Point of View

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GENERATING **FINANCE AND ACCOUNTING** IMPACT

# An often overlooked lever for Record to Report's impact: Reconciliation

CFOs often struggle to improve their organization's ability to deliver better information, faster reporting, more time for data analysis, and tighter controls against missed regulatory requirements. A more effective reconciliations process for Record to Report (R2R)—a relatively simple and often neglected lever—impacts all four.

CFOs expect that the data they publish accurately reflects accounting and regulatory standards. Delayed and erroneous reconciliations processes not only adversely impact the integrity of financial statements, but are also costly and increase the risk of non-compliance, missed reporting deadlines, lengthy audit times, and adverse market sentiment. Additionally, only 20% of staff time is typically allocated to analytical activities, and the balance is eaten up by manual, siloed transaction processes and their need for manual reconciliation. Greater efficiency in reconciliations is a major lever for end-to-end improvement in the entire R2R cycle, with consequent impact on decision making and market agility.

This case study shows how one of the world's largest food and beverage companies took a proactive approach to reconciliations that resulted in significant business impact. It illustrates how a business outcome-driven approach can make reconciliation a cornerstone of intelligent finance operations that can act more effectively in a volatile environment and learn from their actions.

## The problem with reconciliations

Both transaction matching and balance sheet reconciliations aim at ensuring that financial statements contain accurate information and present a true and fair view of a company's standing. Reconciliation is a primary controllership task with significant impact on a number of strategic aspects, such as speed to insight, yet many organizations approach it reactively rather than proactively. Even those who take a proactive stance often do not apply an effective strategy.

Indeed, many companies make significant investments in reconciliations technology tools that ultimately fail to deliver the desired outcomes of greater efficiency, tighter controllership, and faster, more responsive decision-making. The reason is twofold. First, significant process practice improvements need to complement technology deployment. Additionally, there is often a lack of clear understanding of how technology impacts the desired business outcomes—and the materiality of each part of the implementation is rarely well understood. As a result, prioritization between multiple sub-projects can be insufficient, and ultimately result in using scarce time and money on the wrong thing. This can also burden the teams with tackling too many issues, with accompanying change management complexity.

For instance, if balance sheet accounts are not prioritized logically on a periodic basis for reconciliation frequency determination and review, the reconciliation process will continue to operate with substantial inefficiencies despite the use of technology to auto-match. Such disconnects between policies and processes may result in the organization failing to free up resources for value-added strategic activities even after the technology implementations.

## Align tools and processes to business outcomes, not vice-versa

Most organizations struggle with challenges such as missing or incomplete key account information, open item classifications not being fully understood, ineffective operational dashboards and metrics, a lack of risk prioritization, incomplete frequency determination, etc. This food and beverage leader took a different approach, inspired by Genpact's Intelligent Operations℠, which draws on the Smart Enterprise Processes (SEP℠) framework. In keeping with their guidance, rather than adapting the reconciliations process to the technology tool, the company aligned the process and the related tools to outcomes: end-to-end transparency into open items, faster closing, greater accuracy, lower processing costs, more effective use of staff time, and "no surprise" reporting.

This approach designs more effective processes with, at their core, analytics and carefully chosen Systems of Engagement™, a class of technology that overlays existing systems of records to enhance their functionality, especially when it comes to helping teams be more productive. The result was the reimagination of the reconciliation process by engineering a continuous cycle that gathers intelligence from the execution and the effectiveness of the reconciliation process and applies the learning to drive improvements.

The design principle of Genpact's Intelligent Operations℠ is to start with the end in mind, as described in the chart below, which also clarifies the portability of this approach to a number of reconciliation situations.

