

## ***Account Reconciliations and Analyses – Integral Building Blocks for Accurate Financial Reporting.***

All accounting systems require the design of processes to make sure information is received and processed on a timely basis, accurately recorded, approved as designated in company policies, and finally - recorded in a database that is used to create meaningful financial and managerial accounting reports.

Through all the automated systems and routines that have been developed over the years, there is still one basic step that verifies that all is well – the month end account reconciliations and analyses. Your external auditors rely on these and test them extensively when certifying your financial statements. If you're concerned about accurate interim reporting, you should be preparing and reviewing these important control reports every month yourself.

Let's start with the definition of an account reconciliation:

***Reconciliation or Account Analysis*** - a report that assesses the validity, correctness or appropriateness of an account balance at a specific point in time – documented by relevant calculations, clear and complete explanations, and copies of supporting documentation – consistent with the company's policies and procedures.

I know that's pretty long, so let's break it down to the major components.

1. Report – your reconciliations should be in the form of a report that is clear and concise leading the reader/reviewer through the process of how the account balance is determined and what was done to substantiate the balance.
2. Account balance – the easiest part of preparing a reconciliation – the end of the month balance that is in the general ledger. (It's surprising how many reconciliations don't clearly state that the report agrees with the general ledger).
3. Relevant calculations – each account has a different reason for being in the general ledger and the calculations to support that balance will differ depending on the account.
4. Complete explanations – every item in a reconciliation should have a clear explanation of what it is and how it relates to the account balance.
5. Supporting documentation – in order to review a reconciliation the documents that show the amounts used in the calculations must be identified clearly, and ideally, copies should be filed with the reconciliation.
6. Consistent with policies and procedures – your company policies and procedures should be easily accessible so the preparer can refer to them as necessary to make sure the accounting is in compliance with them.

Now let's add some criteria that clearly makes this process a key control for your company.

7. Documented completion and review of the reconciliations.
8. Management reports to allow you to make sure the reconciliations are completed on a timely basis as part of your month end closing procedures.
9. Ability of your auditors to determine that this process takes place regularly and can be relied upon as a key control.

So how do you accomplish the task of making account reconciliations an integral part of your company's control process? We recently undertook a project with a very large multi-national company to install our RecWizard software. Their objective – make the reconciliation process something that the external auditors could rely on in attesting to the adequacy of internal controls.

*What were the problems?*

Because this company had no standard reconciliation formats, or a regular process of making sure reconciliations were prepared, the whole process relied entirely on the local individual division controller. In divisions where the controller had a strong background in general accounting, the reconciliations were generally prepared consistently and correctly. In divisions where the controller had more of a financial analysis background the reconciliations often were not prepared properly – if at all.

Also, because the reconciliation process was handled in a decentralized manner, there was also no ability to easily provide oversight by senior management. In the course of discussing the results of operations with local management on a regular basis, the topic of account reconciliations was not something that would come up. Occasionally a questionnaire or email would inquire about the process, but there was no ability to easily follow-up and actively manage the process.

This resulted in extra year-end audit validation work by the external auditors. In addition, with the new requirements of Sarbanes-Oxley, the company could have possibly received a qualified opinion regarding internal controls. Both of these situations are costly. The first in actual dollars and cents for auditing fees... the second in the unknown cost of lack of credibility because of the inability of your auditors to attest to the proper existence of internal controls.

*How was this overcome?*

The company installed RecWizard – the only software designed specifically for complete and accurate preparation of account reconciliations with the ability to control and monitor the process.

Seven separate reconciliation templates are used to make sure the correct information is gathered for the appropriate reconciliation. Because these templates are hard coded in the program, there is no possibility of a mathematical error.

Each step of the reconciliation process is electronically documented – Prepared / Approved / Reviewed. User IDs and passwords are the control that allows the staff to document their involvement in the process. With appropriate access to the database the users can perform their tasks without having to physically obtain the reconciliation from the preparer.

Company policies and procedures are documented and easily accessible in RecWizard. The preparer and reviewers can easily check to make sure the accounting activity complies with company policies.

Management reporting from the database gives managers and supervisors the ability to view the overall status of all reconciliations in real time with just a few mouse clicks. There is no need to “ask around the office” to see how things are coming along. Simply run the General Ledger Reconciliation Summary Report and follow up on the accounts that haven’t been completed yet.

Reports can also be run to show how individuals have done during the last year in completing their reconciliations on time. This information can be valuable in having meaningful conversations during the employee’s annual review. It can also be used for monitoring a new employee or one that has been notified he or she “needs improvement” in this area.

The RecWizard tutorial is now used to train the company’s staff. While it clearly shows how to use RecWizard, it is also a guide to good account reconciliation techniques. Each example is complete in its explanation of what should be documented and why.

Not only has all this helped in improving financial reporting and controlling the reconciliation process, it is all electronically documented so it can be reviewed by the company’s external auditors. Easily auditable to provide the ability for the auditors to attest to this as a key control.

As we all have heard many times, “what gets looked at gets done.” With RecWizard it’s easy to look, easy to monitor, and it gets done.

Through a special arrangement with AuditSoftware.net you can get a free 90 day trial of RecWizard. Simply [click here](#) to get download and installation instructions.

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