

## The Financial Reporting Process: Getting It Right

It is often said that the difference between being good and being great is doing a few, small things consistently well. In this issue, Beacon Consulting Group provides insights on a few key practices that when done consistently well, make for a successful financial reporting process.

The typical financial reporting process for an investment company operates within the basic and well-defined boundaries of internal controls and disclosure requirements. The internal controls are a series of preventive and detective controls designed to mitigate identified risks and to provide reasonable assurance regarding the reliability of financial reporting in the preparation of the financial statements. The disclosure controls ensure that information required to be disclosed is identified and reviewed with management. A continuous monitoring program ensures that risks are identified and that the controls are adequately designed and operating to mitigate those risks.

Within the boundaries mentioned above there are a number of innovative and industry leading practices that lead to a successful financial reporting process. While defining a successful financial reporting process is more art than science, Beacon has learned that organizations that do it well, consistently apply some or all of the following practices.

1. Determine what to do before “Day 1”
2. Stay smart about the review process
3. Define roles
4. Maximize technology
5. Continuously assess the process

### **DETERMINE WHAT TO ACCOMPLISH BEFORE DAY 1**



Firms proficient at financial reporting have a process in place to plan or even begin much of the work before the financial period closes and before balance sheet date.

*“Firms proficient at financial reporting have a process in place to plan or even begin much of the work before the financial period closes.”*

Their goal is a “better first draft”. They use this time to anticipate issues and research and resolve them as soon as they surface. This reduces the chance of costly, late changes. When the reporting period arrives, the solutions are already teed-up and inserted into the financial report.

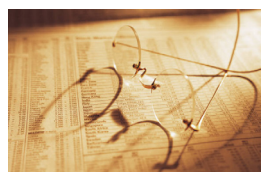
Key service providers also play a significant role in pre-Day 1 activities. Relationships with key service providers should extend beyond the terms of the service contract. For example, fund complexes that forge a partnership and leverage fund accounting see immediate and measurable results that are mutually beneficial. Such a partnership can result in early detection and resolution of issues, customized reports, exclusive system enhancements, and improved working relationships.

Another initiative that can be implemented before Day 1 with continuous payback is cross-functional training that alerts personnel to ways they can help other functions.

Communication is a key element of success. New investment vehicles and changes in expense caps are communicated before Day 1 to personnel who need to know this information. Planning sessions and “after action reviews” ensure that lessons learned from recently completed cycles are quickly incorporated into the next cycle.

### **STAY SMART ABOUT REVIEW**

In the optimal process, the control environment drives the review phase of the financial reporting process. A strong framework of procedures and controls ensures that quality is built into the reports. An exception-based, analytical review is used by senior management to streamline the review and allows them to focus on other issues. Changes to financial reports are made within the limits of the control framework, ensuring that all changes are subject to



review. This process also ensures a good starting point for the subsequent period's reports. Reviews are also streamlined by standardizing disclosures where applicable. Using standard language across the fund complex ensures efficiency when new funds are launched and consistency across existing funds.

## **DEFINE ROLES**

Another characteristic of industry leaders is that personnel involved in the financial reporting process are aware of their unique responsibilities and requirements. Clear job descriptions exist. Ownership of various components of the financial reports is traceable to specific departments and personnel. Checklists, training sessions and even new hire orientation present a clear and consistent message of who is responsible for what element of the financial report.



orientation present a clear and consistent message of who is responsible for what element of the financial report.

This understanding extends beyond the investment company to external service providers who also understand where the buck stops.

## **MAXIMIZE TECHNOLOGY**

Organizations that maximize the capabilities of their financial reporting system and minimize the changes made outside of the system tend to have a more efficient process. Financial reporting personnel are adequately trained on systems and take full advantage of all of the systems features and functionality.

## **CONTINUALLY ASSESS THE PROCESS**

A significant motivation for process improvement is the reduction in expenses of the fund and investment manager. Highly effective firms constantly evaluate the financial reporting process and do not view the goal of an improved financial reporting process as a "special project" with discreet beginning and end dates. They keep abreast of industry developments and monitor peers for innovative approaches to financial reporting. They pilot new process flows to validate progress over the existing processes. They leverage the knowledge and experience of new personnel. They create new roles and redefine existing ones to ensure complete coverage of

emerging issues. Financial reporting personnel also monitor the developments and new capabilities in system applications to ensure that the systems they use are keeping pace with alternative systems available in the marketplace. This provides essential leverage with system providers and ensures that their systems remain state-of-the-art.

Financial reporting personnel are empowered



to devise new approaches for obtaining and formatting the financial data and reviewing the reports. Standard disclosures and footnotes are constantly updated and used across the fund complex in a consistent and efficient manner. They regularly take the time to capture lessons learned from the previous cycle and share their findings with internal as well as external teams.

*"Highly effective firms constantly evaluate the financial reporting process and do not view the goal of an improved financial reporting process as a special project."*

## **BEACON'S EXPERIENCE**

Beacon Consulting Group has assisted several leading investment companies review and redesign their financial reporting processes. Beacon Consulting Group is a specialized independent consulting

firm providing business planning, operational consulting, and systems development services to the financial services industry. Our areas of focus include: mutual fund companies, investment management firms, hedge funds, banks, and insurance companies. We leverage our proven results and consulting competency to deliver value to our clients on the basis of competitive positioning, improved operating performance, optimized technology deployment, and effective risk management.

## **CONTACT INFORMATION**

Beacon Consulting Group  
155 Federal Street, Suite 1300  
Boston, MA 02110

[www.beaconcgi.com](http://www.beaconcgi.com)

Frank Strauss (617) 523-4030 x225  
[fstrauss@beaconcgi.com](mailto:fstrauss@beaconcgi.com)

Gerry Healy (617) 523-4030 x232  
[ghealy@beaconcgi.com](mailto:ghealy@beaconcgi.com)