Resilient: Confronting the COVID-19 crisis
Actionable insights to help businesses respond and recover

Episode 7: Financial reporting: Closing books in a virtual world

Host:
Mike Kearney, partner and chief marketing officer, Deloitte Risk & Financial Advisory LLP

Guests:
Tom Toppen, managing director, Deloitte Risk & Financial Advisory LLP
Julie Velayo, principal, Deloitte Risk & Financial Advisory LLP

Mike Kearney: Welcome to Resilient. My name is Mike Kearney, Deloitte Risk and Financial Advisory's CMO. I'm spending a lot of time with my clients on COVID-19—every day is full of new issues and even some opportunities for them. That's why this Resilient series is so important to me. We are focusing all of our attention on the evolving impact of COVID-19 and focused on providing actionable guidance to help you respond to the crisis and start planning for the future.

The pandemic is changing how and where we work and top of mind for many is how those in charge of finance are leading an unprecedented task, closing the quarter, and reporting financial results with a completely virtual team, something really that has never been done. How can companies transform and innovate in light of the new way of working?

Today, we are lucky to have two Deloitte leaders who spent their entire career in this area: Tom Toppen, managing director who leads Deloitte Center for Controllership finance transformation efforts, and Julie Velayo, a principal who helps clients transform their accounting and control environment through digital technologies.

We continue to record these conversations virtually and in our homes. And even though we're not in the same room, the audio has actually been pretty good. So let's get to it: our conversation with Tom and Julie.

So we have begun all of our interviews recently with asking a question of our guests, and that's how they are managing their well-being. Obviously, the world has turned upside down over the last four weeks, and taking care of oneself is critically important to being productive. So, Julie and Tom, I'd love just to start off with, how are you managing your well-being? And Julie, I will start with you.

Julie Velayo: Yeah, sure. It's a really good and relevant question. One thing that I had kind of had going before the events of

the last couple of weeks happened was, I had registered for a half-marathon here in Charlotte. It was scheduled for the Sunday after next. And as you might expect, it's been canceled, but I was pretty far into my training, so I decided, race or no race, let's keep going with that. So I still do my early morning runs and really, I think it kind of sets the tone for me for the day because I know I end up sitting a lot during the day. So it feels good to get started that way.

Mike Kearney: That's good. Hey, Tom, how about you?

Tom Toppen: Yeah, great question. Like a lot of people, I travel a significant amount of time, so my routine around that is airports, hotels, restaurants. It seems to be every week, right? And so a new routine has come into play now, which is pretty nice and I'm enjoying it: the ability to have dinner at night with my family as a whole unit, college student and middle schooler—it's something we've typically just been able to enjoy on the weekends when everyone's home. And then the one thing I would say is that our family has improved our basketball skills quite a bit. The games are getting a little more intense as the weeks go on. So I think we might have to get some refs soon. Probably a few technical fouls could be called to just manage and control the game a little bit more.

Mike Kearney: It's funny, because I believe in silver linings, and for me, I've got three kids, but I've got an 18-year-old daughter that's going to be going off to college. And I think I've spent more time with her in the last month with those family dinners that you're talking about, Tom, than I probably have in the last two years. So it's pretty cool. But let's get down to serious business now. So, Julie, I'm going to start out with you. We are . . . different counts, but at least three or four weeks into the COVID-19 crisis. And I think it's actually interesting, because when you reflect on finance and accounting professionals, they typically don't work at home, but now they have to. So the question I have for you is, how are you seeing organizations change their financial close process?

Julie Velayo: Yeah, it's a very timely question, because a lot of our clients and companies are going through their first close as we speak. Many have even completed their first close in a virtual environment right now. So very top of mind for how that's going to work, what it looks like. And really first and foremost is, how do you just get the work done? You know, a lot of the work remains the same, but just what do we need to do to . . . If you didn't already have that structure of working from home, how do you get organized? How do you communicate on who does what and when? So a lot of what we're starting to see is clients setting up a virtual team to oversee the close, and they sometimes refer to it as a virtual command center.

It's really specific people that are dedicated to facilitating that collaboration and just managing tasks, execution, you know, broader activities. Even starting to think through things of, "How do we make sure everybody has the right access and can get to the data that they need to perform their responsibilities?" and really just making sure that those are getting done in some cases, right? There's even a reprioritization of some of those activities. Things like accounting judgements on some impairments or disclosures might be changing. And so some of those are shifting up in the close schedule, just so that you can spend a little bit more time on those and have discussions with external auditors as well.

