting," says Williamson.

"We wanted a system that would create a single, online location for all of our reconciliations, as well as offer tracking capabilities and different templates for different types of accounts. We also wanted to enable auditors to log in on their own. And we needed to be able to auto-certify accounts with zero balances or no activity."

"With financial close automation, the majority of time spent on account reconciliations has moved from creating spreadsheets and formatting to being able to research and correct items," says Williamson.

2. Strengthen Your Compliance & Controls Environment to Reduce Risk

Strong internal controls aren't optional, especially for companies looking to go public. SOX Section 404 mandates that all publicly-traded companies must establish internal controls and procedures for financial reporting and must document, test, and maintain those controls and procedures to ensure their effectiveness.

Controls require reviews, approvals, verifications, well-documented reconciliations, and segregation of duties.

The risks and expectations surrounding audit and controls are shifting. Management Review Controls (MRCs) are under increasing scrutiny.

Auditors are no longer willing to just sign off on a review. They're expecting full documentation for the completeness and accuracy of how it was completed. There's also an increasingly heavy focus on estimates, with auditors looking to understand how they were calculated.

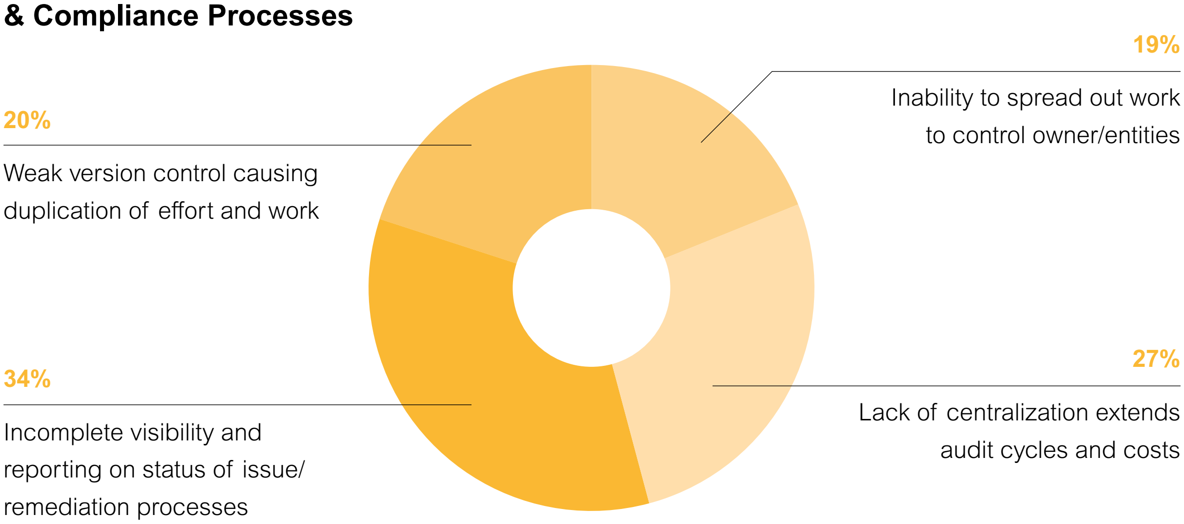
Revenue recognition rules like ASC 606 and the new ASC 842 lease accounting standard are a consistent topic of conversation between auditors and their clients.

The scope of the audit has also expanded. For example, from an IT audit perspective, cybersecurity risks loom large. And both internal and external audit are now increasingly involved, rather than being in their traditionally separate realms.

Common Control Issues Facing Midsize Organizations

For audit and compliance professionals, lack of visibility and centralization are some of the biggest obstacles to achieving strong internal controls and compliance processes.[2] This is often due to documentation sprawl, supporting detail that is stored in third-party repositories, poor version control, and lack of workflow around issues and remediation.

Biggest Concerns with Internal Controls & Compliance Processes



Where to start:

1 Take a close look at your current control environment

When was the last time you took a deep dive into your Risk & Controls Matrix (RCM)? Have your auditors signed-off on your current control environment and audit plan? Are control owners aware of their current controls?

Shift to one centralized repository for all controls across all locations—that is, set up a "one-stop-shop" for your organization's overall risk and control universe. Additionally, because many companies have multiple variations of their RCMs, it's essential to automate updating changes to related RCMs.

An essential control within the reconciliation process is ensuring there is segregation of duties between the preparer and the approver, so make sure there's always a different preparer and approver on every reconciliation.

2 Identify gaps and design a future state control environment

Determine if gaps exist in your current control environment. Take a "fresh" look at your controls and update them, as needed. Meet with control owners to determine updates or improvements, if any, to be made to their controls.

Many external auditors are honing in on the documentation of MRCs. Depending on the control or the account, simple sign-off approval often isn't enough anymore. Auditors want to see what documentation and procedures were performed and provided for the approval of an MRC.

