



Creating Account Reconciliation Process Efficiencies while Reducing Risk and Audit Fees

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Few terms elicit deep breaths and visions of runaway dollar signs like “compliance.” Since the enactment in 2002 of the Sarbanes-Oxley Act, the call for compliance has caused public corporations and some private and foreign organizations to become fixated on meeting the various guidelines of the regulatory requirement. The result has been significant investments in time, resources, and compliance systems.

While great improvements in corporate credibility have emerged from this government mandate, costs to comply continue to rise. A Hackett Group study referenced in the October 2007 *Financial Week* article, “The SarbOx: Compliance is Inflating Finance Costs” indicated “that after nearly a decade of cost reductions in the finance department, the average “global 1000” company spent 12% more last year on its finance function than it did three years ago. And the biggest driver of that increased cost was compliance-related activities.” Yet, despite all of the attention senior managers give to compliance, there is still one key area that is often overlooked – up until the auditors arrive – and that is account reconciliation.

Account Reconciliation Processes Deserve Attention

In the *Journal of Accountancy* article, “Account Reconciliation: An Underappreciated Control,” published in September 2006, the author reports, “...account reconciliations are so important under Sarbanes-Oxley, companies should adopt a continuous improvement process with the goal of reconciling all accounts before the post-closing adjustment review process.” But, is it possible to create a continuous improvement process while reducing risk and audit fees? And, is it possible to cut costs without jeopardizing compliance or experiencing a material breakdown in controls? The answer is YES.

Despite the challenges presented by regulatory requirements, the process for reconciling accounts has not changed a great deal since the advent of the electronic spreadsheet. Reconciliation processes, for even Fortune 1000 companies, still involve manual effort. Additionally, many deficiencies are not addressed, including:

- Appropriate training on account reconciliation methodologies
- The creation of standards for format and content
- Poor visibility into the performance of the account reconciliation control
- Inadequate, if any, formal quality assurance testing

Largely manual processes and the inability to standardize and centralize processes requires that companies allocate a large number of staff in the preparation and reconciliation of accounts – everything from depository and disbursement accounts to G/L accounts, including Prepaids, Accruals, Provisions, and Reserves.

The Trouble with Spreadsheets

Spreadsheets serve multiple purposes and multiple departments within an organization, but using spreadsheets to track reconciliation processes can be risky. Prior to Sarbanes-Oxley, many companies did not have an active reconciliation tracking program. This legislation indirectly motivated finance teams to implement a tracking process to prove compliance; unfortunately it also led to an over-reliance on spreadsheets.

Spreadsheet software is installed on the lion's share of corporate office machines, and it's the default system for preparing reconciliations. Typically, each month, a Reconciliation Manager (RM) or preparer, the point person responsible for administering the reconciliation control, obtains a list of accounts for reconciliation from the accounting system. The RM updates the account list within a spreadsheet and then passes the information to reviewers and approvers. The process is cumbersome and inefficient, especially when populated spreadsheets are printed and compiled in binders and distributed to multiple reviewers and approvers for signatures.

All too often, the process breaks down – usually between the time reviewers sign the reconciliation (evidence that the review has occurred) and the time at which certification statements are submitted (indicating proof of compliance). A missed account can involve hours of time and labor. Someone must sort through massive and multiple binders to find the necessary information. And there are cases of missing signatures and improper formatting. Improper formatting draws more attention from auditors today. Their job is to ensure reconciliations are structured in a way that justifies the account balance. One of the most common formatting issues is the inappropriate use of Roll Forwards. In some situations, junior-level accountants regurgitate the prior month's accounting entries rather than providing a full and complete explanation of the entire ending balance. This is a slippery slope for any organization.

Opportunities for Improvement

There are five key areas in which the account reconciliation process can be improved.

Automation of the tracking function: It doesn't make sense for companies to manually track account reconciliation when there is an automated and secure technology available for tracking. An automated account reconciliation system seamlessly interfaces with all available ERP and GL systems as well as various subledgers to bring in all relevant data automatically. This eliminates the need for preparers to retrieve and re-verify account balances and activity.

Live status monitoring: Automatic tracking naturally lends itself to live status monitoring. Managers can, at a glance, see the status of individual accounts for reconciliation across a global enterprise.

Remote access to reconciliations: From anywhere at any time, through an automated reconciliation system's dashboard, managers (and auditors) can access accounts for reconciliation and certification. Visibility is provided to:

- List of reconciling items, including aging
- Variance of fluctuation analysis
- List of files and supporting documentation
- Mathematical proofs showing that the account balance is accurate

Standardization: Clarifying policies and procedures – what is expected from whom and by when – extends standardization. Spreadsheet use severely limits standardization, as their format provides freedom to reconcilers to “improvise,” increasing risk and audit costs for companies.

Risk mitigation and quality control: Through automated and secure reconciliation, companies can transform a program that was once largely clerical and heavily administrative into a highly effective risk mitigation program. Role-based assignments and levels of approval eliminate manual to-do lists. Centralized task management provides full visibility to reconciliations – all the way to the financial close process.

Measuring Returns

Companies save time preparing, tracking, reviewing, and conducting quality assurance testing when using an automated reconciliation system. By factoring risk into their reconciliation programs, companies can reduce efforts spent reconciling low risk accounts and focus primarily on high-risk accounts. Workload is reduced, productivity and efficiencies are gained, and savings are increased.

Automated reconciliation systems can reduce the scope of audit testing. System controls allow the generation of reports that substantiate compliance. All electronic sign-off is captured and stored with journals. Auditors provided access to journals and supporting documents can easily determine if a company has:

- Violated segregation of duties
- Overlooked a reconciliation or review
- Submitted a reconciliation with an improper format
- Submitted a reconciliation before all significant fluctuations over the prior quarter and prior year were explained
- Altered reconciliation documentation after it was submitted for review

System controls reduce audit testing, and less testing equates lower audit fees.

Conclusion

In this era of compliance, companies cannot afford to take risks with their account reconciliation program. The stakes are too high. Recent innovations in account reconciliation technology provide new opportunities to reduce risk, increase process efficiencies, reduce costs, increase compliance, and ultimately raise revenue. Account reconciliation is arguably an important process that corporations of every size should consider optimizing for improved compliance.