Reducing the Pain of Account Reconciliations
Introduction

The finance department in most organizations is coming under increasing pressure to transform and streamline the financial close and reporting function while continuing to maintain the integrity of the financial statements and close process. A key part of this close process includes the completion of detailed account reconciliations, which can be a major bottleneck in the close process. The necessity for understanding and certifying an account balance and its transactions is prompted by regulatory and audit control requirements.

In addition to the statutory pressure for account reconciliations, the current economic situation makes it imperative for Finance executives to understand the details and transactions behind every account. They need to be able to easily identify fraudulent, improper and excessively aged transactions. In most organizations, the account reconciliation process is a very time consuming and manual process. A robust and integrated account reconciliation software application will allow Finance to more effectively manage their business.
Account Reconciliations: An Essential Part of the Financial Close

Account Reconciliations fulfill an important role in ensuring financial statements contain accurate information. Balances that were accurate one month may require adjustment the next, due to changes in circumstances affecting the company. For example, a company in litigation must evaluate contingent liability accruals to make sure they reflect a reasonable estimate of the expected loss. In a sales transaction, cash may be received before the revenue can be recognized, and the entry to recognize revenue must be timed to match satisfaction of revenue recognition requirements. For reasons like these, companies must perform an analysis of account balances on a periodic basis and consider whether adjustments are required. This process, if not performed properly, can result in the accumulation of significant errors as time goes on.

Medium to large organizations often have the need to perform thousands of account reconciliations during the quarter-end or month-end close. In fact, a recent survey by Robert Half and the Financial Executives Research Foundation (FERF) revealed that in companies with over $500M in revenue, almost half have more than 500 accounts that are reconciled on a quarterly basis. More than 25% of companies have more than 1,000 accounts that are reconciled per quarter. (figure 2)
The Robert Half/FERF study also highlighted the types of tools used to handle account reconciliations. As noted in figure 3 below, only 13% of those surveyed use third party software solutions to manage account reconciliations, while the majority use manual methods and internal tools.

![Figure 3: Tools used for account reconciliations](image)

Some of the key challenges in account reconciliations include ensuring all accounts are being reconciled, that the reconciliation itself is complete and proper, and that the company is maintaining the proper evidence that this control activity was performed. Oracle’s experience with customers reveals that this tedious process is typically performed in Microsoft Excel, where Finance staff manually enter the balances to be reconciled and the analysis justifying the account balances. Managers usually send emails or make phone calls to track progress and follow up on delinquencies. Due to the challenges in tracking account reconciliations, companies typically prepare and review most reconciliations on the same schedule and are often not factoring in risk when determining frequency and due dates.

Common failure points include:

- Missing or lost reconciliations
- Un-reconciled accounts
- Improper use of roll-forwards
- Reconciliation of the wrong balance (balance changed after certification)
- Insufficient justification or documentation

When these failures occur, audit findings can result in a significant deficiency or a material weakness in internal control, and costs can reach the hundreds of thousands, or even millions of dollars. Below is a review of some of the challenges often encountered in particular types of account reconciliation processes.
General Ledger Balance Sheet Reconciliations

These reconciliations typically cover all active balance sheet accounts (any account open for posting), including accounts with a zero balance. The justification for including zero balance accounts is that the existence of a zero balance doesn’t mean the balance is proper. It could be that the balance should have been something other than zero. The objective of General Ledger Reconciliations is to ensure that the balances used for financial reporting are accurate. They are typically performed monthly, though some low risk / low volume accounts may be reconciled less frequently, such as quarterly, or in the case of equity, annually.

The method used for reconciliation depends on the nature of the account. If the account is supported by a subledger, then the reconciliation typically requires a comparison of the general ledger balance to the subledger balance, followed by an analysis of the subledger balance to support reasonableness. For example, accounts receivable reconciliations will often contain an aging of the receivables balance, to ensure the balance contains no excessively aged receivables that should be written off. Accounts not supported by a subledger require an analysis of the account balance. Specifically, the reconciler must be able to document what the balance should be, based on their understanding of the business and the economic conditions supporting postings to the account. For all types of accounts, if errors are detected in the account balance, then reconciling items must be documented explaining the difference and the action to be taken to resolve the discrepancy.

General Ledger to Financial Consolidation System

These reconciliations are performed as a point of verification to ensure that the feeder general ledgers (GLs) tie out to the financial consolidation system. The scope of the reconciliation covers all consolidation system balances and the corresponding balances from the feeder GL’s. The method of reconciliation is a balance comparison, where differences would require investigation and resolution.

Best Practices in Account Reconciliations

Leading edge Finance organizations are now looking to eliminate spreadsheets and manual processes used to support account reconciliations, and adopt packaged software applications designed to automate and streamline the process. But it’s not enough to have a packaged software application to support account reconciliations, this application should also be integrated with financial close workflow, and the various systems in which account balances and transaction detail reside, such as financial consolidation applications and specific general ledgers. Key account reconciliation software features include:

- Flexible balance mapping rules with an automated completeness check
- Rule based thresholds for automatic certification and risk assessments
- Workflow support for reconciliation process
- Audit controls for all activities
- Reporting, Monitoring and Analysis
The key benefits of integrated and packaged account reconciliation software packages include efficiency gains as well as reduction in risk to Finance organizations. Efficiency gains can be measured by the value in labor savings achieved by making the administration, preparation, and review of account reconciliations more efficient. Reduction in risk can be measured by the avoidance of costs associated with a failure in internal controls around account reconciliations. If material weaknesses are found and announced in external audits, the consequences can be costly. Companies incur expenses for additional legal and audit fees and there can be an impact on the stock price for publicly-held entities.