Really having that command center in that organization is super helpful, too, when you think about all the things that we are all juggling, both professionally and personally. You know, on one end of the spectrum, I've talked to clients who may have mature accounting departments, right? Where individuals don't have those young kids at home. They have adult or college-age children, and others may have employees who may be ill themselves or have younger children to take care of. So that can really impact when you're able to work. And so communication and really backups are critical in those cases.

Mike Kearney: Are you finding . . . or maybe a better way to ask it is, who are you finding is running these virtual command centers? It sounds like kind of a finance PMO, but is there a typical person that's usually taking the helm with that?

Julie Velayo: Yeah, generally speaking, it's someone within the controller's organization, usually a director of some sort or manager that's doing exactly that. PMO is a great way to put it.

Mike Kearney: Julie, what about success stories?

Julie Velayo: Yeah, the first thing that comes to mind is a client who is already leveraging tools that allow that collaboration, right? And any sort of collaboration tool that you can think of to allow that coordination. So people that were already doing that had a little bit of a smoother go. Over the last week or so, we made it through this first, but it was very inefficient. And so why do I want this to be my new normal, because it wasn't very efficient? It's a great challenge, right? And I think a lot of that remains to be seen, whether this is really the new normal, or will it land somewhere in between what we were used to previously, say a month or two ago, and what it looks like now? And the answer is probably somewhere in between.

Mike Kearney: That is, I think, the million-dollar question in all facets of business, as we've totally changed how we work and then what's going to happen when we go back to "normal." I'm fascinated to see how it's going to pan out. But, Tom, I've got a question for you, and that is, obviously technology is going to have a big impact. What are you seeing with regard to the types of technologies that companies are using to address some of these issues and opportunities that Julie just talked about?

Tom Toppen: Mike, there's probably three key areas, when we think about technology and enablement by technology, that really fit together in this new world of virtual, right? And the first is the ability to collaborate and communicate with teams, not only with collaboration, but other areas, certainly in business, then also just even within society. So it's pretty intriguing, kind of, when you think about it. I was talking to a company yesterday that just finished their March close, and they actually said—really

interesting—they said they purposely overcollaborated and overcommunicated during their first virtual close when we asked, did people think it was too much collaboration and communication? And they actually said no. People on the finance and accounting team really embraced it. The key is going to be really about finding that right level of collaboration and the right level of involvement. The one thing they did, they started to take away some of the work—I'll call it the nonclose work—from their people. Maybe they were special projects that they were working on, etc., so they could solely focus on the close during that period of time. So what's going to be the trick is, then how do you start to weave that normal work or that extra work that everyone is doing back into the normal now? So it's going to be kind of interesting to see how that happens.

Mike Kearney: I've got a question, because you've raised something interesting that I've seen in different areas, and I want to see if this is true here, and that is, you indicated that finance and accounting groups are collaborating a lot, obviously, through this time, and maybe even orchestrating it so that they have to. I wonder, though, if it actually has resulted in more collaboration, because you're working differently. And what I mean by that is, if you're in your physical office space, you may tend to call people or send emails, where maybe through some of these collaboration tools, you're engaging in collaborating in a way that you may have not been doing kind of in the traditional environment. Have you seen that?

Tom Toppen: Yeah, I think so. I think that you're going to see a lot of benefits from people banding together more. I think there's a personal development element to this that is probably something that that needs to be considered as well.

Mike Kearney: Tom, you talked about the three technologies you've hit on the collaboration tools. What are the other two?

Tom Toppen: So a couple other areas that have come up as challenges have been around just access to systems and data and the volume of people needing to access corporate systems to enable the close to get their work done. They're running into VPN capacity issues, user permissions, and just general bandwidth problems because everyone's online right now.

Mike Kearney: What about the third technology? Is there one other that you want to profile?

Tom Toppen: The third was really critical around just having visibility into your close calendar, to your close schedule. A lot of organizations certainly have close calendars that they manage through different means. But being able to have access to that remotely is going to be . . . is critical. We're seeing a lot of companies that have cloud-based close automation and close task management solutions already in their environment, or they're seeking those out, that will allow them to more effectively manage, govern, and perform the close.

