BUSINESS GUIDE

The Controller's Playbook

Balancing Process and Strategy as the Role Evolves



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Balancing Process and Strategy as the Role Evolves

As businesses face challenges ranging from talent shortages to sluggish supply chains to COVID-19 restrictions, finance departments have become a focal point for ensuring that companies not only survive, but thrive as the economy picks up. Given that increased importance, finance department roles have changed dramatically—none more so than those of the financial controller and CFO.

The CFO's remit has grown to include responsibilities once assigned to the COO, and finance chiefs now increasingly focus on corporate strategy, business transformation and long-term growth. This has put pressure on controllers, who have taken over many of the CFO's traditional duties.

In addition to maintaining accurate financial records, ensuring compliance with accounting rules and regulations and producing quarterly financial statements, controllers are also involved in financial planning and analysis, risk management and technology selection. With these newfound responsibilities, they're able to add more value to the business and thus are gaining influence along the way.

As the role of the controller expands, these professionals require skills that weren't necessarily important to their predecessors. Skills like leadership, effective communication and relationship building. They've had to learn how to sell their ideas internally and collaborate with leaders in other parts of the organization. Increased responsibility has also given controllers a more expansive perspective on the organization and a better understanding of the business overall.

The priorities of the controller have also evolved. Instead of focusing solely on the numbers, they're also attentive to improving the skills of their teams, supporting corporate strategy and decision-making, analyzing business performance and using technology to increase efficiency and accelerate growth.

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Continuous Accounting

Pandemic-driven disruptions highlighted some weaknesses in existing accounting practices, including manual processes and data-quality issues that made it difficult for controllers to provide timely, accurate financial information. While there is less pressure now that the economy is on a more solid footing, the value of real-time financial results has become clear.

The traditional accounting cycle with its month-end close is an obstacle to providing accurate financial data whenever it's needed. So rather than continuing this outdated and labor-intensive process, leading controllers are pursuing continuous, or proactive, accounting, a technology-driven approach that replaces month-end deadlines with more frequent completion of close-related tasks. In fact, this is a top accounting trend in 2021.

Incorporating closing tasks into the daily routine allows accounting personnel to identify and correct data errors and anomalies right away, rather than allowing them to pile up. Automation plays a critical role by making reconciliation processes faster and easier and by reducing manual data entry, which is one of the most common sources of errors.

Training and Development

Given increasing demand for labor and a limited talent pool, hiring finance and accounting staff remains challenging. Even entry-level positions can be difficult to fill. Employee turnover is likely to increase as the war for talent intensifies, so retaining top performers is essential. Low morale and burnout due to overwork are key concerns—though addressing the latter may be problematic given the nature of the accounting profession.

Funding continuing education for team members to earn and retain important certifications is a good way to boost morale. Helping employees develop soft skills, like effective communication and time management, can reduce stress and make people more productive. That may not lessen the workload, but it will make it more manageable.



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Controllers are also seeking to improve the analytical skills of their staffers—especially accountants, who may not have experience with financial analysis. With businesses becoming more data-centric, these skills are essential.

Analyzing business performance must be a priority for controllers; it's important for career development.

Where financial accounting and managerial accounting were once completely separate disciplines, financial accountants are now expected to have a good understanding of managerial functions like cost accounting.

Remote Workforce

Remote work has become the norm in many industries. That trend is likely to continue, with many finance and accounting professionals preferring to work from home at least part of the time.

This poses a problem for finance and accounting teams used to collaborating face to face with their peers. For instance, the pandemic demonstrated how much more challenging closing the books is when people aren't in the same office. Despite the prevalence of high-speed internet, accessing on-premises systems remotely makes working with large datasets arduous. Waiting for data to update and screens to refresh may take only a few seconds longer, but it can seem like hours. And hosted systems don't perform much better.

It is possible to close the books securely when remote; keys are communication, education and technology. To improve performance and make working remotely easier, many controllers have moved to cloud-based accounting systems that can be accessed anytime from anywhere via the internet. Leading cloud solutions incorporate automation that supports the continuous accounting approach.

Risk Management

Remote work also increases the risk of cyberattacks and ransomware. Research conducted by Verizon found that 85% of successful attacks involved human error and 61% of breaches used techniques to steel login credentials. Controllers know that the accounting team regularly receives emails with attachments or links to invoices. Even with virus protection, an email with malicious intent can make its way into the accounting workflow and wreak havoc. Outdated accounting software can increase the success rate for malware and ransomware. Controllers also need to stress the importance of following security protocols and must ensure team members receive training to help them recognize and avoid phishing scams, email spoofing attempts and other security threats.

