While economists have pulled back from describing a global recession as threatening, an economic downturn is nonetheless inevitable. Given expectations of an eventual slide in revenues, many companies are turning toward business process optimization to reduce costs and maximize profits.

All parts of an organization’s value chain will benefit from automating manual processes that consume time and add expenses. Not only do these processes become more efficient and cost-effective, the digitization of data offers the opportunity to begin deploying cognitive computing technologies like data analytics and machine learning. These tools can glean extraordinary insights from internal data that assist better business decisions, such as which products and geographic markets promise the best long-term returns.

No data are more revealing in these regards than accounting and financial data, which explains in part why many enterprises across the world are automating the manual financial close. This sweeping movement away from manual procedures offers abundant opportunities, from enhancing accounting and finance staff productivity to liberating accountants to focus their talents on analyzing the company’s performance.

This movement, called continuous accounting, also presents a much sought-after way to eliminate accounting mistakes that can produce the need to restate the earnings. These errors are common, according to a 2019 global survey commissioned by BlackLine of more than 1,100 C-suite executives and finance professionals regarding the accuracy of their financial data.

Four survey findings stand out:
1. Only 38 percent of the finance professionals in the survey — people like financial controllers, financial analysts, accountants, and auditors who prepare the financial statements — “completely trusted” the accuracy of their reported financial data.
2. More than 55 percent of respondents lacked “complete confidence” in their organization’s ability to identify financial errors.

Therese Tucker is founder and CEO of BlackLine. After founding BlackLine in 2001, Therese designed the first offerings of BlackLine products, engineered its transition to the cloud in 2007, and led the organization in automating the financial close process via the company’s flagship finance controls and automation platform. Since its inception, BlackLine has experienced strong growth under her direction. Therese holds a Bachelor of Science degree in computer science and mathematics from the University of Illinois. Previously, she served as chief technology officer for SunGard Treasury Systems.
3. More than 26 percent of respondents had concerns that errors existed, but there was a lack of transparency of underlying data to confirm their suspicions.

4. Almost 70 percent of the respondents believed their organization had made business decisions based on imprecise financial data.

Obviously, the stark possibility that nearly 7 in 10 companies made business decisions based on inaccurate information should send shivers up the spines of institutional investors, shareholders, private equity firms, and other owners of private and public companies, in addition to their employees and customers. Nearly all the C-level respondents (96 percent) concurred that the impact of reporting inaccurate financial data would be negative.

For one thing, false impressions of the financial health of an organization could encourage the company’s CFO to allocate capital for growth opportunities that may be less robust than the financial data indicate. Inaccurate information also heightens the risk of an earnings restatement, jeopardizing the reputation of the business and its ability to garner investment capital and recruit and retain desired skill sets. As a 2017 report by audit firm Deloitte concluded, “The impacts of inaccurate or incomplete data are many, ranging from missed opportunities to just plain misses.”

**Manual processing is the culprit**

Why do so many finance professionals mistrust their financial data? Human errors caused by the increase in business data coming from a multiplicity of different systems are a major reason. According to market intelligence firm International Data Corporation, worldwide data volumes are projected to increase to 175 zettabytes in 2025, up from 33 zettabytes in 2018. The firm’s report states, “Businesses in industries around the world are using data to transform themselves to become more agile, improve customer experience, introduce new business models, and develop new sources of competitive advantage.”

Different parts of an organization have different needs for data, resulting in siloed information impeding enterprise value. As accounting and finance staff begin the financial close process, they must reach out to these different parts of the organization to request records supporting the financial data. Many large global companies can have as many as hundreds of management systems and an average-sized business can have a few dozen, all of them pumping out a churning sea of data daily.

A September 2019 article in Risk Management magazine stated:

> Every minute in every business, people input financial data — generally money spent on operations and people, and revenues generated from products, services and investments. ... This information travels across the enterprise from sales, operations, human resources, and supply chain partners, among many other parts of the business, to finance professionals for analysis and input into the financial statement.  

Analyzing all these data to prepare the financial statement is a stiff challenge for accounting and finance professionals entrusted with the task. The process is time-consuming, requiring manual export of the requested data from disparate management systems of the finance function’s data repository. Once collected, the staff must match thousands of spreadsheets to reconcile the financial data. For example, bank records must be matched to the general ledger system and invoices must be matched to purchase orders, as well as credit cards and intercompany data.

Manual matching increases the possibility of a false match, particularly when complex logic is applied to the process. Accountants also must make assumptions when one-to-many relationships or many-to-many relationships between data sources are needed. If the assumption is wrong, it may result in a financial statement error. If the error is not identified, a small write-off can quickly aggregate into significant errors and unexpected write-offs.

