The 5 Questions

To Ask Your Controller

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Introduction

The new mandate for controllers—and CFOs

As the office of the controller becomes ever more strategic—creating higher levels of financial visibility to help drive growth and profitability—the financial organization's relationship to the controller role must evolve as well.

Specifically: Today's CFO needs to work closely with the controller to ensure that, one, the organization gets the full benefit of the controller's talents and knowledge and, two, the controller's office is operating at the highest levels of efficiency and accuracy.

Ask your controller the following five questions to initiate a conversation around best practices.

Q1 | How many manual journal entries are we making during the closing process?

An excessive number of manual journal entries needlessly extend a closing period—and can also be a leading indicator of lurking problems. They can conceal anomalies and errors that actually have broad, systemic roots. You may be plagued with variable accounting processes—or a level of complexity that calls for revised standards.

To optimize the closing process and reduce the incidence of manual journal entries, you and your controller can consider implementing these best practices:

- **Create comprehensive policies:** First, carefully define and document your accounting policies. A growing company's policies often evolve ad hoc. Auditors, however, want clear, coordinated policies, rules, and procedures that everyone follows—especially when there are complex, nuanced issues such as revenue recognition.
- **Work with auditors:** What exceptions are they uncovering? Your auditors can be an excellent source of external feedback. Review your accounting policies with them—and seek their agreement prior to the actual audit. Also, consider grouping your key transactions together, with policies documented, to speed the audit review and minimize objections and questions.
- **Formalize the process of manual journal entries:** You won't eliminate manual journal entries—nobody can—but you may reduce them by formalizing the process. Part of the answer is automation, which will help enormously. But you should also devise rigorous processes that discourage manual entries, and ask your team to seek alternative ways to account for recurring period-end adjustments.
- **Store documentation with manual entries:** Require that the accounting team capture and store supporting documentation alongside each manual entry. Months later, when questions about long-ago transactions arise, you'll be able to quickly, efficiently retrieve answers. And that boosts your auditors' confidence.

Key takeaway: Use audit difficulties and exceptions to identify areas needing policy definition, process improvement, and automation.

Q2 | Have you reviewed compliance with local jurisdictions?

As one of the few people with a direct role in virtually every transaction that flows through the corporate accounting structure, the controller can—and should—play a central role in identifying and minimizing the company's risk exposure. This is especially critical for growing companies, whose regulatory compliance risks steadily increase in magnitude and quantity over time. The following best practices can help your controller steer your company clear of unnecessary risks.

- **Create a risk framework:** Assemble a team to identify the most likely sources of risk, including regulatory compliance, and develop plans and processes to limit your company's exposure and mitigate the effects of a failure. Give the controller a leadership role, and review this plan together often.
- **Conduct regular risk reviews:** Create a series of checkpoints, duties, and regular meetings to stay apprised of the above efforts and to review new and evolving compliance requirements and related financial controls. For instance, you can review everything from insurance policies to contract sizes in a regular meeting. Every person in the company has some role to play in safeguarding the company against risk. Operate under the principle of "trust but verify."
- **Ensure local jurisdiction compliance:** As your organization expands to multiple jurisdictions, the complexities multiply. The primary challenges involve taxation—including corporate taxes and payroll. An international presence adds still more complexity. You and your controller must give careful thought to how local entities are created and operated so you can minimize tax impacts and ensure proper compliance.

Key takeaway: Create a central review process to ensure the right controls are in place.

Q3 | How long does it take to close our books? What's holding things up?

The best measure of controller efficiency is how quickly and accurately the team closes the books. Start with strong planning and preparation, such as handling all billing and expense issues prior to the period-end. Automation is also essential—it provides the desired speed, efficiency, and accuracy without increasing staffing levels.

A fast close enables the accounting and finance team to move beyond merely reporting results and into forward-looking activities that can shape future outcomes. You and the executive team need financial information as soon as possible to make any necessary course corrections. This information includes traditional financial statements (income statement, balance sheet, and statement of cash flows) as well as operational reports and detailed analyses of business results.