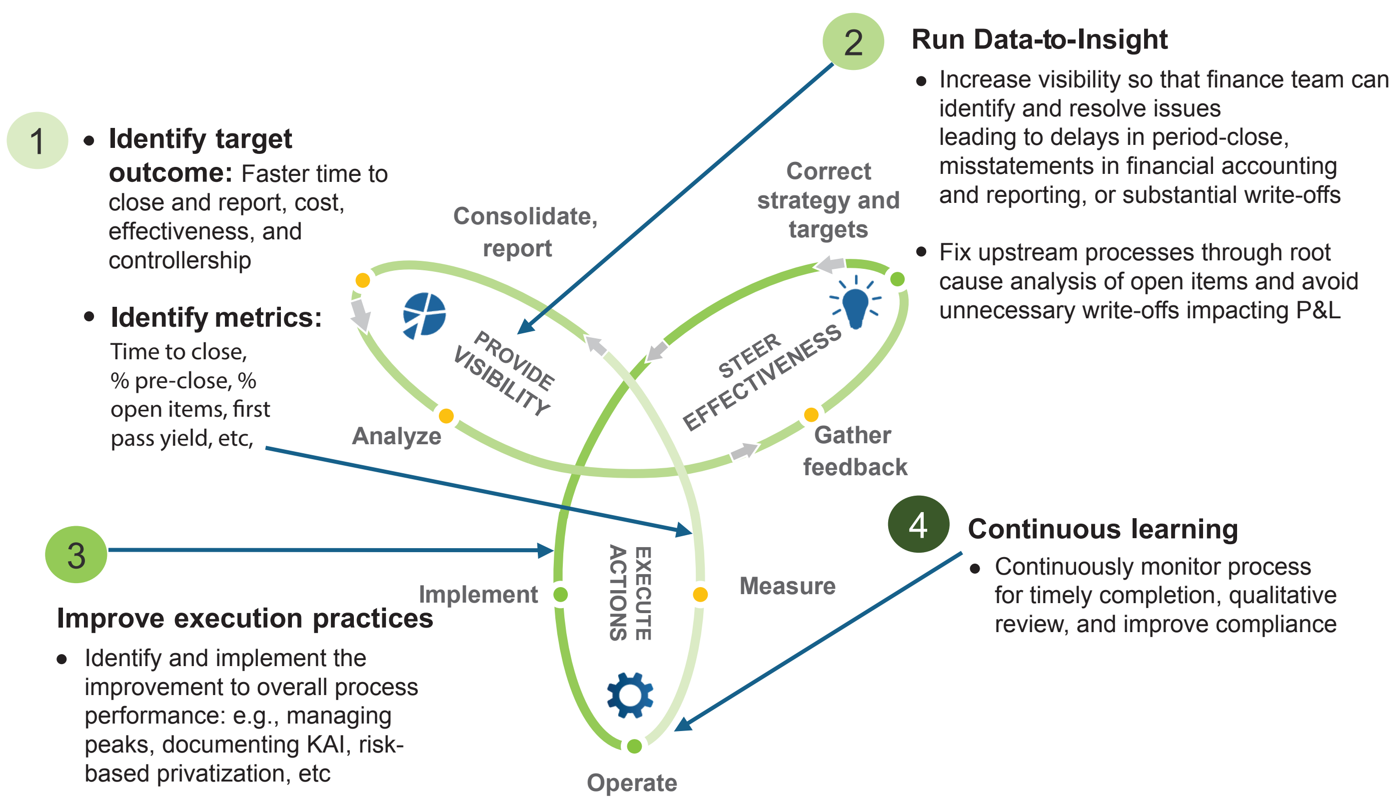
In steps 1 and 2, Genpact uses SEP℠ to identify and analyze key metrics such as time to close, first pass yield, and percent of open items. This isolates the root causes of delays in period close, misstatements in financial accounting and reporting, open items, write-offs, and other factors impacting P&L, and identifies the most effective process, policy, and technology interventions to solve for those issues.

Managers then apply these insights in step 3 to improve operations, increasing effectiveness through refinements such as balancing peak loads, auto-matching, reconciliation at the general ledger rather than the profit center level, and prioritized reconciliations based on risk rather than treating and accounting for every open item. Continuous measurement and reporting of the results drives proactive refinement of operations, leading to advanced operating models for reconciliations that ultimately enhance the entire R2R cycle.

Finally, an "intelligent loop" of insight and action in step 4, inspired by Lean management practices that now benefit from IT and analytics advances, continuously monitors the impact of changes to technology, policy, and process on the key business outcomes. The objective, quite simply, is to institutionalize what works—and only that—so as to continually lower the risk of fraud, inaccurate financial reporting, missed regulatory requirements, and loss of investor confidence.

## Processes designed for operationalization

In this case, standardizing and automating the end-to-end reconciliations process eliminated silos, knowledge and process gaps, localized procedures, and manual data entry, delivering more accurate processing at lower cost. It also helped balance work in specific risk and peak loads to conditions. As a consequence, staff were freed from non-value-added, repetitive activities, and released to engage in higher-value activities such as account and open item analysis, root cause analysis, etc. Moreover, comprehensive policy based on risk-prioritization ensured governance and consistency.



## Data-to-Action Analytics℠ that drive improvement

Analytics provide detailed insight into the quality and speed of reconciliations at each stage of the process, with continuous monitoring of every transaction. Systems of Engagement™ "instrument" the process and surface the data to the analytic tools, which in turn enables the analysis of match rules, manual matches, and throughput, and allows users to make analyses based on customized reports. This helps to identify root causes for un-reconciled open items (fraud, clerical error, formatting incompatibility, etc.), evaluate risk, and help reduce the number of open items at each period end.

## More targeted, agile, and effective technology

Targeted technologies tightly align to business outcomes and enable companies to focus on technology investments. Genpact leveraged the Blackline tool for this food and beverage major, as well as Systems of Engagement™, for Finance & Accounting. These cloud-based technology solutions enable users to access data across disparate legacy systems through a single intuitive interface. They provide a solid foundation for the reconciliation process by enforcing standard templates, presenting a unified view of risks and opportunities, providing standard dashboards and aging reports, and defining role-based access in an integrated workflow.

# Impact

Using the Intelligent Operations℠ approach positively impacts the entire reconciliation process, from reconciliation at the general ledger level to risk-based prioritization, better management of peak loads, and defining key accounting information. Measureable results include:

- 25-30% higher efficiency in the reconciliation process
- 50-55% reduction in the number of reconciliations
- Greater accuracy and completeness of financial statements
- Faster time to close
- Greater attention to activities such as root cause or open item analysis
- Proactive identification of issues that can impact external reporting

Focused transformation such as improvement to the reconciliations process, when implemented with a broader impact in mind and leveraging practical technology and the right analytics, is a relatively simple way to drive organizational change, one process at a time.

*This has been authored by Vivek Saxena, Vice President and global practice leader, Record to Report and Accounts Payable practice, and Amit Gupta, Assistant Vice President, Record to Report practice, Genpact*