To improve their assumptions, accountants need clarity about the origination and movement of financial data — the trail of documentation. If a question arises over the accuracy of a journal entry, the accountant must determine and contact the source of the information to clear up the confusion. In some cases, this requires contacting several individuals across different teams, including local accounting operations staff and shared services organizations.
Further delaying the process are separate accounting structures, multiple enterprise resource planning (ERP) systems, and outdated ERP systems with bolted-on applications fitting the needs of different business silos. There are crucial data for reconciliation and substantiation inside the ERP in the system of record and outside of it in the general ledger and related subledgers. These additional data sources frequently include bank detail, point-of-sale systems, credit card detail, payroll, and HR systems. During the financial close process, data must be extracted from information using these varied data sources and systems, which at one time may have belonged to an acquired company.

When data sources are added up, “Finance professionals are inundated with complex financial data coming from different systems, trying to make sense of it all,” said Mark Brockway, a managing director at ISS Corporate Solutions, in a Risk Management article. “It’s a struggle,” he says.9

The toll on people and business
This struggle takes a harsh toll on accountants. Nearly one-quarter of the respondents (22 percent) said it takes between 9 and 10 days per month for their organization to identify an error and make the needed accounting adjustment, consuming as many as 114 days each year. After weeks of interpreting multiple versions of spreadsheets to match a never-ending stream of data coming from multiple sources, exhausted staff members may paper over the unreviewed balances to mask potential errors and control deficiencies.

To correct material errors, companies are required to restate previously filed financial statements. This work was particularly onerous for accounting and finance staff in 2018, given various tax laws and revenue accounting rules that came into effect during the year. “In many instances CFOs and their staffs had to go over past financial reports to recalculate the value of tax credits or liabilities, or to assess how past results would look under new rules,” The Wall Street Journal reported.6

If the errors are undetected at the time the financial statement is released, it increases the risk of an earnings restatement. For the first time since 2006, restatements involving material inaccuracies in a prior year’s financial statement increased in 2018, according to a detailed report by Audit Analytics cited in The Wall Street Journal.9

At least 65 companies made accounting errors severe enough to be considered material in 2018. The stock market repercussions caused by the restatement affect the trust and loyalty of “capital providers, customers, employees and geographic communities,” a study in The Accounting Review stated.9 A restatement also decreases the ability to secure needed capital to seize growth opportunities.

Certainly, this possibility creates the need for enhanced governance of financial data accuracy by CFOs and audit committees. More than three-quarters of respondents (77 percent) to the BlackLine survey want audit committees to have the same accountability as the CFO for inaccurate financial reports. Nearly 4 in 10 respondents (39 percent) also stated that the acceptable margin of error with accounts is decreasing. And almost one-third (32 percent) expressed concerns over data inaccuracies resulting in regulatory fines and criminal charges.

The risk of a restatement
These worries are not unfounded: Through 2018, cases of accounting fraud enforcement actions by the U.S. SEC increased 8.8 percent from the prior year. The aggregate penalties imposed by the SEC in the cases increased 70 percent — from $832 million in 2017 to $1.43 billion in the first nine months of 2018.9

A new strategic plan issued by the U.S. SEC is expected to increase the government agency’s ability to detect financial data inaccuracies. The SEC plans to expand its use of technology, data analytics, and information sharing to investigate the integrity of company financial statements to protect the interests of investors.10

According to the Public Company Accounting Oversight Board, many audit firms have expanded their use of technology tools to improve audit quality, conducting more comprehensive evaluations of client financial statements, rather than the traditional practice of sampling only a portion of these data.11
The actions by the SEC and audit firms are reflected in another finding in the BlackLine survey: Nearly 4 in 10 respondents (39 percent) stated that the acceptable margin of error with accounts is decreasing.

Boards of directors would likely share these concerns, given the risk of a shareholder class action lawsuit in the aftermath of an earnings restatement that results in a serious stock market decline. Stephen Kasnet, vice chair and lead director of the board at both Granite Point Mortgage Trust and Two Harbors Investment Corporation, said in Risk Management, “If the finance professionals involved in putting together the financial statements are concerned about the accuracy of the data, a company’s senior management team and board have a serious issue that requires disclosure and remediation.” He added, “People who sign their names on a filing to the SEC do it because they believe what’s been executed is accurate.”

Despite these varied concerns, the prevailing method for matching and reconciling transactions at large enterprises and startup companies is manual, with 61 percent of accounting and finance organizations found to be “highly dependent” on spreadsheets, according to a survey by the Institute of Management Accountants.9

“Clearly, it is time for a culture change; one that sees every level of an organization become more transparent and accountable,” said Wendy Shapiro, senior vice president for finance transformation at Teledoc Health. “Finance professionals are tired of unacceptably high margins of error and are becoming far more aware of the risks associated with inaccurate reporting.”

To eliminate the confusion and lack of transparency created by paper, binders, storage rooms, shared drives, and spreadsheets scattered across systems and diverse geographic locations, manual processes must be optimized. And that is where continuous accounting comes in.

