

RIVERON

Year-End Readiness: The Balancing Act

Adept accounting and finance leaders are balancing priorities and maximizing results during audit and 2024 planning cycles.

WEBINAR | NOVEMBER 2023



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- During this session, 4 polling questions must be answered to obtain CPE
- Feel free to ask questions using Zoom Q&A
- On-demand video is not eligible for CPE

A follow-up email will include:

- CPE certificate & webinar evaluation form
- Access to today's recording and slides
- An opt-in to receive future webinar invites
- Presenter contact info

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Today's Presenters



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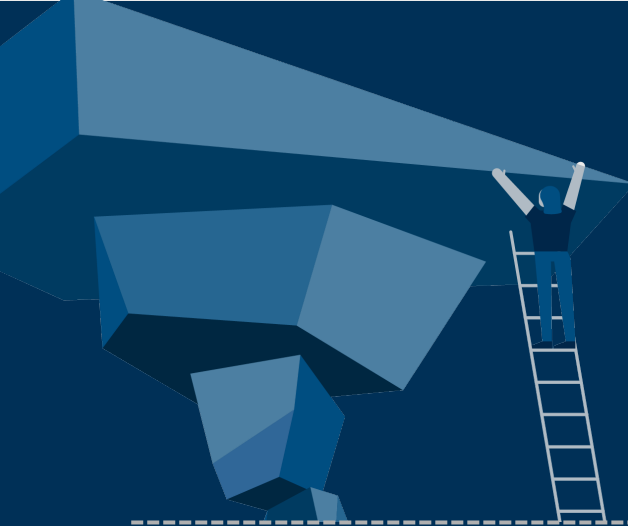
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Year-End Readiness: The Balancing Act

Gearing up for year-end, these considerations can help the Office of the CFO achieve year-end success by optimizing resources, managing risk, and adapting to change.



01
Navigating audit season amid constraints

02
Evolving toward new guidance and emerging regulations

03
Guiding growth and innovation while balancing financial caution

Typical timeline for audit season & annual planning



Navigating Year-End

Key constraints and considerations

<p>Performance Visibility: Finance & Operations</p> <p>Measure and track financial KPIs to provide forecasting and accelerated reporting for key stakeholders</p>	<p>Lean accounting & finance teams</p> <p>Ensure the company has the capacity to navigate all annual planning and audit season needs</p>	<p>Current Expected Credit Loss Standard (CECL)</p> <p>All private companies should have properly implemented CECL to avoid 2023 year-end issues</p>	<p>Tax impacts</p> <p>If a multinational enterprise, consider the impacts of the new OECD Pillar Two guidance on global minimum tax</p>	<p>Workforce actions</p> <p>Respond to any accounting and audit impacts of company layoffs, furloughs, or restructuring compensations that occurred in 2023</p>
<p>Going Concern</p> <p>Understand any violation of debt covenants or other liquidity constraints that impact a company's ability to meet its obligations</p>	<p>Timing impacts due to increased scrutiny</p> <p>Most audit firms (and national offices) will have a more rigorous process this cycle; may extend typical audit timelines</p>	<p>Impairment</p> <p>Determine whether the company experienced a decline in sales, EBITDA, and income in 2023</p>	<p>Financing Transactions</p> <p>Account for any transactions to restructure debt obligations, raise capital, or other financing transactions during 2023</p>	<p>M&A Transactions</p> <p>Address any audit and post-deal planning needs related to acquisitions (or divestitures) that occurred in 2023</p>

Let's explore top priorities for audit season and how CFOs can enable their teams to be effective in light of increased pressures and ongoing talent shortages.

01

Navigating audit season amid constraints

Poll

#1

What do you believe will be the biggest year-end concern this audit cycle?

Select your response:

A.

Team bandwidth & constraints

B.

Regulations (OECD, CECL)

C.

Going concern and/or impairment

D.