- **Create a closing scorecard:** In addition to tracking the number of manual journal entries, monitor the number of expense reports, accruals, bills, and invoices that your finance team must process. Consider creating a simple scorecard to measure your progress and to understand where the bottlenecks are occurring.
- **Create a flash close report:** To buy the team a little time and appease investors, lenders, and executives—who typically want period results immediately—consider creating a one-page "flash close report" in as little as two days (as compared to the 10-15 business days most accounting teams require to close their books). This report can cover 10-12 key metrics and balances, such as revenue, bookings, AP, AR, DSO, cash balance and burn, key customer adds and churn, and others.
- **Automate for speed:** In general, manual entries and workarounds are red flags for auditors because they are an open invitation to policy deviations. Automated processes enforce your accounting policies—while also increasing closing speed and reducing errors.
- **Know the forecast:** Knowing the next quarter's forecast better enables the controller to spot errors and issues because unexpected actual results (positive or negative) will stand out. The controller can then investigate and provide commentary prior to closing the books. When the accounting team is able to detect problems early, it simplifies matters for the finance executives and the board.

Key takeaway: Create a central review process to ensure the right controls are in place.

Q4 | Are we still using Excel? If so, why?

The continued use of Excel may reflect a sort of "inertia" based on inexperience with other tools, or just plain comfortable familiarity. While there are many reasons to limit Microsoft Excel use in corporate accounting—such as its inherently breakable models, security issues, and lack of shareability—it can still be useful to controllers in certain situations. Love it or hate it, Excel has been—and will likely remain—one of the go-to components in every accountant's toolkit. Just make sure you're clear on why you are using it.

Some of the best practices for using Excel include:

- **For isolated tasks:** No company should rely on Excel as its financials backbone. However, for tasks such as manual journal entries, sub-ledgers, prepaid expenses, deferred revenue, and support schedules, Excel can serve a limited purpose—so long as you base these activities on data from your primary financial system.
- **As an ad hoc reporting tool:** It's OK to use Excel as an ad hoc tool to accept data exports from your financial system for some off-program analyses, modeling, and simulations. But a company's financial "truth" should always come from a system that stores all data. When a colleague emails you a spreadsheet that has conflicting or outdated data, you'll spend more time reconciling the numbers than acting on the information.
- **For ancillary reporting:** Multi-user corporate accounting systems have their own native reporting facilities, but sometimes controllers prefer the familiarity of Excel for reconciliation reports, creating flash reports at period end, modeling various forecast scenarios, and similar forward-looking reports. There's little downside to doing so.

Key takeaway: Excel can be a valuable tool for specific, limited purposes.

Q5 | Can we integrate our financial information and our operating metrics?

Because many financial systems can now accommodate analyses of operating metrics to create a richer, fuller picture of the business, the controller is assuming a role as the provider of financial visibility—once the domain of financial planning and analysis (FP&A) teams or the CFO.

Merging financial data and operational metrics could help your organization in the following ways:

- **Spot the opportunities:** By virtue of their intimate involvement in virtually every accounting transaction, controllers have a unique perspective on corporate performance—and should be able to identify subtle (and not-so-subtle) opportunities to maximize revenue and minimize expense.
- **Emphasize operational metrics:** The rising importance of operational metrics gives controllers the ability to collaborate with other areas of the company to manage their functions in non-financial terms. Examples include product shipments, raw-material inventories, delivery performance, returns, customer acquisition cost, churn, and more. Ultimately, these operational metrics reconcile 100-percent with GAAP financials.
- **Establish the financial truth:** A single, merged reporting system ensures everyone works from the same playbook. If you have two or more reporting systems, you will spend unproductive time reconciling differences and untangling conflicting definitions. Revenue may be reported differently for GAAP, sales compensation, and board reporting purposes but should all be sourced from the same system.

Key takeaway: Implement a single reporting system to eliminate unproductive reconciliation time.

Conclusion

Exploring the answers to these five questions with your controller will help create a stronger, more effective financial structure. In fact, your entire organization will benefit from a finance team that understands and controls sources of financial risk, implements more efficient processes, and develops deeper insight into both the financial and operational metrics of the business.

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