

Automating the Financial Close in SAP

A Guide to Closing Smarter and Faster

The financial close process is remarkably manual and a recurring challenge for most F&A organizations. Achieving a highly secure and intelligent financial close automation with SAP solutions is possible with these steps:

- Evaluate your financial close procedures to confirm all processes are standardized across the organization
- Prioritize the tasks on which people should focus and which should be automated
- Adopt embedded automation technology for SAP to optimize return on investments
- Ensure automated financial controls are in place for audits and to gain visibility into process and performance
- Apply continuous improvement to workflows and processes as needed to continue to make the best use of resources and be more strategic

Financial Close Automation with Smart Close

Why does the financial close continue to remain such a bottleneck and source of frustration for accounting teams? Survey after survey points to manual processes, late nights, and risk of failure as high on the list of concerns. The truth is that it's one of the few business processes, perhaps even the only one, which requires juggling speed, detail, communication and collaboration.

The penalty for not balancing all of these aspects effectively can range from the irritating to the catastrophic. As the Journal of Accountancy puts it, "Regardless of company size or complexity, all successful financial close processes require continuous communication, comprehensive documentation, and a flexible, responsive organization. However, omitting one or two of these building blocks may result in some type of failure during a month-end close."

In recent years, accounting teams have faced the competing pressure of moving beyond mostly transactional accounting and are now partnering with the business, which looks to accounting to interpret the financials and guide their own financial decisions. With so much at stake, there's never been a better time to reexamine the fundamentals of the close.

The biggest challenge is the competing priorities of balancing speed and detail. Some organizations look for a faster close, but compromise on the granularity of their closing tasks—risking glossing over critical details such as key reconciliations, critical manual journal entries, or approval and review cycles. Others double-down on the detail, but get bogged down managing the process itself. Juggling emails, spreadsheet-based activities and task checklists, and enduring endless meetings to get manual sign-offs make the close seem to run forever, locking up accounting teams and jeopardizing their ability to be more strategic.

Over the last decade, technology has helped automate individual processes that speed up critical manual journal entries in the close- like reconciliations, intercompany processes, consolidation, and reporting. But little has

“The last mile of finance is ripe for cost reduction and efficiencies. While costs and resource consumption can be reduced by automating processes, the bigger financial impact is in preventing the fallout from penalties, fines, lawsuits and valuation that result from inaccurate filing of financial statements.”

—CFO ADVISORY: LAST MILE OF FINANCE;
FINANCE & ECONOMICS GARTNER, 4/17/12

been done to help orchestrate the overall process. To draw an analogy, if the financial close were an orchestra, each individual musician will have certainly gotten better over the years—but the conductor would still only receive a passing grade.

Recently, new technology like robotic process automation (RPA) has emerged that can help reproduce typically repetitive, rules-based tasks automatically—such as auto-certifying reconciled accounts. But a novel application for RPA is now in play. Now RPA is not only automating and scheduling tasks, but also helping ensure teams are working together to guarantee every detailed close activity is performed at the right time, by the right person, using the right transactions and methods.

The benefits reaped from orchestrating a better close by applying the latest technology can be significant. In some cases, Shared Service Centers (SSCs), Business Process Outsourcers (BPOs), and corporate or entity level accounting teams have improved their efficiency by 70%.

This whitepaper, created for enterprises running SAP, provides a practical, in the trenches perspective from BlackLine on the challenges organizations face, and proposes opportunities to rethink the technology and process barriers to a better, smarter close.