Ensure reconciliations can have commentary so that management review procedures are documented, information is carried forward to future periods, and auditors can self-serve when they need to.

3 Socialize the future state control environment to key stakeholders

Meet with control owners, auditors, and other key stakeholders to socialize the future state control environment.

Analyze accounts quantitatively and qualitatively based on individual factors, and aggregate risk factors to arrive at a final risk ranking, which is then socialized, reviewed with management, and validated accordingly.

Using a compliance toolset to socialize the future state control environment provides multiple benefits, including decreasing the time between the process owner and the control tester, as well as between internal audit and external audit.

Connecting everyone in real time ensures a more responsive and collaborative testing process, where risks and issues are routed, discussed, and resolved more effectively.

[2] Webinar Audience Poll, Utilizing Technology to Improve the Control Environment, April 2018

Red Flags to Avoid

Avoid separating close tasks, controls, policies, and reconciliations into separate tools and repositories, as this damages visibility and creates redundancy. Minimize storing documentation and files related to internal controls with different third-parties, which hinders version control and opens potential issues around segregation of duties, or incomplete reviews, sign-offs, and changes.

IPO Case Study: Pluralsight (NASDAQ: PS)

With nearly $200M raised over three funding rounds, online learning company Pluralsight went public in 2017.

"The nature of Excel is that data can be changed at any time. We couldn't lock the folders, so there was always the possibility of something being altered after the accounting period had been closed," says Mark Hansen, Director of Finance and Accounting, Pluralsight.

Hansen adds, "There had to be a central repository where all that information could be housed and not altered once the period closed. With SOX 404, there are strict requirements on the preparation and review of reconciliations."

Automation and strong compliance tools ensure that we're not only more organized with how we go about the reconciliation process, but also more confident in knowing that the files are locked once they're closed. No one can change the data.

Mark Hansen, Director of Finance and Accounting, Pluralsight

3. Get Control of Journal Entries to Reduce Risk

Many high-growth companies see a rapid rise in manual and correcting journal entries, which is a recipe for increased risk. For example, in a recent industry report, fraudulent journal entries were a factor in over 30% of financial statement fraud causes.

Directly integrating from and automatically posting journal entries back to accounting applications like NetSuite, Intacct, or Oracle as part of the reconciliation process is essential. The gold standard is automatically creating, validating, certifying, and posting journal entries based on configurable rules, without the manual gaps.

Case Study: Brooks Rehabilitation

Headquartered in Jacksonville, Florida, Brooks Rehabilitation is a post-acute rehabilitation system with 14 business entities.

Brooks Rehabilitation's criteria for a new financial close automation solution were extensive. The team wanted a system that would improve workflow, allow for real-time reporting, and enable access to both journal entries and reconciliations in one platform.

Previously, Brooks' large number of manual journal entries consumed valuable accountant time and increased the risk of errors. "We used journal entry automation to reduce journal entries from 550 a month to 350 a month. We have additional time for analysis and review of financials due to less time spent keying, and our approvals are completed before the close is finalized. Our controller is much happier," says Hannah Marshall, Senior Accountant at Brooks Rehabilitation.

With journal entry automation, Marshall and her team have reduced the number of manual journal entries by 36%.

My favorite aspect is quicker journal entry processing time. We no longer have to type up an entry in Excel, print it out, key it into our ERP, attach the backup, and file it.

Hannah Marshall, Senior Accountant at Brooks Rehabilitation

Red Flags to Avoid

Attempting to address financial close management—like close tasks lists and reconciliations—without ensuring a seamless journal entry automation workflow leaves significant automation opportunities untapped and creates risk areas around correcting entries.

4. Avoid Hitting the Growth-Complexity Wall

Fast-growing companies get complicated quickly: more locations, more applications, more users, and more volume. Financial close management that doesn't scale creates stumbling blocks down the road, with parts of the financial close becoming increasingly manual, decentralized, or ad hoc as the company scales.

Plan your financial close management and compliance investments to ensure they scale with these three axioms of growth.

1. Business Structure Growth

Companies that expand internationally can quickly become complicated by local tax policies, BEPS, transfer pricing, and disparate documentation and systems. Acquisitive organizations can rapidly evolve into legal and subsidiary structures.

Ensure your financial close automation solution will make it easy to add entities and subsequent users who have necessary permissions. The ability to update task list dependencies and configure the right degree of local control and flexibility is equally important.

For further growth, intercompany reconciliation should enable netting and settlement functionality and a centralized document repository for supporting evidence.

> It's so much easier for our auditors to go to a central repository and pull the report they need, versus having to track down information in Groupon Russia or Groupon Austria.

Joseph Albrecht, Financial Systems Manager, Groupon

2. Application Landscape Growth

With growth, accounting teams typically access more sources to complete everyday tasks, like detailed reconciliations or pulling supporting detail.

