

## Facing The Challenges of Financial Statement Reporting

Private capital firms of all sizes continue to struggle with the challenges of streamlining the financial statement reporting process. And despite the reoccurring obstacles that they encounter quarter after quarter, and year after year, most firms fail to address the core underlying issues. Taking a hard look at what's broken and committing money to solving the issues will go a long way in improving their overall reporting efforts. However firms still have a reluctance to take the correct action, which, as we have seen, proves to be more costly in the long run.

As firms are placed in increasingly demanding positions to meet and deliver reporting requirements, it's important that these firms become optimally equipped and prepared to face existing and future reporting challenges.

This topic should be of particular interest to firms' CFOs who strive to improve reporting operations and to identify technologies that will help drive efficiencies such as lowering costs and establishing more reporting accuracy and transparency. We believe that a firm's reporting tool is just as crucial as an accountant's calculator.

In this edition of **SteelBridge Insights**, the SteelBridge team explores specific challenges, potential solutions, and the benefits that a firm will embrace when establishing a streamlined reporting process.





# Challenges

Financial statements are critical and time-sensitive documents. The focus of the finance team's time and effort should be dedicated to analyzing the financial statements, as opposed to the tedious amount of time and effort typically invested in the preparation of these statements. Now that the hard work of crunching the numbers is complete, the financial reporting process should be as close to push-button as possible.

Through our industry experience we see several challenges that firms are still facing when attempting to improve their financial statement reporting process. The top challenges include:

1. A reporting solution is simply not available, so firms divert to manpower and offline spreadsheets
2. A reporting solution is available, but resources are not utilizing its automation potential
3. Learning a new process stretches resources who are simply too busy with quarter/year-end workload
4. Reporting deadlines continue to accelerate, requiring continued improvement
5. No good solution exists for footnote preparation and tracking
6. Complex, or even simple, modifications to the report require the assistance of a report developer
7. Firms are always trying to keep up with the competition to produce reports that are better than their peers'

Technological constraints, process breakdowns, and resource limitations are common themes amongst all the challenges we noted above. These are particularly significant issues for small and mid-sized firms to overcome. Surprisingly, even the larger firms still struggle, and in many cases they too have resorted to creating their financial statements using offline spreadsheets.

Financial reporting in spreadsheets continues to be a popular solution because of users' understanding, comfort, and familiarity within the application. By using spreadsheets, users are confident they can ultimately achieve the desired output, even if they will be dragged down by numerous inefficiencies. In addition to these inefficiencies, spreadsheet users expose themselves to the increased risks that surround data control and integrity within spreadsheets. Firms of any size are prone to these dangers and should consider stronger and more efficient reporting technologies.

The good news is that many firms are now using robust accounting applications; the bad news is that some of those firms are still using offline spreadsheets to generate their financials statements. These firms may lack the understanding, knowledge, or resources to use existing system capabilities that will enhance their current reporting efforts. Automated reporting capabilities may be at their fingertips and simply getting assistance from vendors and consultants could be the key to unlocking the power of the application.

Firms are often faced with financial challenges that may prevent them from using advanced reporting capabilities. These firms should review existing processes and tools in an effort to identify potential risk areas and make process improvements to mitigate that risk. SteelBridge strongly recommends consulting with industry technology experts to provide guidance on what technologies are available in given budget ranges.

*“Surprisingly, even the larger firms are creating their financial statements using offline spreadsheets.”*



# Solutions and Benefits

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There are several solutions available in achieving a more streamlined financial statement reporting process. Solutions can vary, but the following are areas for firms to begin thinking about possible remedies based on their current challenges. The respective benefits and possible downsides are also discussed.

## Designing and Maintaining a Robust General Ledger

Firms should consider evaluating their current general ledger configuration. Is it designed in a way that can be fluidly mapped into financial statement line items? Does it also provide the capability to easily drill into the underlying data behind these line items? By optimally designing the general ledger, firms can do more than just enhance financial statement reporting processes. They can provide deeper and faster reporting capabilities for investors, internal parties, auditors, and other constituents.

## Implementing New Processes and Controls

Putting reporting technologies aside, firms can implement new processes to drive down review time.

