

Business Guidance Notes

Guidance Note 11

As part of the Institute's ongoing efforts to provide members with guidance and information on key issues, the Institute has developed a Business Guidance Notes series which presents guidance for members written by members.

The opportunity to reduce the number of days to close the month end becomes a trade off between accuracy and timeliness.

Month end reporting can include:

- > Financial measures covering balance sheet; cash flow; debt covenants; trendline dashboards; ratio analysis; cross sell revenue; sales account growth; staff numbers; market share
- > Non-financial measures covering branding; carbon emissions; community involvement; customer satisfaction; employee engagement levels; regrettable staff turnover

Relevant benchmarks

- > Internal: current year budget; prior year actual; rolling 12 month forecast
- > External: market trends; industry averages; competitor information (if available).

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Month end reporting

This Business Guidance Note provides guidance that focuses on the standard month end reporting process for large organisations and listed entities. It discusses the scope, timeline, stakeholders, delivery, controls and processes and ways to improve month end reporting. The aim is to help finance teams unlock the true potential of this important function and augment it to be a mechanism that is engaging, insightful and delivers real value across the organisation.

Scope

The scope of month end reporting will be different for every organisation. Historically, there has been a 'financials' focus on profit and loss (P&L) results, key balance sheet items and cash. Increasingly, best practice encourages incorporating additional strategic measures such as qualitative non-financial key performance indicators (KPIs). In practice though, these measures can be difficult to identify and require a consensus judgment to be made.

Month end reports should include financial and non-financial measures using focussed reporting (for example, in the use of dashboards) that incorporates trend analysis, meaningful commentary and comparison to one or more relevant benchmarks (see insert box, left). In doing so, finance teams can improve the context in which they present their monthly financial results, making it easier for others to fully appreciate the significance of the numbers.

Achieving the right balance between historical reporting and insightful forecasting is often a critical element in building senior management engagement and buy in. Whilst there is no 'one size fits all', good practice would suggest a minimum 50/50 split of resources with increasing efforts made to focus on forward looking information, such as rolling forecasts.

Timeline

The timing of 'month end' is reflective of the organisation's culture towards the trade off between accuracy versus timeliness. Generally, greater accuracy requires more time, whereas a quicker result will require the use of more estimates. Where each company sits along this continuum will be a question they must ask and answer for themselves.

Best practice suggests that month end reports include an early results forecast before month end for large organisations; and for all organisations a flash result early after month end; and an update just prior to the board meeting.

An illustrative month end reporting timeline for a large company can be shown right.

Day	Event
-10	Results forecast*
-3	Reaffirm results forecast
0	Month end
+3	Flash result**
+5	Lock general ledger (GL), announce final results
+6	Analysis and commentary
+8	Distribute board papers
+10	Update prior to board meeting

Day refers to business days, not calendar.

* Prepared based on the month-to-date (MTD) ledger, run rates and information gathered from a 'ring around' to business units.

** Prepared based on actual MTD ledger results plus known but yet to be processed adjustments (often spreadsheet based).

Continued overleaf >

Business Guidance Notes (continued)

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Top tips

Reducing the timeline

- > Use 'flash' reporting as a hybrid of actual and measured estimates to provide timely headline results
- > Remain in regular contact with business units to ensure a no surprises approach to reporting
- > Rely on Day 1 estimates for two months and only complete a hard close every quarter to free up time for more valued analysis.

Delivery

- > Use secure PDFs to email reports so results cannot be edited unknowingly.

Control and processes

- > Standardise instructions, templates and standing journals across all business units
- > Ensure consolidation entries are only used for that purpose and not to make corrections in underlying business ledgers
- > Remember that month end reporting on operating segment results will impact on external year end disclosures.

Ways to improve

- > When month end reporting relies on third party processing (e.g. offshoring), ensure alternative processes are in place when inevitable delays occur
- > Map out the workflow by clearly identifying those tasks critical to avoid bottlenecks
- > Simplify the monthly tax analysis by using the standard 30% corporate tax rate
- > Separate reporting of underlying results from their FX impact to highlight volatility
- > Track the accuracy of prior month forecasts against actual to review key assumptions.

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Stakeholders

Defining the audience is critical to defining the types and timing of reports. As a general rule, the higher the level of management, the more succinct the information needs to be; the more operational, the more detailed. With this in mind, there is an increasing need for users to have the ability to 'drill down' the high level information to see the detail. This is assisted by technology and/or the right combination of key reports. Refer to insert box (right) to see different level users and their likely information needs. Furthermore, focusing on the 'measures that matter' to each stakeholder group will promote greater relevance to decision making.

Delivery

The delivery of month end reporting lies in the location of the output reports to audience members.

Making relevant month end reports available beyond the confines of a finance team into the broader organisation is important in order to provide key operational senior managers with information which can facilitate decision making.

While these are commonly delivered in either hard or soft copy, this practice can be improved by the use of an intranet portal to present the month end results in a more dynamic environment. This can enable each user to drill down in key focus areas complementing the growing and evolving information needs of users. Such a system(s) will require a considerable investment in IT resources and while this kind of commitment may be beyond the confines of the current year budget for some smaller organisations, progressive small steps should be made towards improving this process.

Controls and processes

The month end process should be standardised to streamline routine journals, dealing with exceptions as they arise. This should be supported by controls to test the integrity and accuracy of results against benchmark expectations. This may lead to converging functions and developing 'centres of excellence' to ensure consistency, efficiencies and more specialised knowledge. Discipline in adhering to the month end timetable and establishing clear cut off dates is important for maintaining a smooth work flow. This will help build transparency to identify and resolve any bottlenecks in the process.

Ways to improve

As finance teams look ahead beyond the next month end, it is an opportune time to continuously improve and challenge the status quo to ensure tasks remain relevant. Often processes are put in place to serve a purpose that is no longer relevant however employees may fall into the habit of simply following what was done last month. Having the finance team reaffirm the relevance and efficiency of month end tasks should work towards improving the overall quality of reporting.

For further information on these Guidance Notes, please contact Karen McWilliams on telephone +61 2 9290 5754 or email karen.mcwilliams@charteredaccountants.com.au

Graduated levels of reporting

Board

- > High level results in concert with strategic actions and market expectations

Senior management

- > Consolidated view of results by segment, region and/or product
- > Commentary to explain variances

Operational line managers

- > Client/product information
- > Specific fees, margins & volumes
- > Direct access to source data

Other internal

- > Staff satisfaction survey results
- > Business unit updates
- > Employee performance reviews