The Financial Close: Many Moving Pieces

With so many interdependent tasks and processes involved in the month-end close, there is always the potential for bottlenecks and errors. Solutions featuring automation, however, can greatly expedite the financial close process. In fact, as you can see in Figure 1, they can reduce the time needed to complete the financial close by 60%.

Figure 1: Days Required to Complete the Financial Close Process

Automated solutions can bring about this significant reduction in effort by making the entire process more efficient, from account reconciliation and journal entry to the final reporting stage.
Why Do Companies Turn to Automation?

Companies today are turning to automation in their financial systems for one simple reason: They are overwhelmed. Aberdeen Group’s Excellence in Financial Management Survey revealed that the need to manage a growing volume of transactions is the leading pressure for those in financial management.

As the number of transactions increases, there is less time and fewer resources to dedicate to processing them. Automation relieves this mounting pressure by allowing you to do more with less. With the efficiency gains they can bring, it is no wonder that companies are applying fully automated solutions to all stages of financial management, including the close.

How Automation Reduces the Time to Close

The entire financial close process is a combination of sub-steps and processes. Automation can increase accuracy (by eliminating human error) and reduce cycle times in all of these steps and processes. It is the following individual capabilities (highlighted below) that collectively improve the financial close process.

1. Automating Reconciliations & Journal Entry Functions

Fully automated solutions facilitate the creation, review, approval, and posting of journal entries. Standardization in this process is accomplished by establishing parameters in automated workflows. When accounting reconciliation and ledger entry is automated, there is less chance of human error and the process is markedly faster (Figure 2 below).
Accounting Benefits from Automation

Ledger updates are critical to month-end closing. Automating this process frees valuable resources and expedites the entire process. 41% of organizations are currently applying automation to this vital financial-close function.

Reconciling incoming payments and outstanding outlays is essential for generating accurate P&Ls, a core element of financial close. Automating reconciliation similarly expedites process times and increases accuracy.

Finally, automation in accounting-related processes results in more efficient preparation of statements and reports.

As you can see in Figure 2, companies relying on fully automated solutions are far more likely to have the capabilities that make the process improvements mentioned above possible. Companies that have chosen not to employ fully automated solutions may nevertheless possess some of these capabilities, as Figure 2 indicates, but only via standalone solutions or spreadsheet macros. However, reliance on such solutions brings with it a host of problems, from systems integration to the need for ongoing manual intervention, that fully automated systems mitigate.

2. Automating the Closing Checklist

In the past, closing checklists were absolutely necessary, particularly when executing a financial close in a spreadsheet environment. Fortunately, reviewing work against a checklist and reacting when necessary is quickly becoming a thing of the past.

Today, checklist tasks can be proactively implemented across the entire financial close process with reviews and approvals built into automated workflows. As a result, every step, every tolerance
movement, and every discrepancy can be monitored, escalated, and addressed as needed.

For example, when a workflow parameter has been crossed, an escalation alert can be sent to the relevant party in real time. Indeed, 52% of survey respondents currently have the ability to support workflow approvals across multiple locations due to automation solutions (see Figure 3).

**Figure 3: Automated Execution of Checklist Functions**

Users of fully automated solutions are 5.4 times as likely to have automated financial reporting capabilities, and they are 2.8 times as likely to enjoy automated delivery of aging reports (Figure 4). These and other valuable capabilities support collaboration and

3. **Reporting Across the Enterprise**

Report generation is the final phase of the financial close process. These reports drive ensuing business decisions and fulfill a number of regulatory and other reporting requirements. What’s more, automated reporting provides auditing benefits, since automation both expedites the reporting process and produces an electronic audit trail.

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increase the level of detail in the information accompanying financial reports.

Figure 4: Running Reports Resourcefully with Automation

The Emergence of Robotic Process Automation

Today, automation is undergoing an evolution in the form of Robotic Process Automation (RPA). This technology automates repetitive, manual work and has the ability to anticipate and execute appropriate actions across a range of processes. As a result, RPA can consistently carry out prescribed functions as well as adjust operations to scale, up or down, in order to meet demand.

This approach to automation can further expedite back-office tasks in finance, procurement, supply chain management, accounting, AR, and, ultimately, the financial close. As the future of automation, any solutions incorporating RPA are poised to take financial close process improvements to new levels of accuracy and efficiency.
Current RPA capabilities may apply to the financial close process in the following ways:

- Reconciliation of balances by comparing the ledger account to the back-up for that account.
- Streamlining journal entry posting, particularly where a robot proposes the journal entry and a financial workflow automation tool manages the approval.
- Deploying time and event-based triggers to orchestrate a series of automated inter-dependent tasks associated with the financial close process.
- Automatically aggregating information across the enterprise for a complete view of financial closing status.

**Conclusion**

Automation frees up resources, improves accuracy, and greatly reduces the number of days required to complete financial close. The average number of days required to complete the financial close by companies without automation is eight. For those with automation, the average time drops to three.

When considering financial close solutions, focus on those with automated capabilities such as electronic workflows, reconciliations, general ledger posting, and automated reporting. Pay special attention to those solutions featuring RPA, where robots can take on basic, manual tasks and scale up or down based on demand.
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