A key consideration in adopting packaged account reconciliation software packages is the scoping of accounts to be reconciled. The selection process for inclusion in scope is largely determined by time and resource constraints. The low-hanging fruit in this area is balance sheet account reconciliations, which can usually be set up within a few days. For companies with multiple general ledgers feeding into a consolidation system, configuration of the account reconciliation package to support consolidation system reconciliations usually involves a week or two of extra effort. This is typically centered around configuration of the account list for import and the mapping rules for balances. If automated reconciliation of consolidation system balances is appealing, then the marginal effort required for configuration may be worth it. If time and resource constraints are the greatest concern, then consolidation system reconciliations may be better suited for a phase two deliverable.

Oracle’s Solution – Account Reconciliation Manager

Oracle’s solution for managing account reconciliations is provided as part of our market-leading suite of financial close and reporting applications. It’s delivered as part of Oracle Hyperion Financial Close Management, which centralizes management of all period-end close activities enabling organizations to manage and improve their entire financial close process. (figure 4) It enables the management of all financial close cycle tasks including ledger and sub-ledger close, data loading and mapping, financial consolidation, account reconciliation, tax/treasury and internal and external reporting processes – any task associated with the extended financial close.
Identify bottlenecks in the process. The central dashboard enables process monitoring, immediate action on errors and delays and process analysis to evaluate and improve close-cycle effectiveness.

The Account Reconciliation Manager (ARM) module within Hyperion Financial Close Management is dedicated to the management of account reconciliations. It helps companies reduce risk by providing real-time visibility into the performance of reconciliations and ensuring that all reconciliations prepared are properly qualified. It also helps companies streamline and optimize performance by automating certain reconciliation tasks and supporting risk-based reconciliation cycles.

Key Features in the ARM module include:

- Balance integration using Oracle Hyperion Financial Data Quality Management ERP Integration Adaptor for Oracle Applications
- Mapping features to summarize low-level balances to the level appropriate for reconciliation
- Auto reconciliation of authorized zero balance accounts and balance comparison accounts
- Easy to use features for maintaining reconciliation assignments, including mass update and import capabilities
- Configurable frequencies and unlimited levels of approval
- Flexible formats adaptable to each type of account
- Powerful filtering and ad-hoc reporting capabilities
- Pre-built dashboards for monitoring status, aging, performance metrics, and compliance metrics

ARM can support any periodic reconciliation process, including both Balance Sheet and Consolidation System reconciliations.

Once the scope of account reconciliations has been defined, the next step is to consider the “format strategy”—how many different formats should be used, and what should they contain? Goals in this area can differ across organizations. Some companies are concerned primarily about ensuring "completeness", i.e. that every reconciliation required to be reconciled has, in fact, been reconciled. Others may have struggled with reconciliation quality, and are concerned about implementing standardized reconciliations right away. The most common reconciliation mistakes sought to be eliminated include unauthorized roll-forwards, where a reconciler explains only the net change in the balance, when a full balance analysis is required. Another is regurgitations, when a reconciler prints out a transaction listing, attaches a cover page to it, and submits it as reconciliation. ARM is designed to support a variety of account reconciliation formats, and provides a number of these “out of the box”.

Regardless of the organization’s goals, ARM is designed to adapt, providing a path forward for initial scope that ensures as fast a “go live” as possible, while at the same time, creating opportunities to expand the usage features over time as goals evolve.

While initial goals often focus on ensuring completeness and implementing reconciliation standards, once these challenges have been solved, there are very interesting opportunities to further improve efficiency while reducing risk at the same time. For example, ARM is designed to support risk-based
reconciliation methodologies, where risk ratings and frequencies are adjusted based on balances, conditions affecting the prior reconciliation, or other determinable characteristics. The objective here is to migrate away from a one-size-fits-all approach to reconciliation, and instead focus the most attention on the accounts deemed to be contributing the greatest risk. After that, one might look for opportunities to automate the production of supporting reconciliation schedules. For example, much time is spent today producing important analyses like fixed asset roll-forward schedules, accounts receivable agings, and other schedules. Often, mundane tasks like these can be automated by investing time in configuration of reports embedded within the reconciliation formats. Time savings like these do add up over time, considering the volume of reconciliations performed each and every month.

One of the greatest advantages of ARM overall, however, is that it represents just one feature set within a broader solution, Oracle Hyperion Financial Close Management, which itself is just one component of the Oracle Financial Close Suite. Rather than purchasing point solutions from niche vendors, customers can benefit from an integrated suite of applications focused on enhanced visibility and control, while providing a foundation to optimize the execution of the financial close.

![Figure 5: Oracle Hyperion Financial Close Suite](image)

### Delivering Business Value

The feedback from the early adopters of ARM has been supportive of our goals and vision. Customers have found the application very easy to use. They appreciate the dashboard and reporting capabilities, and the flexibility to configure the application to adapt to their business process. They like the native adapters Oracle provides for loading balances from a variety of general ledger platforms, and especially the drill-back features from the reconciliation to the general ledger itself. And they are excited about the opportunity to use the full set of capabilities within Hyperion Financial Close Management in support of a world-class close.

For example, by implementing Oracle Hyperion Financial Close Management and the Account Reconciliations Manager module, a social media technology company in the US was able to centralize the management of account reconciliations, reduce daily email communications during the close
process, provide improved visibility to senior management, and provide one central repository for auditors.

Summary

With increasing pressure to reduce close times and improve the integrity of financial reporting, Finance departments need to eliminate spreadsheets and manual processes and adopt technologies that can help automate and streamline the financial close process and eliminate the chances for errors, omissions and fraud. Integrated and packaged account reconciliation software applications can help alleviate a major bottleneck in the financial close process, increase accuracy and reduce risk, and can complement existing investments in financial consolidation, financial reporting, financial close workflow and transaction processing systems.