Mike Kearney: Let me pivot to Julie. I'm a former auditor. I've done a lot of internal control work, and I know that controls are fairly important to reliable financial statements. I'm guessing that in this new virtual, certain controls probably can't be executed, others may need to be modified, and I'm just curious what type of challenges and changes we are seeing companies consider, especially when they're starting to think about assessing the impact to internal controls over financial reporting (ICFR). Obviously, an important part of the audit opinion that's ultimately rendered every year.

Julie Velayo: Yeah. And no matter how long ago you did work, it's still very relevant. But yeah, when you think about challenges related to ICFR specifically, just a few things, right, that we're starting to think about and people are starting to think about as they go through close and continue through their fiscal year, first looking at scoping and their risk assessment, right? Because that's the basis for the focus of your work. So when you think through a risk assessment, it's something that's iterative anyway and really should be revisited during situations or events like this. So what we're starting to talk to folks about and seeing some organizations do is, take a look at the risk assessment, see what might've changed, and I'll give you just a couple of examples of what we're seeing.

The first is looking at your materiality. So when folks initially did materiality calculations, it was likely based on some sort of expected financial result. Given that this situation has really impacted a lot of businesses, more so in some sectors than others, those expected financial results or business performance could look very different now than what they were expecting. And with that shift, does that then mean that components that were once deemed out of scope are now going to come into scope? So really getting ahead of that so you're not further down in the year and then realize, "Oh goodness, I need to pull something into scope that I hadn't planned on." So taking a look at that. Qualitative risks will always be worth assessing—examples that we're seeing here—is there a risk to credit notes being issued as that volume is really going up because of what's happening in this situation?

Another piece of that is looking at your existing qualitative risks and thinking, "Has my risk rank changed, just so maybe a month or two ago something was deemed low- or medium-risk, but now it might move up to medium or high?" An example of that could be some inventory obsolescence, if you're not able to move your inventory as quickly as you once did, or potential credit risk of customers and their ability to pay. So just things to keep in mind there.

Two other pieces to that risk assessment that I think are important are also fraud risks. So this time is tough, personally and professionally, and sometimes we don't always know what's going on with people personally. It could be personal financial stress. And so when you think about that in the context of different fraud scenarios, it's important to keep that in mind from a segregation of duties perspective, and delegation of authority, because even though you may not be working in the same building or next to each other, that still needs to be in place, right? Those appointments are critical. And then last

is just focusing on some highly impacted processes that really, you know, make a lot of sense when you think about what's really changing here as a result: revenue, cash, payroll, supply chain, and then any sort of accounting and disclosure-type controls. So that's when you think about risk assessment and how you want to frame what to look at for ICFR. That's a really good starting point.

Mike Kearney: Are you actually finding that certain controls are no longer operable, I guess, if you will, or that you can't actually execute them, after you go through that risk assessment process? I'm just wondering, in this new virtual environment, if the virtual nature of work actually changes how controls operate—obviously maybe not application-type controls, but more manual-type?

Julie Velayo: Absolutely. You hit the nail on the head. The manual controls, or in a lot of cases it's the management review controls which are pretty critical, and more manual than automated. So we actually had a conversation last week; it was on one of our Dbriefs. And so it made me start thinking that companies will be dealing with this in many different ways. And so what's had to happen in short order is, if you are doing things that are manual, that are on paper, that require those signatures, you've got to change the process, and it has to move quickly. For the manual review controls and things like that, it is important to really make sure that what you did before, which could be having a conversation in a month and meeting with your team, it will look different. And how do I document that? Exactly.

Mike Kearney: And I think your point, though, going back to your original answer, it's almost where to start. I've heard a couple things. One, you've got to start with your risk assessment. You've probably got to double down on your fraud risk assessment. And then you probably need to look really closely, like you said, at those highly impacted processes. Did I get that right? Did I remember right, Julie? How am I doing a good job on my controls?

Julie Velayo: Yeah. All that, you did great. And add, take a look at those manual controls.

Mike Kearney: That's right. Anything else from a control perspective? Like if you're a controller sitting on the other end listening to this and they're like, "Oh, this is like really hard, and I'm thinking about controls." Other areas are impacted. Other advice that you may have?