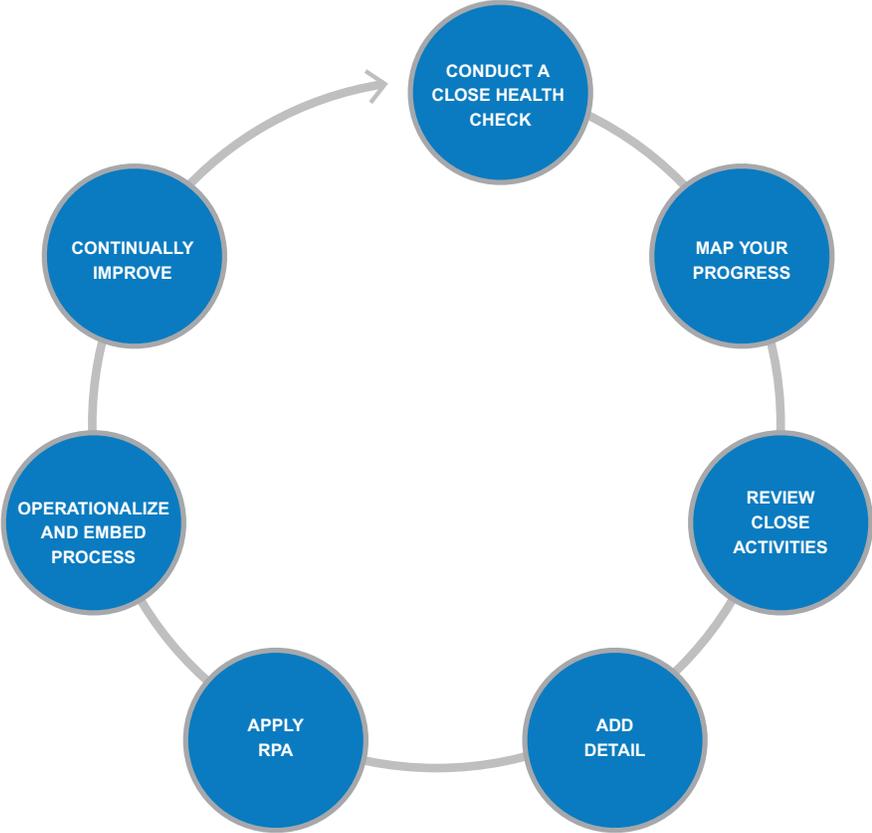
Upgrading the Monthly Close— A Process Perspective

If you're worried about your financial close, then you're not alone. According to FSN Modern Finance Forum's recent survey, 97% of CFOs are kept awake at night by the concern that their finance teams will not meet their reporting deadlines. Large, global organizations typically face the need to execute tens, or even hundreds, of thousands of activities during the month-end close across corporate and entities, any one of which can create a delay or add risk.

To ensure that the close is accurate and timely, almost all organizations rely on checklists for the tasks that must be completed. Unfortunately, there's often a gap between the reality of what actual close activities occur and who approves them, and the best practices that are buried away on spreadsheet checklists and other documents. Minimizing that gap is often heavily reliant on people and process. It's often why when key accountants leave an organization, it can have a negative effect on the close—because they were acting as a strong orchestrator, applying gut instinct and institutional memory to keep the close going.

Upgrading the close process means conducting a thorough review of where the issues are, building out a clear and detailed set of activities at every level, and then applying automation, scheduling and orchestration, while embedding the controls and activities, so the accounting team acts on them without fail.

UPGRADING THE MONTHLY CLOSE
A PROCESS PERSPECTIVE



STEP 1

Conduct a Financial Close Process Health Check

The first step in any review of a close process is a review of the risks and bottlenecks. As a benchmark, according to the Corporate Executive Board (CEB), the fastest closers close in just four days. But that’s not the whole story. The CEB noted that high performing closers —those that are at the appropriate level of detail and have time to support the business with management reporting during the close, take seven days. The secret is to balance speed, detail, and business partnering.

Every accounting organization has a different combination of process bottlenecks and risks—whether it’s visibility into the status, lack of standardization and consistent approvals, or too many spreadsheet dependencies. We’ve prepared the checklist below to help you self-identify where the issues are in your close:

PROCESS	Opacity into status of close tasks in entities/subsidiaries.		 CHECK IF APPLICABLE TO YOUR ORGANIZATION
	Activities around the financial close are summary level and not detailed.		
	Close checklists are in spreadsheets / documents.		
	Very limited process standardization within SSC and in BUs.		
PEOPLE	Lack of clarity around roles, responsibilities and approvals.		
	Varying levels of documentations to support audits.		
	Transactions lack evidence such as invoices.		
	Team is too focused on transactional activities.		
CONTROLS	Weak visibility into process and performance.		
	Lack of collaboration between shared services team and subsidiaries.		
	Controls are based on spreadsheets and email.		
TECHNOLOGY	Manually run many specific ERP processes that are essential for close.		
	Time spent ensuring correct transactions are used for ERP processes.		
	Time consuming to add documents and comments to tasks/activities.		
	Inability to easily adjust workflows, schedules and process.		



