

Digital transformation in the finance function

How audit committees can prepare for an unprecedented period of digital transformation

By Chris J. Moore

In response to COVID-19, many organizations rapidly increased the pace of their digital transformation journey as employees shifted to remote work and customers moved online. The finance function, too, has had to digitize and automate its processes and, at the same time, support the digital transformation of the organization by monitoring changes in the business model and adapting processes and procedures to ensure adequate controls and governance remain in place.

Automating the finance function

The digital transformation of the finance function involved automating most business processes through a move to cloud-first enterprise resource planning (ERP) for such functions as accounting, HR and supply chain operations and cloud-first enterprise performance management (EPM) for budgeting, forecasting and financial management. Now, finance needs to streamline this automation and ensure it's working as intended.

Organizations adopting a virtual work model will need to automate all processes, including document signing and collaboration. Some organizations have automated 80% to 90% of their processes but may still need

someone to go into the office to print cheques or sign certain documents. Audit committees will want to ask management what their plan is to fully automate and support a virtual workforce model and what measures they have in place to ensure they're maintaining proper security and controls in this virtual environment.

Assessing digital bets

Companies are making large digital bets as they move to virtual work and an online customer experience, and finance must evaluate whether these bets are creating or destroying value for the organization.



The whole organization, including the finance function, needs to think in terms of the end-to-end customer experience and projects need to be evaluated through a customer experience lens in addition to a financial performance lens.

Chris J. Moore

Partner and National Service Line
Leader, Finance Transformation
KPMG in Canada



In the past, companies would assess a capital project each year to determine whether it was a success. Now organizations need to take a much more agile approach with much shorter timelines.

It's no longer advisable to wait for an annual or even quarterly review. Instead, companies are adopting a dynamic funding model where they determine in a short period of time whether a project isn't working so they can course correct and reallocate capital to other key initiatives. Audit committees will need to question management about this capital allocation process to ensure the right digital investments are being made to achieve the organization's objectives.

The customer comes first

The metrics used to evaluate projects are also changing. Much of the digital transformation that has taken place is aimed at improving the customer experience so the entire organization, including the finance function, needs to think in terms of the end-to-end customer experience. Today, projects need to be evaluated through a customer experience lens in addition to a financial performance lens. This requires finance to monitor customer behaviors through new, non-structured data sources such as social media.

New data sources are not the only changes to reporting and forecasting. Companies are now using continuous reporting and forecasting instead of the annual budget process, which often can take several weeks or months to complete. And while

What should audit committees be asking?

What controls are in place to ensure our data is adequately secured, stored and analyzed?

Do we have the right systems and people in place to interpret the data and provide insights?

Are we leveraging these insights to better understand the business, identify risks and issues?

Does our digital transformation strategy deliver shareholder value?

Are we using technology to aid risk assessment and identify anomalies and trends?

financial reporting and planning have traditionally been focused internally, companies are seeing significant improvements in accuracy by incorporating data on external drivers such as weather and consumer behavior. Finance will need to determine what additional services and solutions they'll need to provide to support the organization's data analytics and continuous planning and forecasting.

It's all about the data

One of the fundamental changes to the finance function will be the key role it plays in the data ecosystem of the firm. Finance, having experience

with processes and controls around data, will be responsible for making sure the organization has the data and the insights needed to ensure the business is performing, going in the right direction and executing on strategy.

Structured data coming from ERP and EPM solutions will typically feed external statutory reporting, financial results and management reporting but it will be merged with external and unstructured data to inform management decisions. Here, robotic process automation and artificial intelligence are being used to help automate processes, manage unstructured data and merge it with structured data. Finance needs to ensure that the data is reliable and that people have confidence in it. If data quality is a challenge, then managing and evaluating business strategy and investments will also be a challenge.

With so much data in different forms, it's not possible to ensure that it's all verified, validated and 100 per cent accurate. Organizations should focus data verification and control on the data most critical to decision-making.

The audit committee will want to make sure that the finance function is effectively using technologies like data analytics, RPA and AI to provide deeper insights and improve audit quality.

The rise of the data scientist

Tackling these new approaches in the finance function will require new technologies and new skills from employees. While technical accounting skills will still be important, there will be growing demand for data science professionals. Audit committees need to understand how finance is approaching talent attraction and retention because being unable to recruit for the needed technical and data skills presents a risk to the proper execution of the finance function.

Organizations have undergone a great deal of change because of COVID-19 and the finance function has had to substantially alter how it operates to adapt to these changes. The most successful finance departments will remain agile and foster continued digital transformation both within their operations and across the organization.

Contact

Chris J. Moore

Partner and National Service Line Leader,
Financial Transformation
416-777-3043
chrisjmoore@kpmg.ca

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