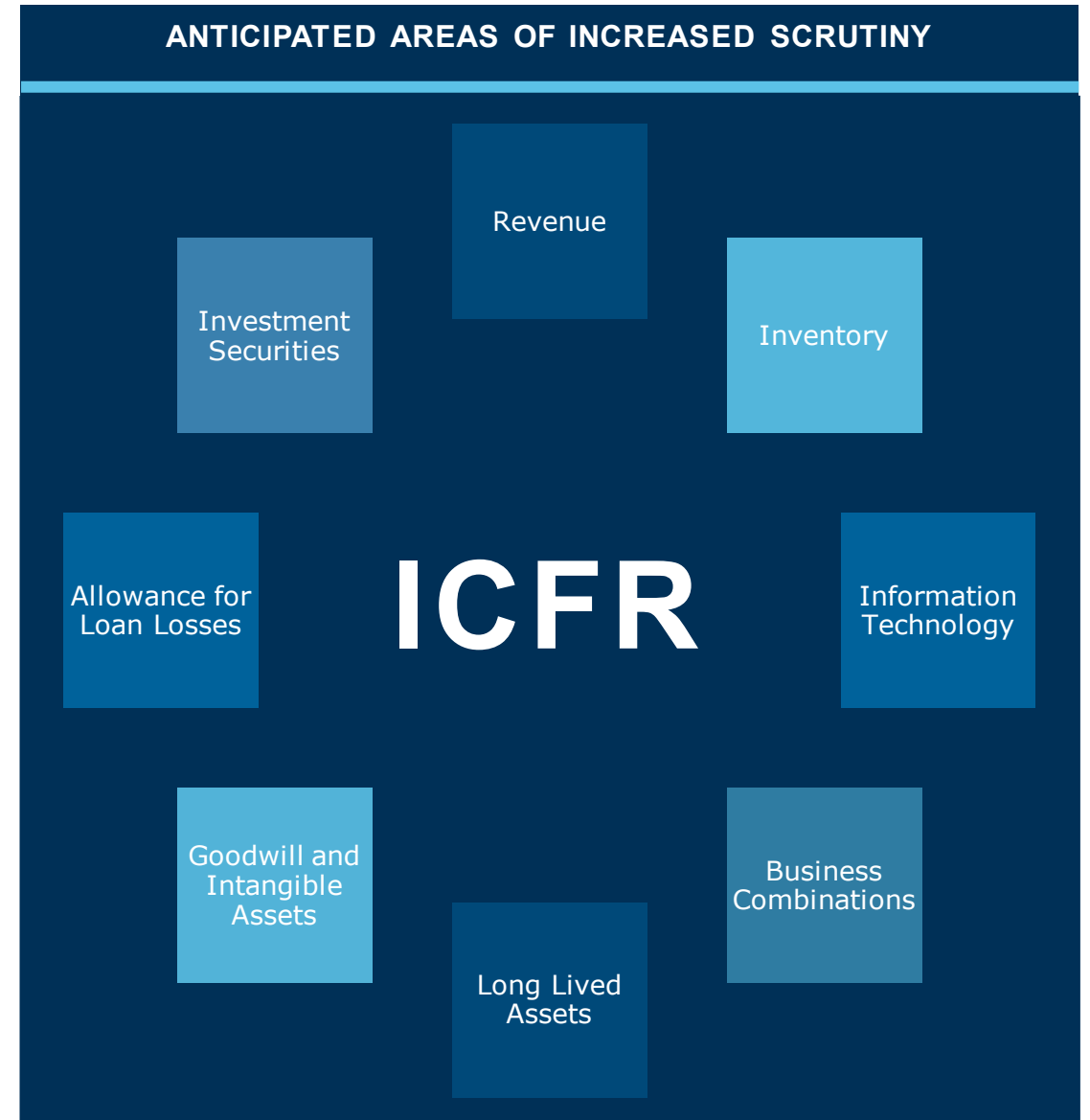
Streamlining audit amid strategic events like M&A or restructuring

Audit Readiness: Internal Controls over Financial Reporting

During the 2023 external audits, we expect to see auditors focus heavily on internal controls over financial reporting (ICFR), for both public and private companies.

Key areas of focus will include:

- ▶ **Sufficiency of management review controls**, documentation, and follow-up
- ▶ **Information technology** - both ITGCs and application-level controls, as well as cybersecurity
 - Example: software for CECL calculations
- ▶ **Use of third parties and external specialists**, including both the quality of their work and management's ownership and understanding of the results
 - Example from practice
- ▶ **Segregation of duties** in light of staffing challenges and turnover



Audit Readiness: Significant Accounting Policies and Interpretation/Application

Technical accounting will continue to be a priority for 2023.