STEP 2

From Pre-Close to Close: Map Your Processes

In the diagram above, we provide you with an overview of the end-to-end closing process to enable you to consider how your closing process looks compared to that of most enterprises. All finance components, activities and responsibilities must be included or it is not a close. Done right, checklists help ensure a close is complete.

Weekly Finance Checklist

In preparation of the month-end close, the end-to-end closing process starts during the month. While following a checklist, a lot of checks, clearing, and open item management activities will be performed throughout the month.

Pre-Close

During the pre-close phase, accountants are mainly focused on completing normal finance activities like Accounts Payable (AP), Accounts Receivable (AR), Bank, etc. Check milestones are built into checklists throughout this process to verify the completeness of these activities, including confirmation of financial business transactions such as sales and billing, inventory, depreciation, payroll and other areas.

Closing Process

After these milestones are confirmed as complete, the close process moves on to the next phase, which is the closing itself. During this phase, periods will be closed and technical activities in SAP will be performed including: intercompany eliminations, Profit and Loss (P&L) and Balance Sheet (B/S) calculations, corrections, currency translations, analysis and variances, adjustments, consolidation, etc.

Reporting and Documentation

While every financial close process includes preparing the financial and management report book, the additional step is ensuring the transactional integrity behind the reports themselves. This is essential to ensure an audit trail and provide details to substantiate all account balances.

STEP 3

Review Your Activities

Based on our work with large enterprises running SAP, their corporate close, once fully documented, can comprise of more than three hundred thousand monthly activities. This typically equates to more than five hundred activities per reporting entity/company code. These activities themselves will always contain many sub-activities and checks, which have significant interdependencies that can result in latency and other issues.

Below is a high-level framework for a global close activities overview. When complete, there are typically more than five-hundred activities with detailed tasks, providing a guideline with which to benchmark your general activities. Typically, enterprises first harmonize the closing process across SSCs with a detailed activities checklist and then extend into entity accounting. This streamlining of all the end-to-end processes enables efficient, transparent and auditable finances and results in on-time delivery of reports.

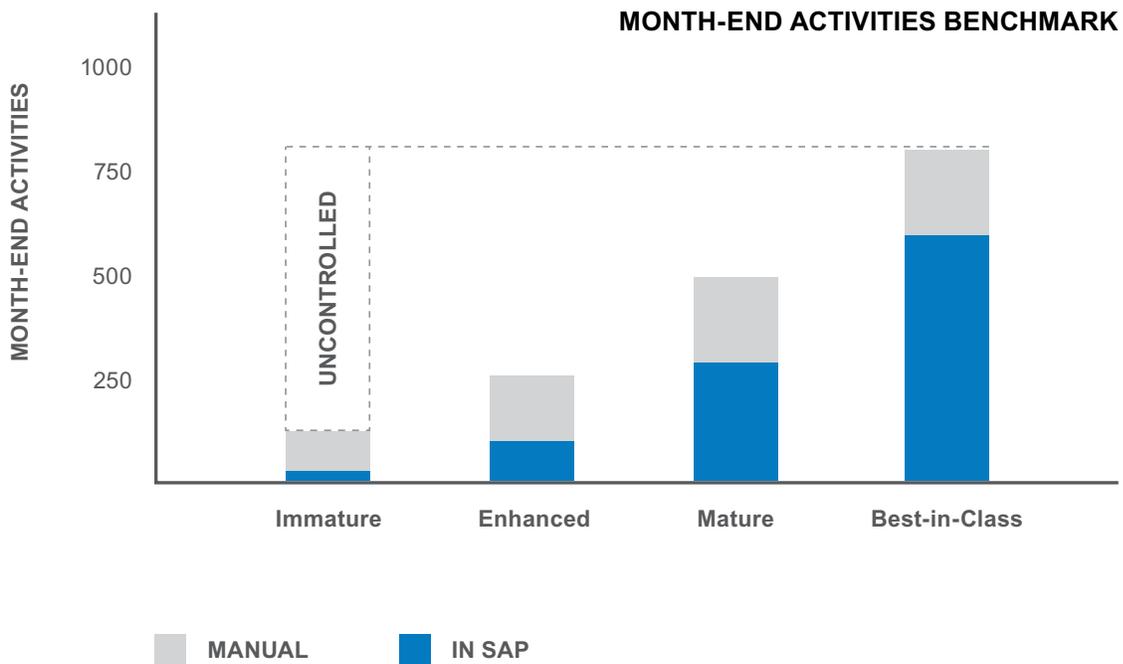
PHASE	ACTIVITIES	ITEMS
Weekly Activities	Clearing	Clearing GL
		Clearing AR & AP
	Open item management	Open item management GL
		Open item management AR & AR
Pre-Closing	Accruals	AP: overview of parked documents
		Create accrual overview
		Approve accrual journal
		Post approval
		Reverse accrual
	Fixed Assets depreciation	Test run depreciation
		Run depreciation
		Check subledger versus P&L
	Open Close period	Close period AP & AR
		Close period MM
		Close period FI
	Closing	Close Period
Close GL		
Ledger versus Subledgers		Check FI-MM
		Check FI-CO
		Check FI-AR & AP
Controlling settlements		Test run CO settlement (cycle I)
		Run CO settlement (cycle I)
		Check CO versus FI
		CO settlement cycle II, etc.
Analysis		Analysis Revenue
		Analysis Margin
		Analysis Expenses