Internal Controls

The risk of internal fraud also increases when people aren't in an office. With no coworkers present and less management oversight, instances of fraudulent expenses and fake invoices tend to rise, along with other forms of embezzlement. For unscrupulous employees, the rule seems to be "out of sight, out of mind."

Leading controllers reassess existing financial controls to ensure they're effective with a dispersed workforce. A well-defined approval process that's consistently enforced makes it more difficult to commit fraud, minimizing the temptation.

Best practices for finance leaders include regular audits and establishing accountability by making managers and supervisors aware of the organization's policies and, in turn, holding their teams responsible for following them. To ensure high levels of control in this area, give managers an easy way to access, review and provide feedback on their employees' expenses.

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Forecasting

The pandemic highlighted the need for more accurate forecasts and demonstrated that, in many companies, the forecasting process is broken or barely exists. Though sales may own part of the process, responsibility for forecasting expenses and cash flow falls squarely on the controller.

Flawed assumptions, insufficient rigor and limited data inputs all contribute to forecasting errors. The first step in improving the process is to identify the assumptions, especially those that are unstated, followed by testing and retesting to confirm their validity. Forecast variances should be reviewed weekly to understand what caused the discrepancy. Variance percentage should be used as a key performance indicator (KPI). Reporting KPI trends for each forecast spotlights any problems, which helps improve results.

Effective controllers are leveraging financial modeling tools to improve accuracy. By modeling cash flow, burn rate, liquidity and other outcomes under different conditions, business leaders are forced to rethink and defend those all-important assumptions.

Embracing the Latest Technology

While the role of the controller will continue to evolve as demands on the CFO increase, technology, more than anything else, will have the biggest impact on success. Current and emerging technologies will fundamentally change how finance and accounting professionals do their jobs. Those at the forefront are using technologies like robotic process automation, machine learning and advanced analytics to change their organizations.

With robotic process automation, a record can be checked for accuracy automatically by comparing it to existing records in an accounting or enterprise resource planning (ERP) system. A vendor invoice, for instance, may be checked against vendor records, purchasing and receiving documents and approvals. If all details are correct, a transaction is posted to the ledger. If the invoice contains errors, such as a missing purchase order number, it is flagged for review instead.

Invoice value thresholds can also be set to ensure those above a specific dollar amount receive personal review.

Having accounting staff focus on just the anomalies, rather than reviewing every single transaction, increases the efficiency and effectiveness of the entire team. Adding artificial intelligence to the mix further streamlines the process. For instance, AI can apply learning algorithms to identify recurring invoices, such as



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subscription fees or utility bills, and automatically schedule them for payment if they fall within established parameters. AI can also be used to prevent fraud by spotting and flagging irregularities, including duplicate invoices, frequent payments to a single vendor and other unusual patterns.

These and other technologies will simplify or even eliminate many time-consuming tasks, giving accountants the ability to focus on other, higher-value activities. While accountants will still need to close the books and ensure the accuracy of financial statements, they will spend much of their time analyzing data to help improve business performance, much in the way management accountants already do.

Recently announced changes to the CPA exam emphasize this need to understand business processes and data analytics.

2021 Changes to the CPA Exam

Exam Section	Change
AUD	More testing of "business processes and transactions that run through them," including IT systems, IT controls and manual controls
AUD	More tasks on the completeness and accuracy of data to be used as audit evidence
AUD	A new section on audit data analytics and automated tools
AUD	Tests on the differences between SOC 1 and SOC 2 reports and these reports' effects on controls and the testing of controls
BEC	New content on businesses processes and transaction-level risks and controls, including technology that facilitates them
BEC	More focus on data governance and relationships; how to extract and transform data
BEC	More questions on SOC 1 reports from the entity's view, including the period covered and complementary user entity controls
FAR	Removal of questions on differences between IFRS and U.S. GAAP
FAR	Removal of questions on defined benefit pension plans and derivative journal entries
REG	Removal of questions on the alternative minimum tax, estate taxation and trusts

Source: CPA Exam Blueprint, published Oct. 23, 2020

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Conclusion

Just as the CFO role has in recent years incorporated change management and long-term growth initiatives, the role of controllers is also evolving—an increased demand for analytical skills points to the advisory function they're already beginning to play. With this shift in focus comes a need for additional skills that not all accountants possess.

It's particularly important to learn how to sell your ideas internally. This requires understanding both the logical and emotional factors that affect decision-making. Without these skills, seeing your recommendations adopted will be a challenge, no matter how well you communicate with others.

While controllers have always exhibited logic, attention to detail and a process-centric mindset, their expanded role requires soft skills around leadership, collaboration and communication, both with their teams and with others throughout the company.

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