### **Process Guides**

Creating process guides that walk the preparer through the creation of the financial statements may catch reporting errors before they're submitted to a reviewer. This cuts down on the time needed to address errors, correct them, and go through another round of reviews.

### **Soft Monthly Closes**

Assuming firms have material transactional events occurring on a monthly basis, they can incorporate soft monthly closes that act as check points. This can spread the review time throughout the quarter as opposed to cramming it in at the end of each quarter.

### **Pre-Valuation Financial Package Review**

Often times, valuations are the last element to get incorporated into a complete set of financial statements. Assuming the accounting team is in a hold pattern for receipt of the current quarter's valuations, a full pre-current valuation internal review of the financial statements can occur. This exercise allows the team to get a jump-start on the internal review process with the understanding that the new valuation adjustments will be layered on at a later stage.

### **Tightening Accounting Controls**

Firms can implement methods and procedures that help ensure overall validity and accuracy of information contained in the financial statements. These checks help to identify issues close to when they occur, avoiding them being handled during the tight quarter/year-end timeframe.

# Which Reporting Technology Is The Right Fit?

A firm’s reporting tool should be as crucial as an accountant’s calculator. Firms should understand which reporting capabilities are inherent with their accounting applications, or if accounting applications are not available, what other reporting capabilities are accessible. Generally, there are three types of reporting approaches: fully automated, manual, and a hybrid of the two. There are advantages and drawbacks to each method, some of which are outlined below.

| Approach                | Advantages  | Disadvantages  |
|-------------------------|---|--|
| Fully Automated         | Long-term cost efficiencies   | High upfront costs   |
|                         | Time saved in data location, extraction, and calculation  | Potential inability to interface with other systems              |
|                         | Consistency of input and output layout  | Heavier IT resource needs  |
|                         | Reduced risk of errors in input or calculations   | Less adaptability for “11th hour” reporting needs                |
| Manual                  | Highly cost-effective   | Limited scalability as firms grow                                |
|                         | Little to no system requirements  | Key person dependency with the creator of formulas and processes |
|                         | Easy to use with minimal training   | High degree of risk for errors                                   |
|                         | Adaptable in multiple scenarios and short turnaround times  | Limited data protection  |
| Automated/Manual Hybrid | There is a growing trend of combining both an automated and manual solution. This hybrid solution tries to incorporate the benefits of both approaches. By using parameters within a spreadsheet, data can be extracted directly from an accounting database and linked to the respective cells that construct the financial statements. This method also provides flexibility for the user to make any changes to the template without being at the mercy of a report developer. |  |

## Case Study

Let’s look at a VC firm that prepares its financial statements using the Automated/Manual Hybrid. The process involves running a series of reports and copying/pasting the extracts into a spreadsheet. Within the same spreadsheet, financial statements are created in separate sheets and reference the source sheets where the data were originally copied and pasted. Subsequently, in the event of a new or adjusting journal entry impacting the trial balance for the same period, the whole exercise of running the reports and extracting the data must be repeated.

To avoid these manual exercises, the firm has connected its spreadsheet, via an automated template, to its accounting database. This link creates a direct connection to the database and now eliminates the need for the firm to run multiple reports, copying and pasting, and reconnecting the source sheets to the financial statements. With this connection in place, a simple refresh of the spreadsheet instantly captures any changes made in the accounting database. Report parameters have also been passed from the application to the spreadsheet so the user can select relevant entities and time periods.



# Conclusion

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SteelBridge advocates a thorough review of all reporting needs and challenges with the ultimate goal of taking the right steps forward in building a stronger and more efficient reporting process. We believe that the importance and value of financial statement reporting, regardless of firm type and size, deserves the investment in building the right processes and solutions. By doing so, costs will ultimately be lower, the power of reporting will increase, staff productivity will be boosted, and tight reporting deadlines will be met with much greater ease.

## About SteelBridge

SteelBridge is a boutique advisory services firm with deep expertise in Private Capital. We have a passion for helping our clients identify and affect change to improve process and technology for more effective organizations. We help general partners, limited partners, third party administrators, software vendors, and portfolio companies. At SteelBridge, we hold ourselves to the highest standards by providing exemplary services for our clients.

For more information, please call 646.737.7960 x1001 or visit [www.steelbridgeconsulting.com](http://www.steelbridgeconsulting.com)

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