



Proper reconciliations speed closings, improve accuracy, cut costs

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Tightened Securities and Exchange Commission filing deadlines and month-end close requirements have created the need for companies to reconcile accounts, close books and file financial reports more quickly.

Unfortunately, while some companies are able to meet these new deadlines, a large percentage is struggling. A recent survey by CFO.com found that account reconciliations are the number one reason for a slow close process. However, when companies analyze their reconciliations, they discover that some “reconciliations” are not really controls. In fact, they are not even reconciliations! The analyses are actually account roll forwards mistakenly called reconciliations.

“About 10 percent of companies, at most, are doing a good job,” says Tom Batina, a managing director in Protiviti’s Minneapolis office. “When someone tells me they don’t have an integrated system, that’s a red flag. When they tell me they do all their reconciliations during the close cycle, that’s a red flag. If a company is rolling forward an account balance, chances are whatever they’re trying to reconcile is not going to prove anything. They’re just mimicking what the ledger is telling them. That’s a big red flag. I’ve seen lots of red flags.”

Batina says companies that are doing a good job of account reconciliations are:

- Integrating systems so transactions are recorded in the general ledger and appropriate subsidiary ledgers such as the sales and accounts receivable systems. In these cases there may be no need to reconcile anything, because of the integration. “If we were to go back to before the ERP phenomenon in the late 1990s, we would find companies had disparate systems,” Batina says. “A lot of companies had best-of-breed software applications, but getting these applications to talk to each other was not done well. That’s why those reconciliations were needed. When you have an integrated system, you don’t need to perform those reconciliations. Companies that have done things well have sorted through all that. Other companies installed ERP systems and have never eliminated that work.”
- Evaluating the timing of reconciliations. “Maybe the fixed assets account is not critical to the close, so they can do that reconciliation any time,” Batina says. “Maybe there are zero-balance or static accounts or other low-risk accounts that don’t need to be reconciled every month. You can move them out of the crunch time of getting 10Qs and Ks filed.”
- Taking a hard look at accounts to define which ones are critical to reconcile. These companies asked if they gain any greater comfort by tying one report to another or one system to another. Then they asked, if they do gain comfort, when must the reconciliation be done? Is it critical to closing the books and reporting results of operations? There is usually no reason to do all reconciliations at the same time.
- Using automated tools that can extract data from systems to identify balances that need to be reconciled and organize and track the reconciliation process.

"I had a client a few years ago who was concerned about the speed of the monthly close process. We helped them analyze reconciliations and focus on the most critical accounts. In one case, the company took comfort in the controls surrounding the fixed asset reconciliation. We examined the source of the reconciliation data and noted all amounts came from the general ledger. The staff accountant agreed that the reconciliation was meaningless since the Excel spreadsheet merely duplicated the mathematical function of the general ledger. We reviewed this with the controller who agreed to change the process. This example shows why we need clarity over the definition of reconciliation. Companies that do reconciliations well – and by well I mean narrowed down to what's important – are doing a meaningful control. They've taken the time to define what's important and what needs to be reconciled."

This is where Protiviti's services can be of particular value. Most companies need help determining what is important and how to do proper reconciliations once those important accounts are determined.

"We can help companies better define what needs be reconciled," Batina says. "We can help companies better manage the reconciliation process and select automated tools that can be a big help. Usually a company knows it's having a problem because it has a long close cycle. Often, though, the company may be unaware of an acceptable solution. We can show them what they need to do."

Automating the reconciliation process

Erik Stone, a managing director in Protiviti's San Francisco office, lately has been focusing his attention on new automated reconciliation tools. He says too many companies are doing everything in spreadsheets, which creates a great deal of manual tracking.

"It's easy to get lost in a flurry of emails and phone calls doing it this way," Stone says.

Automated tools can provide reconciliation templates that may be especially handy for companies with decentralized accounting functions. A template provides consistency and uniformity in how accounts are reconciled or analyzed, he says. These tools also make tracking of reconciliations much easier.

"In companies where you have a large number of accounts to reconcile or people spread out geographically, it's a challenge to track reconciliations in a spreadsheet, with updates by email or phone," Stone explains. In contrast, these new tools can capture the general ledger accounts, identify preparers and reviewers of accounts, and track preparations through review and approvals. Workflow engines track completion and send automatic reminders. To facilitate prioritization, the tools enable risk assessment and prioritization of accounts. They can also monitor accounts and change priority when certain conditions are met. For example, zero-balance accounts with period ending negative or positive balance could be flagged for reconciliation.

Once reconciliations are complete, the tools continue to monitor for account balance changes, and automatically notify the preparer and reviewer that the reconciliation needs to be redone.

Such tools may offer other advantages. By gathering reconciling items into a central database, there are efficiency benefits. Preparers can be in different locations and access what they need any time across time zones. At any point the close manager can see the status of a reconciliation.