Areas of particular interest include:

- ▶ **Sufficiency of accounting policies or memos** related to both the interpretation and the application of technical standards
 - Initial selection of, or changes in, significant accounting policies or the application of such policies in the current period
- ▶ **Consideration of current economic conditions** and how judgements and estimates may change
- ▶ **Impairment assessments** related to long-lived assets, goodwill, intangible assets, investments, and allowances
- ▶ **Going concern** considerations
- ▶ **Financial reporting – enhanced disclosures and transparency** around risks and uncertainties



02

Evolving toward new guidance and emerging regulations

For year-end success, accounting and finance professionals at public *and* private companies must keep up with the latest guidance. Let's explore key topics, including:

- Year-end tax considerations, including OECD Pillar Two Global Minimum Tax
- Current Expected Credit Loss (CECL)

Year-End Tax Considerations

What you can do now to prepare for the year-end crunch:

- ▶ For any acquisitions, complete the Opening Balance Sheet
- ▶ Prepare the return to provision true-up
- ▶ Rollover the prior-year provision workbook
- ▶ Reconcile the Taxes Payable or Receivable
- ▶ Consider any automation that could increase efficiency and accuracy

Pillar Two: Preparing Now for the Cross-functional Impacts

Why is planning for Global Anti-Base Erosion ("GloBE") Model Rules important to CFOs in 2023?

The global minimum tax impacts many functions at multinational enterprises, and it's essential for companies to get ready now to be ready to report in Q1 2024.

IF

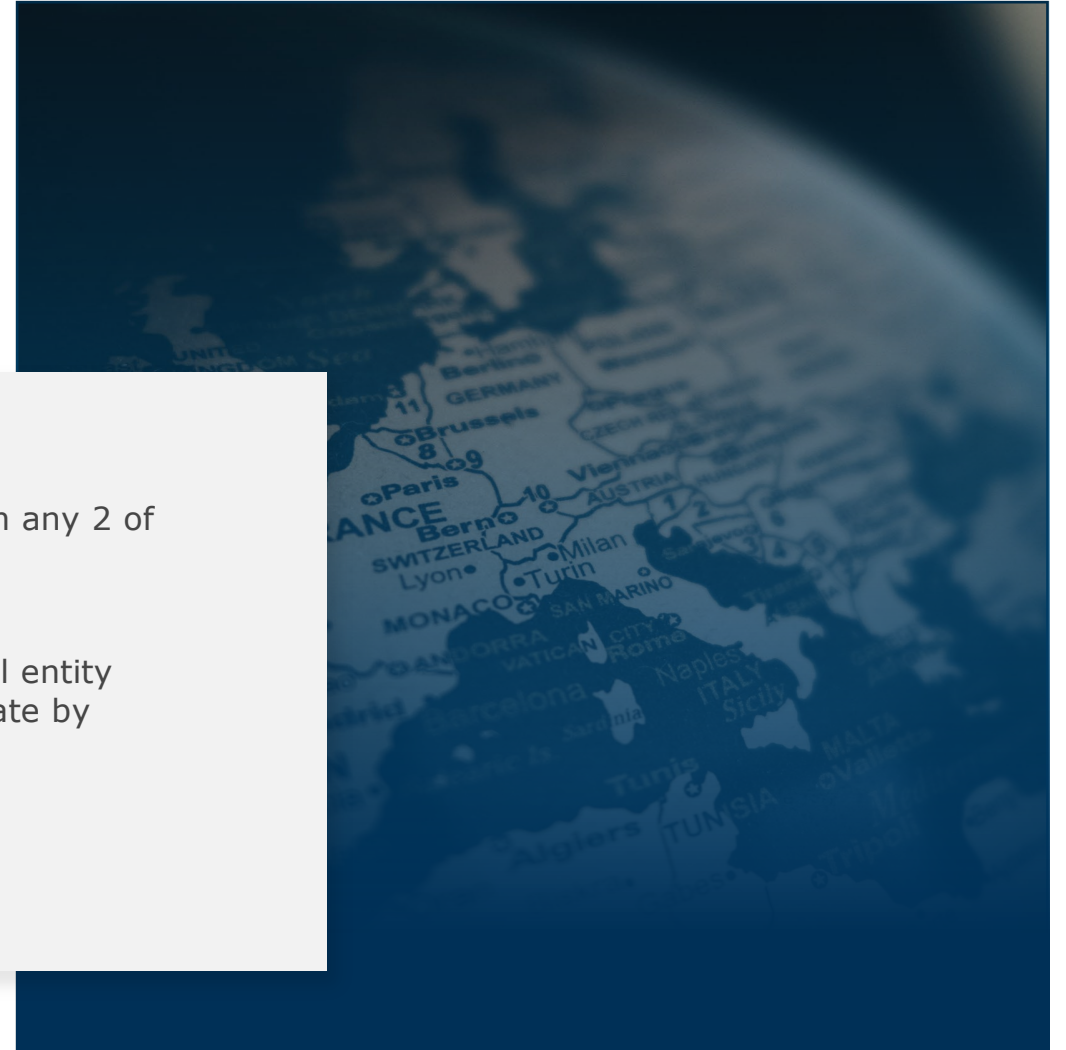
The company's GAAP/IFRS consolidated revenue is greater than € 750M in any 2 of the past 4 years, and has operations in more than one country,