Julie Velayo: Yeah, and a great point. I'll tag on to what Tom said in his previous answer around starting to grant access to more users. There's even a consideration around licenses as well, which isn't directly ICFR, but I think something for everybody to keep in mind. But what's important about that kind of expanding or growing access is that IT controls are also part of your ICFR work. And so it's important to just make sure that when you start to think about your logical security access as part of your IT controls that you'll need to take a look at that might be a little more voluminous than you than you expected. So thinking about you should still have the same approval process to granting access, there's no reason that should be different.

You should still make sure you're regulating your segregation of duties. Even if you are giving more people access, they still only need roles for specifically what they need to do. But then on the back end, we want to make sure that people are offboarded, so if it was just to get through close, then make sure their access is removed after close. Also think about . . . there are a lot of controls on the back end related to user access reviews, and those are going to become pretty big and a lot of work on the back end if you've got a long list of users to look at. So just make sure that you're allowing time for that on the back end.

Mike Kearney: Great. So let's go back to Tom. Tom, are you actually seeing some organizations move to that soft close in this virtual environment? And I'm guessing that there's actually some sort of practice that goes with that for the quarter-end close. But is that something that you're either recommending to your clients or that you're starting to see organizations do?

Tom Toppen: We're seeing it both ways, so we're certainly recommending it. I think that the point I'd like to make, too, is, it's just looking at the close smarter. Being able to meet your external reporting requirements, but doing so in a much more resource-efficient manner. And I think it's healthy to go through that exercise, because we as accountants can oftentimes get in this path of, "Hey, we just will wash, rinse, repeat," right? And it's good to take a good, clean, healthy look. And unfortunately, now organizations need to do that, because they do have capacity restraints not only domestically, but globally.

Mike Kearney: Well, and one of the things that you're pointing toward, I think, when you really step back, and you talked about how we as accountants sometimes are prone to do things a certain way because that's the way it's always been done. And I think what's good or an upside, if you will, again, about the current situation is, it breeds constraint, and constraints breed innovation. And I'm guessing you're probably gonna see a lot of innovation and ways to do things better throughout this process or throughout this crisis. Do you agree with that?

Tom Toppen: Oh, absolutely. There's a lot of different ways that I could see—that I will see and expect to see—organizations become certainly more innovative here. And I think a big one of those that I can think of is just this whole of accelerating their utilization and adoption of technology. To automate the manual, automate the routine, allow and create capacity for individuals to do more value-added, more analytic work. And so I truly believe that we're going to see companies embrace the ability to learn from how they've had to deal with a virtual close, rationalize activities, and translate that into how they can do this better, more efficiently virtually, and in a more value-added manner going forward.

Mike Kearney: Hey, Tom, is there an area or two that you're seeing organizations, to your point, innovate around on that touchless close?

Tom Toppen: Within the close space, there are some really strong financial close automation solutions in the market. A lot of companies certainly have those and have optimized their utilization of them to help

automate traditionally significant manual activities within the close, around account reconciliations, being able to automate journal entries, automate some more of the analytical activities. Whether they're within the historic controllership shop or within FPA, creating this seamlessness between close activities, consolidation activities, and reporting activities, and being able to tie those silos together, is something that we're very bullish on and I'm seeing a lot of companies start to embrace.

Mike Kearney: Julie, we've talked a bit about this: We're now all working at home, where you used to be working in our offices. Can you see a future where finance and accounting professionals are working at home, and maybe organizations are relying less on kind of that traditional office space?

Julie Velayo: Yeah. And I think we talked a little bit about that before, and in that first couple of questions of, you know, time will certainly tell. You know, when I think about . . . I think I also mentioned I live here in Charlotte, so a lot of friends and neighbors work in the banking industry. And if I think about the history of that sector specifically, you know, 20 years ago, everybody was on-site in the office, and then probably 10 years ago, everybody was remote, working remotely. And in the past couple of years, we've started to see that pull back into the office. And I don't think that's just unique to banking. But I think a lot of these decisions over the past . . . call it 20 years were based on both probably productivity studies, cost considerations, and this . . . The situation that we're in now is really gonna challenge, I think, companies to start to think about what does make the most sense. And if I can offer that flexibility to some of my employees, but then also still achieve what we need to achieve, because now we're smarter about how to work virtually, we're smarter about the tools that we can use, there absolutely will be a business case for continuing to work remotely in some cases, in some industries specifically.