STEP 4

Get Down to the Activities Detail

Industry research shows a strong relationship between the number of activities in scope and the maturity level of the month-end close process. Organizations that have a checklist with only around a hundred activities per entity to manage their close process are typically managing at too high of a level and require more detail to be in control of the close and reduce the risk of failure.

Best-in-class companies manage their close process on a much more detailed level, with more than five hundred activities per entity. However, detail without automation has a high risk if rolled out purely using spreadsheets, documents and manual controls. It will likely extend out the close, causing a spike in accounting resources—and if the organizational model doesn't adapt, there is still risk that activities will be missed or not adhered to.



STEP 5

Use Robotic Process Automation to Balance Efficiency and Detail

While large enterprises have already outlined and upgraded their closing processes through checklists, they're now moving from manual close processes to robotic process automation to do it more efficiently, while at the same time lowering risk. RPA is a technology that applies the combination of intelligent workflows, business rules, triggered operations and process scheduling to shift repetitive tasks from people to technology. It's especially applicable to bring specific conditional workflow, robotic triggered workflows, and automatic scheduling designed to address the financial close activities at scale.

Automation tools that schedule and execute the details automatically—running actuals, open items processes, settlements, depreciations jobs, and other areas, based on robotic workflows, enable accounting to get to the activity detail they need to, so they can reduce compliance risk—all while doing it sustainably without overwhelming accounting with tasks.

“Robotic Process Automation is a promising new development in business automation that offers a potential ROI of 30–200 percent—in the first year. Employees may like it too.”

—MCKINSEY, DECEMBER 2016

STEP 6

Operationalize Close Activities

While automation is an important step in any close process upgrade, without operationalizing it, the value will vary. That's because, even with the best automation tools, poor integration with your ERP will result in limited adoption, and, subsequently, have limited impact. In many cases, close checklists, approval steps and controls exist outside of the ERP, leaving it to team training and diligence that accounting will use them. Operationalizing controls means embedding them in the ERP, always operating on live data, minimizing separate systems and providing a real-time status on the completion of tasks based on their status in the ERP.

STEP 7

Don't Stop! Apply Continuous Improvement

Best-in-class organizations close approximately twice as fast as the average, with efficiencies throughout the close, from the BU close to pre-consolidation and consolidation processes, to financial and management reporting. But this wasn't achieved overnight. These organizations have typically been on a multi-year journey, continually identifying bottlenecks, making changes to checklists, and automating specific tasks based on rigorous feedback and review. With any close process upgrade, it's important to monitor process and activity adoption, continuously identify bottlenecks and refine. An added benefit of modern RPA tools is they typically provide reporting and analysis on activities, effortlessly measuring process performance.

The Advent of a Smarter Close

BlackLine Smart Close is the only accounting close solution built directly within SAP ERP to answer the financial close automation challenge—granular robotic process automation, while also being embedded to ensure accounting adoption. Global brands like Vaillant and Linde Material Handling use Smart Close within their SAP landscape to bring embedded robotic process automation to their financial close processes.

Smart Close runs transparently and natively inside your SAP deployment. It's designed to be easy and simple for accounting to create new close workflows, schedules and approval flow—so everyone, from subsidiary accounting teams to corporate shared service centers, knows their responsibilities, next tasks and exceptions, and can free themselves from onerous repetitive, detailed and error-prone tasks.

