

# Companies keep closing faster, says report

**But does the race to close accounts faster lead to innacuracy and short termism? By Camilla Berens, freelance journalist.**



Many of the Europe's largest companies are still managing to speed up the closing of their year-end accounts despite the pressures of the downturn, new research has shown. An annual ranking of over 1,000 of the world's largest corporations has found that 60 FTSE Euro Top 100 companies have accelerated their reporting timetables in the past year while 53 have improved their audit process.

David Jones, director of Paragon Consulting Group in London and chairman of BPM International, which compiled the ranking, said he is impressed by the findings. 'At the start of the year, there was a lot of concern that the dire credit markets would cause the reporting timetables to slow and audit timetables to extend,' he said. 'It's a great credit to the FTSE Euro Top 100 teams and the audit profession that reporting and audit timetables have largely accelerated.'

Swiss pharmaceutical giant Novartis was ranked best overall European performer in the year end cycle and announcement processes. The company achieved result announcement, audit completion, publication of full annual report (in two languages) and the filing of the US SEC's 20-F form 28 days after its last year end. Although companies in the US report faster than European businesses, their audit cycles have been weighed down by the requirements of the Sarbanes-Oxley Act.

## Starting to stall?

BPM International is a network of business performance consultants who believe that faster closing can improve the overall efficiency and effectiveness of the finance function. 'There is wide acceptance in the finance community that the speed of close is a key symptom of the state of the underlying financial processes and systems in the organisation,' said Jones. 'The more rapid availability of detailed financial information also gives clarity to a company's financial position and helps bolster shareholder confidence.'

However Richard Gillin, director of national accounting and audit at Deloitte, has found that that the trend for faster reporting is beginning to stall. 'The market has always had an appetite to get information in order to make decisions but things are slowing now because accounting has become very complicated,' he said. 'Some of the processes are actually very difficult to do and if you rush them, you run the risk of needing to go back and revisit.'

Although improving internal reporting processes must be a good thing, Gillin said there are other factors to be considered. 'It's about striking the right balance,' he continues. 'You need to report as soon as you can. But you also need to make sure that you're reporting is reliable.'

Careful analysis must go hand in hand with efficiency, Gillin said. ‘A lot of procedural activity is very easy to pull out with IT systems,’ he said. ‘But with the processes that require judgement, such as impairment revisions and determining fair value, you need to sit back and take a bit of time to reflect after the year end. That way, you can be sure you’re making a sound judgement.’

## Knee jerk reaction

Gillin agreed with companies who believe that fast closing can encourage short termism. ‘Faster reporting is becoming the norm in the US because they have quarterly reporting, whereas in Europe there is generally more activity around half year reporting,’ he said. ‘If you are doing quarterly reporting, you’ve got to do it fast or the closing cycles will overlap. But it’s just more information and if the information is not of good quality, you may get a knee-jerk reaction to the results rather than looking at what’s behind them.’

So does faster reporting boost investor confidence? David Phillips, corporate reporting partner at PwC, said it depends on a number of factors. ‘If there’s concern about the company and the company is reporting late, it can give the impression that something isn’t right,’ he said. ‘But reporting is generally based more around the scope of the information and not necessarily the timelines.’

It also depends on the sector you’re in. ‘The retail sector will find it easier to get their reporting done than companies concerned with long-term contracting,’ Phillips continued. The history and the nature of the business model also need to be considered. ‘A global multinational with a far-flung network of companies and many different systems is very different from a company that is two years old, has grown organically and has one system,’ he added.

At the heart of the issue is the need for human input. ‘Despite the developments in IT, you still need human intervention in reporting,’ Phillips said. ‘So it’s about balancing speed with accuracy. The worst thing people can do is have incredibly accelerated processes but then produce results that aren’t right. Understanding the underlying nature and structure of the business is what’s really important.’

### Quick month-end reporting

### BPM International