PRIVATE EQUITY PERFORMANCE IMPROVEMENT

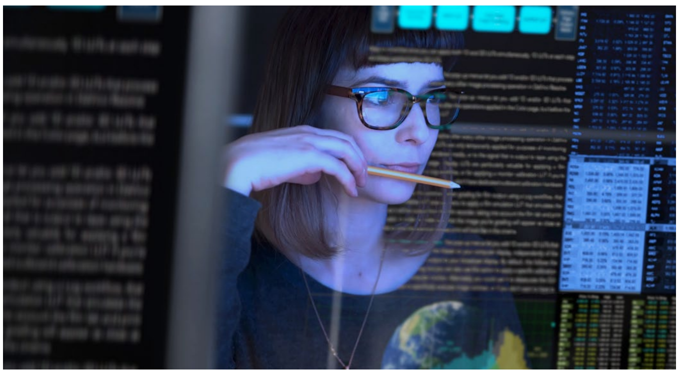
Supercharging the Finance Function: When CFOs Should Consider Finance Function Assessments and Why?

The Chief Financial Officer's (CFO) role has transformed significantly in recent years, driven by factors ranging from the rapid advancements in cloud-based finance ERP systems, data analytics and artificial intelligence to the increasing performance expectations from investors.

CFOs are no longer confined to traditional financial management and 'bookkeeping'; they are now increasingly involved in strategic leadership and decision-making as a key business partner to the CEO and executive team as well as helping to drive and track the progress of the value creation or transformation plan.

This expanded mandate places CFOs under greater pressure to have a finance function where business insight, speed and accuracy are well-established, and which is closely linked with operations and key data from across the business. This can be particularly challenging in periods of change including M&A and transformations, or in fragmented finance organisations with heavily manual processes. Leading CFOs are continuously strengthening their finance functions by investing in talent, automation and process improvements.

A finance function assessment can accelerate transformation by providing CFOs with an independent 360º review of current performance and a prioritised roadmap for improvements.



Why and when to consider a finance function assessment?

A finance function assessment can be invaluable at various stages of the company's lifecycle:

1. to assess finance **maturity and effectiveness**
2. as a **key enabler for value creation plan execution and measurement**; and
3. as a **catalyst for finance transformation and wider organisational transformation.**

CEOs and CFOs typically seek finance function assessments following significant M&A activity, with a new CFO appointment, or when the finance function is underperforming vs expectations.

Assessing the finance function: Six key layers

To help CFOs identify and prioritise key focus areas, we break down the finance function into six layers of assessment:

1. Talent and leadership: It is important to ensure that the key skills and talent exist within the finance function and its many sub-functions (FP&A, Controlling, Tax, Treasury, etc.) and that they are fit for the short- and long-term goals of the business. Equally critical is having an appropriate leadership structure to provide effective oversight of the finance function. For example, does the CFO have direct access to the key leaders within their span of control? Does FP&A have appropriate leadership and capabilities to provide quality business insight to the executive team and shareholders? Does the finance function act as a business partner to the executive team, effectively analysing operational data to identify opportunities and hold leadership accountable for driving value creation? Does the finance leadership drive continuous improvement and seek out market-leading best practice?

2. Reporting, data and analytics: Finance must have oversight of leading commercial KPIs (such as sales pipelines and conversion) and relevant operational metrics (such as product delivery, quality and performance) while business leaders must be able to access the financial data they need in a timely manner. Leading organisations should combine both relevant commercial, operational and financial data into a common repository that holds "one version of the truth." This provides leaders with real-time dashboards that have a functionality to drill down into source data, allowing ad-hoc analysis to support decision-making as needed. Tax functions should be actively involved to ensure that tax compliance and reporting flows from the same financial "truth".

3. Organisation and service delivery: The finance function needs to be cost-effective, and this requires a deep assessment of how the different capabilities are delivered within the function. A majority of staff in high-cost locations, a high proportion of finance staff in senior roles, and a separate finance function within each business division are all cost-related red flags to be evaluated. For some specialist areas (e.g., tax strategy, local statutory reporting), the effective use of external advisers will be key to ensuring that risk is managed and opportunity realised across all relevant geographies in a cost-effective manner.

