



9 Red Flags to Tell If Your Financial Close Is in Trouble

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INTRODUCTION

Often used as an early warning sign, red flags can proactively assess the risk of re-work, financial restatements and fraud throughout your financial close process.

And these red flags often occur throughout your financial close due to the utilization of desktop applications that lack automation, audit trails and integration, forcing increased manual interaction throughout your processes.

Unfortunately, this increases the complexity and makes it difficult for companies to have clear visibility into their financial close. The following eBook is designed to identify the top nine financial red flags you need to know to proactively assess risk in your financial close and how other finance and accounting organizations have addressed these risks by investing in automation.



“The level and pace of change that organizations experience today is unprecedented. Organizations need to embrace disruptive technologies and new business models. Innovation and speed of execution has become the basic requirement to remain in business.”





RED FLAG #1

Overreliance on Spreadsheets

Spreadsheets have been the backbone of finance and accounting for decades even as technology has evolved over the years.

Businesses have come to rely upon spreadsheets so heavily that they lose sight of the original purpose of the spreadsheet and begin to make decisions based on erroneous data. Hoping for organized, coherent information, many in finance develop complicated, multi-level spreadsheet systems for their financial close process. Organizations quickly find themselves buried in a mountain of spreadsheets and investing an inordinate amount of human resources to maintain the highly manual process.

Automation delivers scalable, calculable technology

Through automation, your organization gains scalable, calculable technology that eliminates those manual, spreadsheet-driven processes.

“

“Organizations must turn data into knowledge in time efficient, accurate and insightful ways. The massive growth in available information is forcing finance to move beyond simple spreadsheets and rewarding those organizations that employ advanced visualization.”

”



RED FLAG #2

Lack of Standardization

The second red flag your organization needs to be aware of is a lack of standardization and consistency across the financial close process.

A lack of standardization and consistency creates excess work for reviewers and approvers, as they are forced to waste time figuring out how an individual performer has set-up their documentation. It also becomes difficult and time-consuming for colleagues to fill-in during an absence, as they are unfamiliar with the performer's layout. Unfortunately, this bottleneck gets even more complex to rectify when multiple users, departments and/or entities rely on different processes and templates, and can significantly affect both the accuracy and timeliness of the financial close.

Automation allows for a regimented workflow and process

Automation delivers standardized process templates that enforce compliance with company policies and procedures, and saves a significant amount of review time for approvers when signing off on activities.





RED FLAG #3

Multiple Late Adjustments

Does your team encounter frequent surprises at month end? If so, you're not alone. For many accounting and finance professionals, manual journal entries continue to be a bottleneck in the financial close process. Too much time is required to create, review and approve journal entries with loosely governed processes and limited controls that increase the risk of error. In addition, the process is made even more cumbersome as supporting documents are stored in shared drives and binders, and approvals are mostly paper-driven.

Three processes that slow down the month end close are creating, reviewing and approving:

Create: Creating journal entries with different processes and possible paper-driven supportive documents slows down the process.

Review: Reviewing journal entries with loosely governed processes increases the risk of error.

Approve: With most approvals being paper driven, confusion and wasted time are common problems in the closing process.



Automation allows organizations to gain visibility and control of their manual journal entry process

It enforces policies and procedures while delivering real-time visibility into the status of journal entry preparation, approvals and posting.

JEWSON

“We were using a simple reconciliation tool to handle our large volume of transactions but after investigating the market, we felt we could get extra support and further cost savings with Adra.”

Read the Jewson Case Study:

[Read More](#)