The screenshot displays the BlackLine Smart Close Status Monitoring interface, which provides a detailed view of the financial close process. The interface includes a table with columns for Status, Exec, Step, Prev Comments, Scenario step description, Responsibility group, Type, Notif, Text, URLs, IC, Log, and Earliest start time. The table lists various tasks such as 'Notification - Start of Close', 'Open New Period for X Vendors - OES2', 'Check Suspense Account For Zero Balance', and 'Execute Asset History Report, and analyse to be retired assets'. Callouts highlight specific features: 'Who is responsible' points to the 'Responsibility group' column; 'Control sign off for IC tasks' points to the 'IC' column; 'Status and execution of tasks' points to the 'Status' and 'Exec' columns; 'Workflow steps and sequencing' points to the 'Step' column; and 'DETAIL VISIBILITY INTO THE CLOSE PROCESS & ROADBLOCKS' points to the overall table content.

Improving the Close at Every Level

A better, smarter close can provide benefits at every level:

- **CFOs.** CFOs need instant transparency into the status of the financial close, at any point in time— rather than relying on accounting operations alone for updates. Smart Close provides a clear view of completed activities, items remaining and overdue areas, as well as the data and detailed reporting to instill confidence that everything is on track, and the details have been taken care of.
- **Financial Controllers.** Smart Close enables every detailed activity related to the close to be centralized, assigned and tracked. With clearly distinguished responsibilities, status highlighting and flagging of exceptions or problem processes, Smart Close provides controllers with the power to efficiently manage the detail that's vital for compliance by surrounding it in a governance, automation and workflow framework.
- **Accountants.** Smart Close allows accountants to use robotic process automation to put time-consuming low-value tasks, like suspense account monitoring and open item analysis, on auto-pilot, so they can focus on more satisfying and strategic work like analytics and reporting.
- **Auditors.** With Smart Close, it's easy to access audit materials at the appropriate level. Equipped with special viewing access for auditors, Smart Close shows clear accounting trails with attached documentation—improving auditor and staff productivity and reducing audit costs.

Operationalized at the Core

BlackLine Smart Close for SAP Close embeds in SAP, from SAP ERP 4.7 through to S/4HANA. Using standard SAP user interfaces, accounting gains direct access to all data in SAP, including historical data, with no need to learn a different application. From directly within SAP, all closing tasks are available, including AP controlling and costs modules, asset history sheets, aging and risk assessment reports and special ledgers.

Putting Accounting Back in Control

We designed Smart Close to be different from traditional tools. Smart Close doesn't require scripting to create tasks, or require expensive and time-consuming IT and consulting teams to update and change processes.

Smart Close automation templates are standard global automation templates. They are best practices that only require slight configuration—so you start with proven processes out of the gate. Best practice templates enable fast knowledge exchange, allowing finance teams to not only optimize and harmonize the closing process in ways that have been proven successful but also to quickly automate them.

	BLACKLINE SMART CLOSE	LEGACY
Access	Single sign on, embedded in SAP	Outside of SAP
Management	Click-not-code	Customer scripting
Data	In place and real-time	Reports and extracts required
Training	Matches SAP experience	Different look and feel
Process	Entire financial close process	Point tasks
Global	Multi-entity in one solution	One solution for each entity
Templates	250+ provided out of the box	Consultants required

“The great thing about Smart Close is that whenever an additional step is necessary, we can simply make the change ourselves. It cuts costs and gives us independence from IT.”

—ROB SEGARS, ASSISTANT CONTROLLER, PHILIPS

It's Time for a Smarter Close

Smart, clear financial close orchestration and automation is more important than ever to make the close more efficient, predictable and less error prone. Breaking through manual steps at scale and applying continuous incremental improvement is one of the secrets to achieve a fast, clean close.

Modern finance organizations are moving to process standardization and financial automation to make the best use of resources and be more strategic. BlackLine Smart Close for SAP is proven to automate as much as 70% of financial close tasks by providing self-service, and standardized and automated financial close automation, embedded directly within SAP.

- Define and control corporate and local detailed closing tasks.
- Periodic checklists, pre-close activities, closing tasks, internal controls, report verifications, milestones and notifications.
- Trigger, monitor and document tasks through a central, SAP embedded interface.
- Exception based close management.
- Robotic workflow triggering and documentation.
- Automatically verify report output and sign off on in case of positive verification.
- Highlight items outside tolerance limits.
- 250+ best practice templates, checklists, and workflows out of the box.