For compliance, evidence of control activities is placed onto a single platform, with more automated controls facilitating more efficient testing for SOX compliance.

External auditors also may make use of the tools.

"A company can grant auditors inquiry-only access to see reconciling items, how they were disposed of, the period in which this was done and other information, which often can improve efficiencies and reduce the time of the external audit." Stone says.

The type of automation Stone describes is available through Blackline, Movaris and Trintech Group PLC - providers of transaction reconciliation software and payment infrastructure solutions.

Heather Lynds, Trintech's director of product marketing, says the company's AssureNET GL product answers two key questions: How does the company know every account is being reconciled? And how does the company know the reconciliation is appropriate or that the content or format is appropriate for the particular account? She says it's important to have templates tailored to each account that is being reconciled.

Trintech's AssureNET GL supports automated interfaces to all general ledger systems – ensuring that all accounts are included in the general ledger reconciliation and certification program. An extensive management toolset allows the assignment of reconciliation and review responsibilities, schedules and formats for individual accounts or groups of accounts. A second Trintech tool, ReconNET, can automate more than 90 percent of a company's reconciliation processes and scales to handle up to 15,000 items per minute. With ReconNET, operators can begin the day with the bulk of their reconciliation activities already completed, increasing productivity and enabling them to focus on resolving exceptions and other critical tasks.

"We can move a company away from ineffective detective controls to preventive controls that ensure only proper reconciliations can even be submitted in the first place," Lynds says.

Quality considerations are paramount

"Many companies haven't even begun to look at quality. This is the No. 1 problem," Lynds says. "Accounting school doesn't train you on proper formats or methods for reconciliation. Recons were viewed as a clerical exercise and weren't seen as important until Enron and other accounting catastrophes occurred. Now we know their importance."

Also, the Sarbanes-Oxley Act requires public companies to provide tracking to prove they are monitoring internal controls over financial reporting.

Lynds says AssureNET GL's tracking element solves that dilemma but is not its most important feature. The tool's most significant value is its template-building feature, which can impose important controls over the reconciliation process.

The template feature allows a company to determine what information must be submitted with a particular reconciliation. If anything is missing, the reconciliation may not be submitted.

"For each class of account reconciled, you can say, 'Here's what must be provided,'" Lynds says. "This prevents roll forwards and doesn't even allow someone to save until the person submits a minimum amount of information."

The pressure is mounting

With SOX pressures and faster close requirements coming in 2007, the need for companies to speed up the close process with greater accuracy is building. A need for speed is one reason Accenture implemented Trintech's AssureNET GL and ReconNet products for their financial services outsourcing clients, said Cheryl Nilsen, Account to Report global lead for Accenture Finance Solutions. Accenture is a global consulting, technology resources and outsourcing company.

Accenture went live with AssureNET GL for their client's Americas region in June. The company went global with all accounts in September.

“We were looking for a couple of things,” Nilsen says. “We were looking at where we were spending a lot of time on reconciliations. The bulk of it was spent outside the month-end close on reconciliations. Why were we spending so much time?”

The company looked at the process from reconciliation preparation to review for every account, including open reconciliation items – thousands of reconciled accounts in all.

“All this was being done manually on Excel spreadsheets,” Nilsen says, adding that email and phone calls were the means of tracking. “We had people all over the world trying to track the status of reconciliations. It was an absolute nightmare. So we started looking for a tool to help us put tighter controls in place.”

Accenture also wanted a tool to make the actual reconciliation process go more quickly. The company contacted three or four vendors, all of which had software for the matching of accounts. But the only vendor whose tool strongly addressed the importance of tracking was Trintech’s.

“Our experience has been very good,” Nilsen says. “We kicked off the project last January or February. Trintech has been very responsive. We’re probably the biggest and most complex client they’ve had. We’re global; we have multiple currencies. We have probably about 15,000 accounts tracking in the tool.”

The Trintech tool is on an Accenture server that needs to work through the firewall of an Accenture client. That client is now loading its retained accounts into the tool, so they have full tracking of Accenture accounts and their own accounts.

Everything is Web-based, so there is no need to print anything. Accountants can go into the tool and view the details of the general ledger and subsidiary ledgers online. Schedules have been set up showing which accounts need to be reviewed and when. The scheduler assigns accounts to individuals, sends automatic email reminders to preparers and reviewers, and flags reconciliations that may be late.

For reviews the reconcilers no longer have to bring several copies for reviewers. Now they bring their laptop computer into the room and go online.

The results already are becoming apparent.

“Just as an example, one account used to take 30 minutes to reconcile,” Nilsen says. “Now that account takes seven minutes. Once we’re fully implemented we expect to save 10 full-time equivalents. Review and printing costs will also be reduced.”

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