Closing time: Preparing for the next virtual financial close

As the COVID-19 pandemic forced workers to abandon their offices starting in March, many finance leaders found themselves in a predicament: how to manage a quarter-end close with a distributed and distracted workforce. It was far from simple. Decentralization, involving collaboration across different systems and locations, suddenly became an organizing principle. Shortfalls, whether in staffing, IT infrastructure, or cybersecurity, quickly became visible.

Still, for many public companies that did not avail themselves of a pandemic-related SEC extension (see Figure 1), their first virtual close is now behind them. They can take stock of the reporting challenges they faced and the gaps they uncovered, as well as look for ways to improve systems and processes in preparation for the next remote close, which may be already underway.

Some of the critical questions for that next iteration involve technology: Did current technology perform as expected in the virtual environment? Were there other tools, such as predictive analytics or artificial intelligence, that could have made the process easier? Other questions involve the finance team: How well did distributed finance and accounting teams collaborate? Were the existing contingency plans sufficient?

In this issue of CFO Insights, we’ll guide finance executives through such questions, as well as options to consider, as they seek to boost the function’s resiliency by mastering the virtual financial close.

Adopting—and adapting to—a hands-off approach

Over the years, there has been increased attention devoted to hastening the financial close—with notable success. Many leading accounting and finance departments have made significant progress in reducing the time it takes to gather, verify, and report enterprise-wide financial data through the use of real-time or continuous close technologies.

Still, complexity, disparate systems, and lack of investments have remained chronic hindrances at many companies. The pandemic’s onset only amplified those risks—and created new ones of its own.

For example, in a lockdown, processes that took minutes or hours in a centralized corporate setting could often take much...
longer, despite looming deadlines. Some functions found, at exactly the wrong time, that they didn’t have the remote capabilities they assumed they did; some finance team members were unable to work the same number of uninterrupted hours—given health issues, the urgency of providing child care, or the need to home-school students in unfamiliar subjects.

Moreover, many finance leaders needed ready responses for productivity disruptions that could occur during time-sensitive reporting periods. Those might have included alternative staffing models, such as implementing partial or even “off-cycle” closes. In a pinch, close leaders could also tap a resource from a lower cost location or invoke a pre-arranged agreement with contractors and consultants. However, even organizations with capacity-enhancing outsourcing or offshoring relationships faced human-centered risks. Many service provider employees in various geographies, after all, have been contending with the same stay-at-home directives as in the US.

Going forward, CFOs realize that it is hardly feasible to have a human backup for every employee involved in the consolidation and reporting functions. Instead, finance organizations may need to consider cloud-based software that automates the reporting—and they need to have tested that software beforehand. They may also require a digital collaboration tool that enables far-flung employees to feel tightly connected. Seamless remote access to core systems via VPN networks is also important, with sufficient bandwidth for access from dozens of remote locations. Such an IT infrastructure can allow home-based staff to connect with the data systems they need to begin to perform normal and necessary processes, including external reporting.

**Building a foundation for the future**

Even those companies that were well-equipped in terms of technology may have encountered an even thornier challenge in executing a virtual close: establishing a coordinated and aligned team, regardless of the distance between its members. That effort starts with sharing the plans for a virtual close beyond the core team, including partners in risk, operations, IT, and lines of business.

Some of the other lessons from the first virtual close are that the foundational framework ought to include the following:

- **Establish a virtual command center or center of excellence.** Such a team should consist of professionals who thoroughly grasp how to organize and oversee all the activities involved in effectively executing a close. In addition to understanding the resources that need to be in place, they serve as the first line of troubleshooting when functional problems occur. The command center should also have its own technical support desk, with IT professionals who can be called upon quickly through a dedicated help desk to address issues involving system access privileges, VPN, and other connectivity problems.

- **Draw up a playbook based on resource availability.** A virtual close playbook can serve as a day-to-day guide for the command center, analyzing and resolving accounting resource needs and identifying any significant capacity constraints. If a particular function suddenly finds itself stretched in terms of staffing, close leaders can turn to the playbook to find options for reallocating work or adding extra capacity, by, for instance, tapping into its network of contractors and consultants.

- **Review close-related tasks and the sequencing of those tasks.** Create a robust and granular calendar, assigning clear roles and responsibilities for each task, as well as continually updating deadlines for completion. Reprioritize tasks, ranking them according to those most vulnerable to delays due to a remote workforce. Reroute workflows to account for changes in approvals, staffing, and system access. Designate back-ups for each approver in the workflow. Also, determine if any quarter-close tasks can be accelerated or delayed to reduce the team’s burden.

- **Routinely test all access privileges to key data and other systems.** Make sure all team members can access required systems and data remotely to execute closing tasks. Identify any data breaks related to the lack of remote system or application access. For close tasks that require access by all team members, such as journal entries and reconciliations, consider leveraging cloud systems.

- **Create avenues for visibility.** The close team needs a clear view into all close activities. Tracking tools should be accessible across all aspects of the close process. In the short term, finance can make do with video check-in calls that provide sufficient visibility.