**Principles of continuous accounting**

Continuous accounting is the latest in a series of continuous improvement business methodologies, from just-in-time manufacturing to the agile methodology of software development. By automating financial close processes like journal entries, account reconciliations, high-volume transaction matching, task management, intercompany transactions, and balance sheet substantiation, accounting and finance staff can achieve enormous gains in efficiency and productivity. Automating the end-to-end financial close process also increases organizational confidence in the accuracy of financial data.

To seize this value requires the deployment of a software solution offering clear visibility into accounting and business process performance. The software also must be complementary to the ERP system, general ledger, and subledgers. This way the accountants can address discrepancies in their matching tasks, seek out and attach supporting documentation, and take required actions on a unified basis.

Let’s look at a specific accounting closing task — reconciling intercompany transactions. This process requires balancing accounts between two company branches to bring the balance to zero in the general ledger. Typically, the accounting staff collects the intercompany data and runs a reconciliation report at the end of the month, listing intercompany activities for all entities.

In performing the task, accountants generally refer to spreadsheets or use consolidation tools. The reconciliations are usually executed at the general ledger account level or at a summarized intercompany account level. Once the reconciliation report is compiled, it is sent back to the individual entities for review. If the entities do not match, local teams are contacted to sort out the discrepancies, which entails going back to the transactional systems to pull invoices to determine which transactions failed to match. The entities then contact each other by phone or email to decide who will make the corresponding adjustment to correct the discrepancy.

Typically, the adjustment is made in the source system, requiring the consolidation processes to be rerun. At other times, the adjustment is made as a reversing top-side entry for corporate consolidation purposes. In either case, this laborious and time-consuming process results in bottlenecks that impede the flow of information needed to close the books.
By automating this process, the entities can reconcile intercompany transactions throughout the period, as opposed to the period end. Instead of bringing up all the data in a single batch process, the batch can be split into a series of smaller tasks scheduled in the daily workflow of accountants. By breaking tasks into ever-smaller pieces, their completion becomes routine. This concept takes its cue from agile software development.

Assuming intercompany data are shared in a centralized hub, there is no need to go back to source systems to sort out the discrepancies. Entities also can proactively agree on intercompany activities before posting the data to the ERP, thereby precluding the possibility of intercompany out-of-balances and the need to conduct month-end balance investigations.

That is just one task in the traditional financial close process. By automating all other closing tasks in a cloud-based platform, companies enter the realm of real-time continuous accounting. The platform acts as a centralized hub for general ledger data, sub-ledger data, and other financial data drawn from traditional data sources. Through the use of powerful dashboards and customizable reports, this information is quickly and easily disseminated. The closing tasks coincide with the continuous movement of business, in which transactions come in around the clock from across the world, hence the term continuous accounting.

By automating the closing tasks in the platform, accountants have clear visibility into all the data informing the financial close. Potential data inaccuracies and exceptions (an event that deviates from expectations) are illuminated on a day-to-day basis, rather than piling up at the 11th hour.

Let’s apply the concept of continuous accounting to intercompany transaction accounting. Most accounting and finance organizations wait until the entries are booked by the different entities before performing the task. Since the frequency of recording the transactions varies by entity, there is no time left to react to possible discrepancies, culminating in a rushed review at the period end.

Automating customary manual and rote processes sharply reduces the number of hours that accounting and finance teams spend on period-end transactional activities. By dividing the batch process into smaller tasks, intercompany transactions can be recorded and approved on each entity’s books throughout the period in real time. The task is effectively embedded with the proper controls into daily workflows for automatic approval.

By building quality into finance and accounting processes, productivity is optimized — accountants giving 100 percent of their effort each business day, as opposed to 50 percent some days and 200 percent other days.15

Tomorrow’s accountants today

By no longer waiting until the end of the month, quarter, or year to execute financial closing tasks, accountants are liberated at this time to put their education, knowledge, expertise, creativity, and intelligence to more value-added needs, from fraud detection and compliance analytics to strategic business advice.

 Freed by last-ditch and time-consuming financial close responsibilities, accounting staff can shift their attention to analyzing the financial data to provide advice to business units and departments on how best to increase efficiency, reduce operating costs, increase revenues and profits, and beat the competition.

Such end-to-end process automation that closes the books at the speed of business is good news for every constituency affected by the disastrous impact of inaccurate financial data. The days of manual processing are rapidly declining, helping all businesses keep pace with tomorrow’s relentless influx of data. ■

NOTES
4 Banham, R., “Wrong numbers: The risks of inaccurate financial statements,” Risk Management Magazine

Ibid.


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Tucker, T., Stopping the madcap sprint to close the books, CFO Magazine (Mar 2, 2016). Available at: https://www.cfo.com/auditing/2016/03/stopping-madcap-sprint-close-books/.