RED FLAG #4

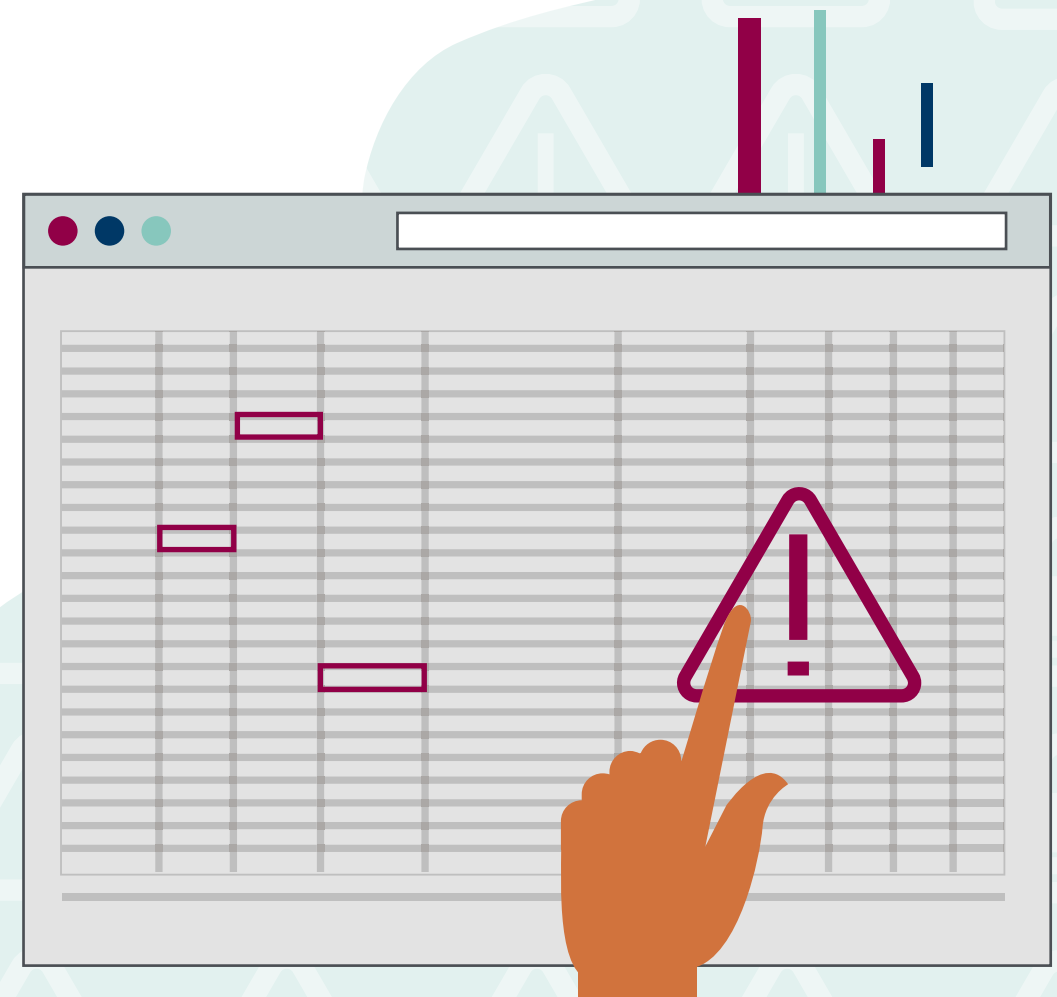
Inaccurate Data

Multiple studies have shown that nearly 90% of all spreadsheets contain some sort of material mistake, and most often, organizations are not even aware of these errors until it is too late. Primarily, this is due to the overconfidence in re-purposed or recycled spreadsheets.

Many errors can be attributed to faulty macros, which have not been thoroughly tested or documented. It's far too easy to make fundamental data entry/version/file name errors in Excel that goes unnoticed.

Automation delivers visibility to data with evidence and validation status

With automation, you gain visibility into the data with evidence and validation status in real-time.

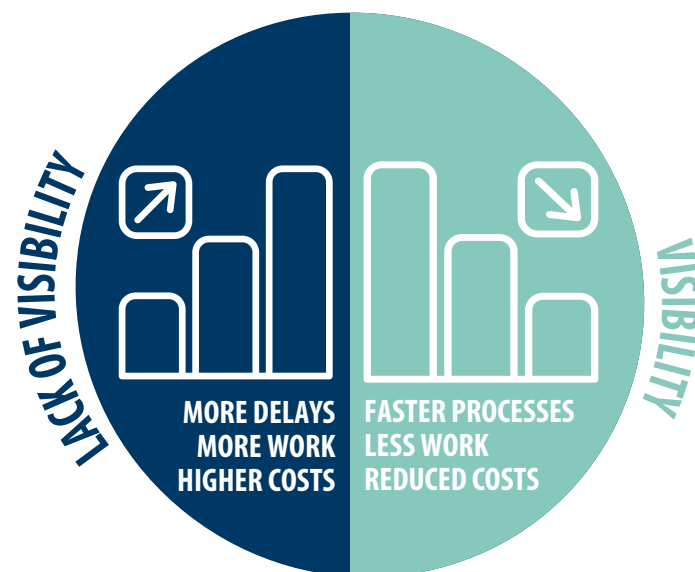


RED FLAG #5

Lack of Visibility into the Status of the Close

The fifth red flag is a lack of visibility into the status of the close. In many organizations, team members, especially management, have difficulty determining and/or quickly viewing the status of tasks, risk factors, bottlenecks and more.

With no real-time dashboard view into all the close activities occurring across different sites, business units or teams, those responsible for the final results (including the CFO, auditors, individual users, and stakeholders) are unable to track the workflow, exceptions, KPIs, tasks, and issues that might be slowing down the process. Most importantly, this lack of visibility delays the entire financial close process and generates excess work for your team.