**Close encounters of the virtual kind**

Many companies managed to complete their first virtual close on time. But to do so, CFOs and their teams had to rewire their processes on the fly, likely sacrificing a level of clarity or communication. Relying on strained resources and working around technology gaps—not to mention employees’ mounting anxieties about their own physical and fiscal health—finance leaders may have ended up feeling that the inaugural undertaking lacked efficiency.

In particular, the remote close may have shone a less than flattering light on the effectiveness of existing internal controls (see Figure 2). Some controls, for example, may still rely on traditional sign-offs, rather than digital approvals. And while internal
controls may not see dramatic structural changes as a result of this pandemic, there may be a heightened awareness of some areas, such as valuation assertions, management estimates, and forecasting.

Before the next close period, finance leaders may want to conduct their own assessment of deficiencies that impeded the virtual close (see sidebar, “Postmortem for a virtual close”). The following are some fundamental questions that can help guide the process:

- **Which month-end tasks remain to be automated?** Look for areas that still rely on manual processes, in-person communications, or spreadsheets, and explore automation options.
- **Which workflows remain to be automated?** By digitizing any lingering paper-based processes, close tasks—such as reconciliation and journal entries—can be conducted on a unified platform, which can further enhance efficiency and effectiveness. Consider shifting certain time-consuming tasks to earlier in the month, so as not to slow down the close amid a fast-approaching deadline.
- **What’s missing from your quarter-end checklist?** Checklists tend to be only as perfect as the humans who create them. No amount of transparency can compensate for a checklist that fails to accurately track the progress of the close. With employees working remotely, it’s especially important for all to see exactly where the group is in the close process. An automated checklist, residing in the cloud, can help remote workers focus on the stated priorities.
- **Have all standard procedures been documented?** Making sure to do so, in addition to promoting cross-training, can make it easier to address issues that arise as a result of employee illness or other COVID-19-related absence.
- **Does the virtual process accommodate the human element?** Reimagining how close-related work is allocated and completed in a virtual environment can’t just be achieved by investing in digital technologies. Coordinating a successful virtual close may require thawing silos and solidifying collaboration—which may mean loosening up an agenda-driven video-meeting to accommodate a barking pup or crying baby. After all, the need for the virtual close can’t be separated from the circumstances that led to it.

Those circumstances, namely the COVID-19 pandemic, are requiring many finance executives to rethink any number of existing processes, from the global reach and resilience of their supply chains to the value of travel. But with members of the finance function staying put, it’s possible that the traditional financial close may be gone for good.

For more information on topics related to the close process and other controllership topics, please visit the Center for Controllership™ site at Deloitte.com.
Postmortem for a virtual close

There’s no question that closing the books from a distance can be challenging (see Figure 3). But by addressing these issues, CFOs can identify areas for future improvement.

**Accounting and reporting impacts**
- What were the technical accounting or disclosure impacts of the current pandemic—and how might they change in future periods?
- Which elements of the financial statements needed increased focus?
- Was there adequate time allowed for management reviews at all levels?
- Where does management have limited transparency into the results and underlying drivers?
- Were there any new focus areas for the external audit this period, or places where auditors spent additional time?

**Timeline**
- What were the visible or hidden impacts to the timeline?
- How did the company’s close and reporting of key performance indicators (KPIs) compare to prior periods?
- What new items were included in the critical closing path this past close?
- Should the timeline or expectations be adjusted for future periods?

**Close and task management**
- How well did the team centrally manage and control the close and reporting tasks?
- Were there any changes to the nature or extent of journal entries compared to prior periods?
- Which closing tasks were difficult to perform remotely, and for what reasons?
- Which tasks were completed late and why?
- Does working virtually provide opportunities to redistribute tasks?
- Do closing tasks need to be reworked or reordered? Are there tasks that are not material to our reporting?

**Governance and compliance**
- Were standard controls executed effectively remotely?
- Are there additional risks introduced in the process that require better management?
- Are there computer-based controls that may need redesigning?
- Were there adjustments made to the segregation of duties or approvals?
- Are there any new controls that may need to be implemented against higher risk items?

**Resourcing**
- Are workloads tracked sufficiently to understand which team members were overloaded and where capacity might exist?
- Is there additional training that would better equip people for a remote close?
- Are there additional resources that could help manage spikes in workloads during the monthly or quarterly close?
- Should any roles and/or tasks be reorganized to better group them (e.g., financial line item) and promote clear ownership?

**Technology enablement**
- Does everyone have the appropriate hardware to work remotely with appropriate IT support levels?
- Does everyone have the needed software (e.g., collaboration tools, documentation management) to work remotely?
- Were there any system access or performance issues to address?
- Are people able to access required documents to support accurate accounting going forward?
- Are there tools management should consider to better automate elements of the remote close and reporting processes?

**Remote working**
- What elements of the work were the hardest to execute remotely?
- How has the pattern of work changed, for example, between executing tasks, direct interactions, and meetings? Is there a need to rebalance?
- Do any collaboration tools require upgrading?
- Given that every home situation is different, are there areas that need additional support or greater flexibility?
- Were there particular countries, business units, shared service centers, or third-party outsourcers that struggled to work remotely?
- How were the interactions with other nonaccounting functions? Were there any areas for improvement?
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End notes


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