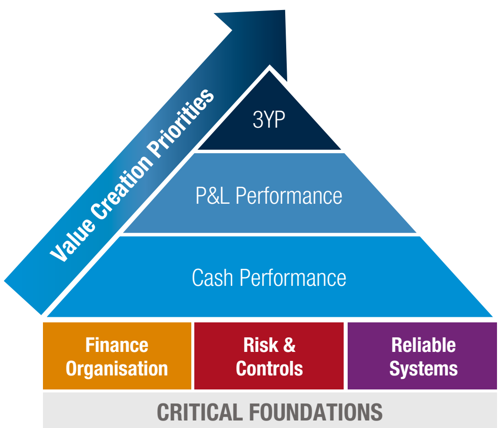
4. Process excellence: The finance function should have well-defined common processes across the global organisation, and consistently deliver accurate actual results and rolling forecasts at an appropriate frequency (e.g. daily, weekly, monthly), and in a timely manner so leaders can take meaningful action on results. Clear process ownership should exist within the finance function, with continuous improvement and across key areas including OTC, PTP, RTR, Treasury and Tax. The completeness of finance processes in specialist areas should also be considered. For example, is effective tax rate reasonability reviewed (e.g. outside the range of 20-25% in Europe), along with any significant income tax assets on the balance sheet (since these suggest cash tax rates are higher)?

5. Technology and automation: Minimising manual intervention where possible can reduce costs, make processes more efficient, reduce key employee risks, and establish a finance function that is scalable with business growth. Finance functions in a harmonised finance ERP can uncover improvements across the business, including interfaces with key operational and commercial systems, consolidated financial reporting and analysis including data from operational systems (e.g. CRM, supply chain), real-time liquidity management, and 'no-touch' transactional processing through the use of tools such as OCR, RPA and AI/ML.

6. Risk, controls and governance: The accounting and controls environment must be robust enough to prevent and detect errors to preserve the integrity of and reliance on financial and operational reporting. Regular balance sheet reconciliation reviews help the CFO maintain confidence in the completeness of the P&L, avoiding the risk of surprises from items buried in balance sheet suspense accounts. Controls should be supported by automation where possible, including reconciliation tools, fraud prevention controls built into the ERP and Treasury systems, and access controls supporting segregation of duties.

The Audit & Risk committee should have appropriate oversight of key areas of the control environment including alternative performance measures e.g. non-recurring P&L items, related-party transactions and external audit quality. The tax risk profile of the business should also be actively assessed and managed, incorporating relationships with relevant tax authorities, outstanding or potential controversy, and compliance with applicable governance regulations (e.g. Senior Accounting Officer rules, Corporate Criminal Offence, and Tax Strategy requirements from a U.K. perspective).

Overall the CFO priorities uncovered through the six key layers can be summarised into the following finance focus areas:



How A&M can help

A&M's expertise and hands-on approach is focused on actionable recommendations and tangible outcomes enabling CFOs to strengthen their finance functions while they help run the business.

Our team consists of experienced CFOs and finance function professionals, and we structure our finance function assessment around three key activities:

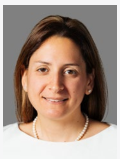
- **Independent 'as-is' assessment** through data analysis and interviews with key team members and 'customers' of finance across six fundamental dimensions: talent and leadership, organisation and service delivery, process excellence, technology and automation, data and analytics, as well as risk, controls and governance.
- **Identification of key improvement initiatives and future state target operating model** including review with the CFO and other relevant finance leadership.
- **Transformation roadmap to get from 'as-is' to the 'future state',** including prioritised initiatives and timelines for key activities to be completed.

Working closely with the finance team, our rapid diagnostic method reduces the time required to identify and validate opportunities, which we can then help operationalise in a short span of time to deliver fast results.

Furthermore, our finance function assessment helps clients improve their finance functions, allowing CFOs to drive wider strategic or transformation initiatives including P&L and cash improvements.

To find out more, get in touch with us

KEY CONTACTS



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