Mike Kearney: Do you think there's certain areas that maybe are more prone to kind of a virtual work environment within finance and accounting and maybe some that would be more difficult and maybe need more thought and innovation to make it happen?

Julie Velayo: Yeah, that's a good question. You know, things that are very routine—Tom mentioned bank reconciliation—there's largely not a reason to be in person for things like that where it gets to some of the effort around the manual activities or reviews or more judgmental areas. That's where you really have the need to collaborate and potentially be one-on-one or where finance and accounting is really partnering with the business outside of finance and accounting. A lot of our clients in finance and accounting talk about wanting to be a better business partner and be more strategic and be a catalyst to the business. And so having . . . building those relationships is generally better in person. And I think things like that will prove to be more effective than back in the office.

Mike Kearney: So Tom, let me go back to your earlier . . . Tom, you had talked about technology being very important to this virtual working environment. You talked about using tools to collaborate. You talked about some of the challenges and needs in accessing systems and data, and then also a visibility into the close schedule. Do you have any advice for—and you could pick one of the three—but do you have any advice for organizations that may be a bit less tech-savvy? Meaning, you know, maybe ones that haven't gotten the whole collaboration virtually down or maybe don't do everything you had talked about from a virtual close schedule. What advice would you have for them, Tom?

Tom Toppen: Yeah. Julie mentioned a couple of things early that I think hit square on this question, Mike. She talked about the virtual command center—and I'm a big space program nut, and when I think about the command center, I think about a movie of all the people sitting in the control room—they've each got their own computer laptop. There's a chain of command in place. Everyone has their own specific responsibility, but everyone works together, right? And so this command center focused on managing the execution, managing the resource capacity constraints, managing the issues that come up during the close, is something that organizations certainly could do without a full collaboration capability in place.

Julie Velayo: Yeah. If I add on here, there's a lot to do with existing technology within companies' platforms today, right? So there—and a lot of times, I put the internal controls lens on this—but it applies more broadly to whatever ERP you're using today. There are probably ways within a process where you could leverage functionality within the ERP that might not be enabled today. So, you know, rather than go out and spend money and feel like you have to have this large-scale effort to transform, start with what you have, right? And it's a more cost-conscious approach. It's also just taking full advantage of the tools in your toolbox today.

Mike Kearney: Tom, that was a perfect tee-up for my last question. What's the one thing that you're most excited about for the future in this whole finance virtual close arena? Tom, I'll start with you.

Tom Toppen: Controllership organizations are constantly under the under the pressure of being able to provide more value to the rest of the organization. And to be a true valued business partner to the organization is by being able to rationalize the redundant, to make their processes more efficient, to give their resources stronger opportunities to grow and succeed. And by making the close and enabling the close to be more touchless, I think the value quotient that that controllership organizations are going to see is going to be tremendous going forward.

Mike Kearney: Julie, what are you excited about, other than running your half-marathon, beyond that?

Julie Velayo: I'm most excited about learning how to position my camera in my laptop. But since internal controls are near and dear to my heart, I'm most excited about companies realizing, and accounting and finance functions realizing, they not only can more be automated with their controls, but how they test them can also be automated too. And I think it's exciting that this is . . . while the situation is not what we had hoped for, we can take something positive away from it. And a lot of that is driving more towards that automation.

Mike Kearney: Well, thank you, Tom and Julie, for your time. That was unbelievably insightful.

This is our seventh set of interviews in three weeks. That's just mind-boggling to me, but we will continue to share our insights across every angle of COVID-19 until we've exhausted everything. I begin to ask the question at the outset of these interviews as to what our guests are doing to take care of themselves. I'm asking it because it is so vitally important that we take care of ourselves during this very challenging time. For me, I'm getting up early, working out, and even meditating, and at the end of the day, I'm having dinner with my family. So I guess you could say there are some silver linings associated with this crisis.

For more insights across all aspects of COVID-19, look to deloitte.com. You can also find the Resilient podcast on Apple podcasts, SoundCloud, Stitcher, Google Play, and even Spotify.

And if you have any other stories you want to hear more about, suggest them at deloitte.com/us/resilient, our Resilient page.

Until next time, stay safe and remain resilient.