THEN

Their corporate accounting team may need to produce *new* separate legal entity trial balances for *every jurisdiction* with less than a 15% effective tax rate by January 2024

AND

Report their global top up tax on their Q1 2024 financial statements.



Pillar Two: What Functional Areas Need to Be Involved?

Corporate Accounting

- ▶ Determine if subledger and financial statements can be prepared accurately by jurisdiction
- ▶ Understand financial statement and disclosure impact and Form(s) 10-Q/K required updates
- ▶ In-depth understanding of each adjustment to Net Income/Loss to calculate GloBE Income/Loss
- ▶ Responsible for the SOX Control environment around the data/inputs used in the GloBE income calculation

Technology

- ▶ Evaluate ability to access and utilize data
- ▶ Work with Corporate Accounting to provide data mapping and identification of 270+ data points required for full GloBE calculations
- ▶ Solutions include OECDPillars.com, Onesource – Orbitax, Corptax

Tax Department

- ▶ Expertise of Pillar Two requirements, including the steps to determine if the applicability within each jurisdiction
- ▶ Safe Harbor Analysis – identify entities subject to Top-Up Tax
- ▶ Responsible for each jurisdictional Top -Up Tax Calculation and determining potential quarterly increase to estimated tax payments

FP&A/Treasury

- ▶ Ensure the proper capital is in place to make these additional payments
- ▶ Forecasting cash flow models and budgets need to reflect any additional tax payments/expense in each jurisdiction

Pillar Two: What Can Companies Do to Prepare Now?

Companies need to begin understanding the implications of the Pillar Two global minimum tax on each legal entity and jurisdiction in which they operate.

For public entities, the time to start is now as reporting and tax implications exist starting Q1 2024



Poll

#2

Where are you in your analysis of Pillar Two?

Select your response:

A.

Task force created & initial analysis performed

B.

Starting to look at implications

C.