Without a financial close automation system that directly connects to every application, tying out account balances, tracking down variances, and attaching supporting evidence becomes a manual task involving spreadsheets and manual extracts from multiple systems.

Beyond integrating with the core accounting system, financial close automation tools must easily incorporate billing, revenue recognition, expense management, banking, credit card, supplier, and banks and brokerage data, as well as formats like BAI, BAI2, and SWIFT.

> When you are focusing on integration, you need something that is reliable, something that the users can depend on and be comfortable with.
>
> **Patrick Loughnane, Senior Financial Systems Analyst, Zendesk**

3. Volume & Complexity Growth

Growing volume not only means processing reconciliations and other close tasks at scale, it also means spotting outliers and variances easily.

Robust flux or variance analysis is critically important. Accountants and auditors need to know how accounts have evolved period over period to detect changes in the business, potential errors, fraud, and other business and accounting issues that require further investigation.

Basic spreadsheet-grade flux analysis is often limited by what it can uncover. More automated variance analysis can incorporate data from any source or number of sources, examine balances and calculate the observed variation on an account, and ensure commentary and documentation can be attached.

> Our volume of reconciliations increased dramatically, but because of BlackLine, we didn't have to increase headcount to manage the new volume.
>
> **Christine Harms, Controller, Arizona Cardinals**

Red Flags to Avoid

Technology must scale with each stage of growth, from an early stage to pre-IPO and every stage beyond. Ask if every new element of your finance tech stack, whether ERP, reporting and analytics, financial management, or compliance and automation is suitable for where the company is heading.

Warning signs include limited public company adoption, primarily domestic deployments, and use with small sets of balance sheet accounts.

5. Bolster Cybersecurity Around Accounting Tools

Cybersecurity is top of mind for CFOs. In a recent study, nearly two-thirds of CFOs said they are now taking on responsibility for operational risk management and mitigation—and elements of cybersecurity are a big part of that.[3]

A recent Duke University survey of CFOs found that more than 80% of US companies have been successfully hacked, and it's likely even higher, because there are almost certainly cases where CFOs aren't aware that attacks have occurred.

The cost of a data breach is significant. In addition to damage to brand and reputation, which can be substantial, the impact on customer trust—and therefore acquisition and retention—as well as market value, all adds up.

Key questions to ask include:

- What is our organization's current exposure to cyber threats?
- How well are we prepared, and how well are our cloud providers prepared?
- What is our overall risk tolerance, and are our cloud providers aligned with it?
- Do we and our providers have processes in place to prevent, detect, contain, and respond?
- Are our providers investing to reduce the risk of data loss or downtime?
- Do we and our providers have a plan, and have we thoroughly tested it so there's no delay in the event of an attack?

[3]Are Today's CFOs Ready for Tomorrow's Demands on Finance? McKinsey, 2016

Look Beyond SOC 1 & SOC 2 for Accounting Software

SSAE 18 SOC 1 and SOC 2 reports are relatively standard for cloud providers. A SOC 1 Type 2 report provides auditors, management of the company, and management of the cloud provider with a clear perspective that appropriate controls are in place for managing their customer's internal reporting.

A SOC 2 report provides relevant parties with perspective on controls at the cloud provider that may affect their customer's security, availability, processing integrity, confidentiality, or privacy. A SOC 2 report includes a description of a test of controls around these areas and the results of those tests.

Red Flags to Avoid

It's important to recognize that cybersecurity gaps can remain, even with tools that tout SOC 1 and SOC 2. For example, Accounting should ensure that the provider they use doesn't have substantial dependencies outside of their direct control that expose their customers to risk.

For example, minimize software that relies on storing documents and accounting detail, related to common accounting processes like reconciliations in disparate third-party clouds, that have varying levels of security and policies.

Ensure Your Accounting Provider Is Investing for Utmost Cybersecurity

Beyond typical SOC 1 and SOC 2 reporting, standards like ISO 27001 provide further assurance that a provider has applied strong security and governance over every aspect of their customer data.

They are affording the utmost protection to assets like financial information, intellectual property, employee details, or other information that you entrust to them. A rigorous focus on security and controls, ISO 27001 ensures the provider has complete control over multiple areas, including:

- Organization of information security
- Human resource security before, during, or after employment
- Asset management and access control
- Encryption
- Physical and environmental protection
- Operations security
- Communications security
- System acquisition, development, and maintenance
- Supplier relationships
- Information security incident management
- Information security aspects of business continuity management

Fast growing midsize companies like the Arizona Cardinals, Spotify, Groupon, Zendesk, and hundreds more are using financial close and compliance automation technology to elevate their accounting efficiency, while at the same time strengthening controls. It's the secret to enabling their accounting teams to scale with growth while mitigating risk.

Visit blackline.com/accounting-process-automation to learn how your organization can get started on the road to financial close automation and compliance.

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