Automation provides full visibility and transparency into the Close

With automation, your organization can effectively manage the entire financial close process in one place with one single view. The newfound visibility allows you to answer the question, “Where do I have risk on my balance sheet?”

PROTECTOR insurance

“The time we have saved through the automation of our processes has resulted in us being able to focus on higher value-added activities. We are very satisfied with our partnership with Trintech.”

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Read the Protector Case Study:

[Read More](#)

RED FLAG #6

Lengthy Close Process

The sixth red flag is a lengthy closing cycle.

For example, in terms of the reconciliation process, a key function in the financial close process, you tend to spend most of your time simply gathering data before you can even begin to think about reconciling it. Once the data is finally in the right format, most of your time is then spent manually going through the matching process, rather than spending that time focused on the areas that are most critical to you. All of these manual, menial tasks lengthen the close cycle significantly and add no value to the business.

Automation delivers a reduction in the time to close

Automation enables a company to have a single view, remove white spaces between processes and deliver metrics for the overall close process that tells you what you need to know. Ultimately, this helps to identify potential bottlenecks or higher risk areas in the context of the overall reporting for the organization.





RED FLAG #7

High Costs

The seventh red flag is high costs. These costs can stem from several things but most often are attributed to increased labor costs and audit fees due to the high volume of manual processes. In addition, some organizations even experience something as serious as a misstatement, increasing their cost significantly.

Automation reduces costs for labor and audit fees

By deploying automation you can significantly cut your costs. According to a recent report by The Hackett Group, organizations that automate their financial processes have achieved 49% lower audit fees and a 65% reduction in FTEs.

RED FLAG #8

Changing Workforce

The eighth red flag you should be aware of is a changing workforce.

Transaction volumes and account numbers are constantly growing as revenues increase and organizations become larger and more complex. Manual processes cannot efficiently or effectively handle the growth of an organization.

In addition, it's no secret that the "millennial" generation is very different than any other generation coming into the workforce. We have to ask ourselves what does this mean within our own organizations. Technology was "born" into this generation versus "learned." The technology solutions we utilize today and over the next 1-3 years must be holistic. With this shift in the workforce, we can start to see why just purchasing technology solutions for the sake of technology does not lead us to a sustained effort and thus minimizes the likelihood of "transformation."

Automation allows for centralized data with standardized, documented processes

Standardized workflows further grant you more agility and scalability in times of organizational change, like upcoming staffing changes or a department reorganization. With a well-defined set of templates for period end close tasks, you can accelerate the transition period of the new hires or department changes into your process without major IT or training delays impacting the team.



RED FLAG #9

Lack of Confidence in the Integrity of Period End Numbers

According to a recent report by EY, “Almost half of CFOs are not even confident/somewhat confident in their financial compliance.” And this leads us to our ninth red flag – a lack of confidence in the integrity of the period end numbers.

Manual processes lack key functionality for managing all SOX and GRC compliance initiatives across an enterprise. For companies with subsidiaries, global operations and multiple legal entities, the problem becomes hugely complex with a lack of standardization and traceability.

In addition to a lack of an automated audit trail, the ability to track and attach supporting documentation, as well as defining automatic workflows for sign-offs becomes impossible. Ultimately, this contributes to audit issues, assessments that note the risk of non-compliance, and risk of delays in reporting.

Automation gives you real-time reporting capabilities

Automation allows organizations to gain real-time visibility in order to highlight potential risk within their balance sheet.



CONCLUSION

Take control of your processes with a solution that is well integrated, automated and accessible via the cloud, with real-time access to assess performance metrics. To that end, Deloitte neatly sums up the utopian close that organizations should strive to achieve¹:

- **Risk-based:** Efficient allocation of resources is based on the risk of misstatements of the underlying balance
- **Automated:** Technology is leveraged to allow full automation of elements of the close and to accelerate other dependencies such as data collection
- **Transparent:** reports provide management with visibility into the status of the financial close while highlighting areas of potential error
- **Consistent:** Accounting procedures are applied in a uniform manner, across divisions and locations
- **Streamlined:** There is a clear chain of command to allow effective review and oversight
- **Auditable:** Results of the close may be audited by external and internal auditors in a highly effective manner
- **Platform Agnostic:** Data can be pulled from various systems in different formats
- **Timely and Efficient:** Results are published in a timely manner with a low cost

¹Deloitte "Balance Sheet Integrity – The Utopian Close: Creating a low risk, highly effective financial close"

WANT TO FIND OUT MORE?

If you'd like to learn more about how to handle this topic, including the many benefits of automating, the following resources are available:



Adra Suite Brochure



Finance 2.0, The New Norm for CFOs



Growing Complexity:
What Your Finance Organization Should Know

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