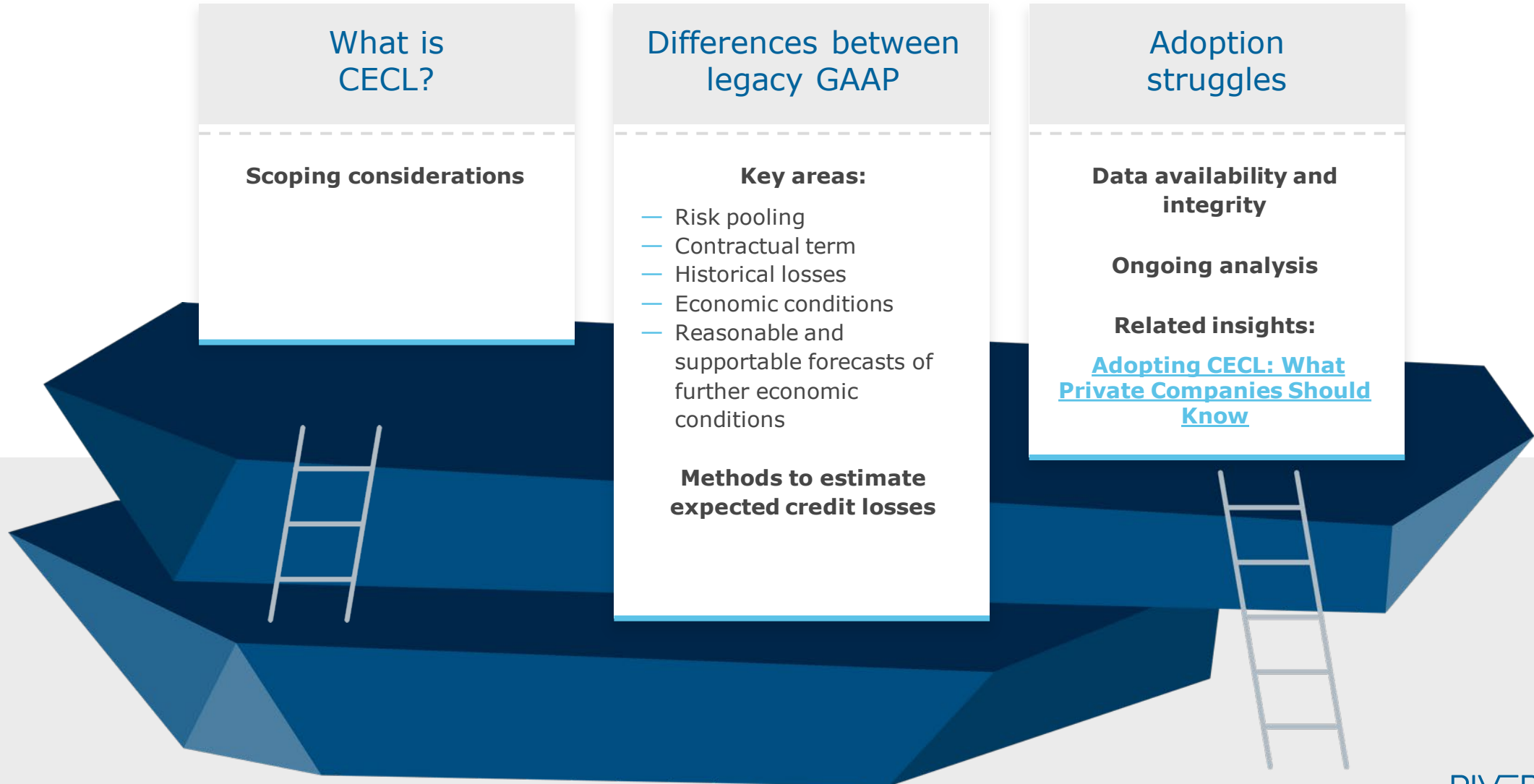
Haven't thought about it

D.

Not applicable

Is Your Company Ready for the Impacts of CECL?

How to prepare for the year-end impacts of the current expected credit loss standard



Poll

#3

Where is your company in process of adopting CECL?

Select your response:

A.

Adopted

B.

In process

C.

Haven't started

D.

What is CECL?

E.

Not applicable

Through adept planning strategies, CFOs and finance professionals are managing a tenuous balance between long-term company growth and the choppy waters of short-term cash flow.

03

Guiding growth
and innovation
while balancing
financial caution

An illustration on the left side of the slide shows three stylized human figures in blue and white. One figure is at the top of a large, multi-faceted blue structure, another is on a ladder reaching up to a lower part of the structure, and a third is at the bottom left with a briefcase. The structure is composed of various shades of blue geometric shapes.

Hear what CFOs are saying:

“... **growth opportunities** will set us up well for the next *two years*.”

Meanwhile, I have to make sure that we have **enough cash** to make it through the next two *quarters*.”

A lot of what I’m spending my time doing is figuring out **that tradeoff between growth and austerity.**”

–Riveron [CFO forum](#) participant

Annual Planning: A Refocus on Cash

At year-end and beyond, CFOs and FP&A functions are finalizing annual operating plans, partnering with execution teams on strategic growth initiatives, and rigorously governing cash and working capital.

Key economic pressures/trends

- ▶ Formulating responses to prolonged inflation
- ▶ Shielding margins from fluctuating interest rates
- ▶ Pivoting to organic growth amid a more difficult M&A environment

Common internal challenges

- ▶ Identifying interim support needs during finance team transitions
- ▶ Adapting to strategic shifts, especially M&A fluctuations
- ▶ Bolstering productivity under resource constraints
- ▶ Fragmentation of financial data sources



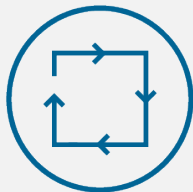
Strategic planning considerations entering 2024

Develop a **"cash-is-king" mindset** and closely measure spend, working capital and cash results versus plan

Establish a continuous reporting structure that integrates operational/financial KPIs with integrated planning models inputs

Enhance reporting output and efficiency with **digital planning tools** and visualization engines, reallocate/focus time on decision-making

Upskill the current workforce, enhance tooling to operate in specialized digital planning solutions; determine interim support needs to address talent gaps



Near-term tactics for enhancing the planning process

Leverage cash management and forecasting tools to better anticipate short- / medium- / long- inflows and outflows

Document risks and opportunities within the budget (particularly liquidity metrics); partner with business and functional leaders to mitigate

Ensure cross-functional collaboration (e.g., sales, operations, supply chain) to align assumptions and drive plan accountability

"Dimensional-ize" data, standup up data governance to ensure comprehensive reporting that enriches data with meaningful attributes

Dynamic Planning Dashboards

Moving beyond Excel, dynamic dashboards enable real-time analyses of projected performance which leads to faster response time, increased efficiency, and better decision making.

Financial or Planning KPIs

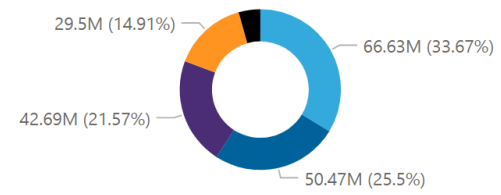
Net Revenue	Adj. EBITDA	Adj. EBITDA Margin
14.8M	3.0M	20.1%

Automatic data feeds for analysis and scenarios

Profit & Loss							
(\$ in thousands)	MTD	PY	\$ Var PY	% Var PY	Budget	\$ Var (Bud)	% Var (Bud)
Gross Revenue	17,586	17,867	(282)	(1.6%)	20,783	(3,198)	(15.4%)
Reimbursable Costs	1,256	1,224	32	2.6%	495	761	153.7%
Direct Costs	1,486	1,633	(147)	(9.0%)	4,062	(2,576)	(63.4%)
Net Revenue	14,844	15,010	(166)	(1.1%)	16,227	(1,383)	(8.5%)
Direct Labor	4,192	4,292	(100)	(2.3%)	4,427	(235)	(5.3%)
Gross Margin	10,652	10,718	(67)	(0.6%)	11,799	(1,147)	(9.7%)
Gross Margin %	71.8%	71.4%	0.4%	0.5%	72.7%	(1.0%)	(1.3%)
Indirect Labor	3,529	3,695	(166)	(4.5%)	4,084	(555)	(13.6%)
Bonus	201	222	(20)	(9.1%)	187	15	7.9%
Payroll Taxes	716	807	(91)	(11.2%)	681	35	5.2%
Insurance	1,106	901	205	18.3%	1,058	48	4.5%
HR Expenses	343	347	(4)	(1.1%)	353	(10)	(3.0%)
Professional Services	155	268	(113)	(42.0%)	638	(483)	(75.6%)
Occupancy Costs	477	458	19	4.1%	490	(13)	(2.6%)
IT & Software	595	652	(57)	(8.7%)	626	(31)	(4.9%)
Travel, Meals & Entertainment	157	71	86	120.6%	249	(92)	(37.0%)
Management Fees and Related							
Other Indirect Costs	377	444	(67)	(15.1%)	487	(109)	(22.5%)
Total Indirect Costs	8,327	8,531	(204)	(1.6%)	8,172	155	0.0%
Non Operating Expenses/(Income)	0	0	0	(1.6%)	0	0	0.0%
Reported EBITDA	2,823	2,681	143	5.3%	3,627	(804)	(22.2%)
EBITDA Margin %	19.0%	17.9%	1.2%	6.5%	22.4%	(3.3%)	(3.3%)
Adjustments to EBITDA							
QofE Due Diligence Adjustments					0	0	0.0%
Transaction and Financing Fees					0	0	0.0%
Monitoring & Board Fees	168	163	6	3.4%	172	(4)	(2.2%)
Non-Ordinary Expenses	(7)	0	(8)	(2489.4%)	0	0	0.0%
Completed Transaction Expenses					0	0	0.0%
Total EBITDA Adjustments	161	163	(2)	(1.2%)	161		

Double-click functionality for granular details

Net Revenue By Service Line



Interactive and informative visuals

Current Year vs. Budget

	Adjusted EBITDA		Gross Margin		Net Revenue	
	\$ Var (Bud)	% Var (Bud)	\$ Var (Bud)	% Var (Bud)	\$ Var (Bud)	% Var (Bud)
Service Line 2	(128)	(6.8%)	(26)	(0.9%)	23	0.6%
Service Line 3	299	(11.1%)	29	178.5%	35	92.9%
Service Line 4	(866)	(46.4%)	(1,478)	(37.6%)	(1,787)	(35.0%)
Service Line 5	(109)	(18.3%)	(51)	(3.2%)	(105)	(4.4%)
Service Line 6	161	8.3%	379	11.1%	452	9.5%
Total	(643)	(17.7%)	(1,147)	(9.7%)	(1,383)	(8.5%)

Actuals versus Plan comparisons

Current Year vs. Prior Year

	Adjusted EBITDA		Gross Margin		Net Revenue	
	\$ Var to PY	% Var to PY	\$ Var to PY	% Var to PY	\$ Var to PY	% Var to PY
Service Line 2	920	109.2%	1,187	73.9%	1,543	63.3%
Service Line 3	272	(10.2%)	(516)	(92.0%)	(638)	(89.7%)
Service Line 4	(546)	(35.3%)	(576)	(19.0%)	(827)	(19.9%)
Service Line 5	(11)	(2.2%)	222	16.7%	265	13.2%
Service Line 6	(494)	(18.9%)	(383)	(9.2%)	(510)	(8.9%)
Total	141	4.9%	(67)	(0.6%)	(166)	(1.1%)

Poll

#4

Within your organization, what is the *greatest* hurdle you anticipate during the 2024 planning cycle?

Select your response:

A.

Adapting to strategic shifts such as M&A or another major, new initiative

B.

Improving cross-functional collaboration (avoiding siloes)

C.

Dealing with talent shortages or needing to upskill teams

D.

Addressing constraints with technologies or data quality/availability

E.

Moving toward a “cash-is-king” mindset

Year-End Readiness: The Balancing Act

Today we've explored how adept accounting and finance leaders are balancing priorities and maximizing results during audit and 2024 planning cycles.

Recap

Key takeaways,
Q&A, and
additional
resources

Recap & Key Takeaways

What we've covered in today's webinar - Year-End Readiness: The Balancing Act

01 Navigating audit season amid constraints

- Proactively address team constraints, recent strategic events such as M&A, going concern, and other matters impacting audit readiness
- **Auditors will likely focus heavily on ICFR** at public and private companies
- Technical accounting will continue to be a priority for this audit cycle

02 Evolving toward new guidance including CECL and OECD considerations

- Tackle relevant year-end tax-related impacts
- Prepare now for **Pillar Two** to be ready for Q1 2024 reporting and cross-functional impacts
- Most companies, including private companies, need to comply with the **CECL** standard

03 Balance growth and caution through annual planning

- Understand critical economic pressures, common internal challenges, and shifts toward organic growth
- Hone **strategic focus areas** to strengthen planning during 2023, and engage interim support if necessary
- Consider **near-term tactics** to enhance the process in future cycles and enable better year-round visibility

04 Ask the experts and explore related insights

- Stay tuned for an email recap with a **recording** of this webinar and a copy of these **slides** for reference
- Visit riveron.com for additional audit readiness, annual planning, and other considerations



**Ask today's presenters!
Let's delve into Q&A ...**

Q&A and Next Steps

1	Related to audit readiness and application-level controls: How are you seeing management go about assessing the design of those controls, documenting within a SOX framework, and testing?	4	Questions around FP&A and cash/liquidity forecasting: <ul style="list-style-type: none">- How far out should a company forecast, and how does that forecast correlate to going concern considerations?- When trying to strengthen FP&A approaches, how do we include operational drivers in the forecast?
2	Related to CECL and your implementation experience: What software platforms have you seen companies use to expedite the accounting processes/calculations?		
3	Regarding Pillar Two, what are the most critical items for public companies to be able to accurately report/comply in Q1 2024?	5	During year-end interactions with an audit firm's national office, some companies have experienced frustrations with 11 th -hour changes that get pushed down from the national office. What advice do you have?

Other questions from today's chat ...

Explore the links below and learn more at riveron.com/year-end-readiness/

Additional Resources




INSIGHTS

[Expert Q+A: How Finance Teams Can Make an Impact During Annual Planning](#)



INSIGHTS

[Today's CFOs Walk Tightrope of Growth, Caution](#)



INSIGHTS

[Private Equity Teams Can Boost Value and Visibility Through FP&A Automation](#)



INSIGHTS

[Pillar Two Tax Insights: EU to Implement Minimum Tax on Multinational Enterprises](#)

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