Where ERP Systems Fall Short— Other Software Catches Up

By Susan Parcells, CPA, CGMA

Enterprise resource planning (ERP) systems are the uber-tools of finance and accounting, providing a highly transparent way to collect, manage, track, and analyze enterprise-wide business data. They are vital to running an efficient and successful company, informing more insightful decisions while maintaining regulatory compliance. But they come up short in one important respect—automated account reconciliations that ensure a timely and accurate financial close.

Although ERP systems effortlessly attend to the “nuts and bolts” of accounting, verifying the journal entries, subledger tie-outs, and other complex transactional information, they don’t specifically validate this data for the financial close. This task falls to finance and accounting, which typically address the need manually, often using complicated, multi-line-item spreadsheets.

In the post-Sarbanes-Oxley Act (SOX) era, the importance of an accurate and fully validated close can’t be understated. For example, ERP systems are great at verifying if the accounts payables (AP) subledger agrees with the AP general ledger (GL) balance or if the inventory subledger agrees with the inventory GL balance. Unfortunately, these systems come up short on the most crucial need—validating the balances for compliance purposes.

Let’s say the ERP system indicates that the AP subledger balance for vendor payments is $5 million and the GL balance for the AP total is $5 million. That’s all well and good, correct? The ERP system is validating that these two systems are in perfect alignment. Bear in mind, though, that the ERP system only shows the GL balance as a single total—not the specific payments that make up this total. Thus accountants lack visibility into the underlying data.

What if the subledger included a $4 million payment to an employee who had fraudulently created a bogus invoice? This embezzlement scheme (while an extreme example) would escape the ERP system, which isn’t designed for the purpose of account validation. While the system verifies a perfect alignment, manual processes must validate that the balance is appropriate and accurate.

Since the ERP system can’t complete the “last mile” of the financial close process, many accountants must still

Enhanced Finance Controls and Automation

Technology research firm Gartner has recognized an expansion in automated functions that help finance and accounting professionals better manage and control all finance processes. Among the solutions falling within Gartner’s renamed category are:

Financial process and close management—Manages finance and accounting processes from the beginning of the accounting cycle through final disclosure reporting. This can include the management of the account code taxonomy for opening, closing, and managing the volume of codes that proliferate throughout the organization.

Operational and financial reconciliations—Reconciles GL subledger control accounts, operational systems to subledgers, customer accounts to billing systems, bank accounts, and other balance sheet accounts throughout the accounting cycle.

Finance controls management—Leverages the task management tool to identify control problems. This can include finance activities, Committee of Sponsoring Organizations of the Treadway Commission (COSO) management, and collaboration with internal and external audit.

Journal entry control—Manages entries for accruals, transfers/provisions, preparation of accounting entries, and review and approval throughout the accounting cycle.

Intercompany transfers/eliminations—Accepts, rejects, and reconciles intercompany transactions along with generating elimination entries for intercompany activities.

Collaborative tax preparation—Coordinates tax activities, including planning and preparation across the organization and ensuring compliance with tax plans in finance and operational areas.

Finance process analytics—Identifies where process bottlenecks/questionable activities that need review are occurring. SaaS vendors are providing financial process benchmarks to peer groups and providing eXtensible Business Reporting Language (XBRL) peer comparisons.

step back to the last century and crunch numbers in a paper-intensive process. And since humans are imperfect beings, these manual processes often produce errors—such as keying in the wrong balance. Spreadsheets are cumbersome documents, so they create the risk of version control and data integrity issues. Tracking the workflows across a global business via streams of e-mails and printed documents is a nightmare. Worst of all, the specific goal of the manual processes—validating the accuracy of the ERP-verified subledger data—is often impossible to achieve because of inefficiency and inaccuracy.

It doesn't have to be this way. Technology is available to pick up where ERP systems leave off.

Resting Easy

All finance and accounting organizations seek assurance and comfort that their account reconciliation and financial close processes are accurate for both business performance and regulatory compliance reasons. The CFO, whose personal net wealth, reputation, and freedom are at stake under SOX compliance, needs clear visibility into the validity of the account reconciliations. Otherwise, how can he or she feel confident when signing off on the internal documents?

CFOs don't want to cross their fingers and hope that the manual processes validating the accounts are in perfect order, yet without an automated system there are limitations as to how confident they can be in their company's financials. Are the accountants performing a true reconciliation and not just a roll-forward of the current period activity? Is there independent supporting documentation, and, if so, is it appropriate? Are some items still being reconciled? If so, how long have they been outstanding? Could there be data-entry errors in the spreadsheets used to perform the reconciliations? Have all accounts truly been reconciled? Have accountants accurately confirmed that the balances are correct?

Many companies have built homegrown software systems that provide greater visibility and control around the reconciliation process. But these systems involve a substantial amount of up-front and ongoing work and resources. They often fall short of third-party financial close suites, which have more functionality and integrate smoothly with ERP systems.

With third-party systems, content is drawn from the ERP system to ensure that all balances and other business information related to the financial close are located in one central place on a dashboard. For large enterprises with far-flung operations dotting the globe, this central-

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ization is critical. As Big Data gets bigger and more economic, market, and performance data flood modern companies, a systematic approach to overseeing account reconciliations is necessary to close the books with confidence.

In their everyday work, management accountants—and especially CFOs and controllers—can find great benefits in using state-of-the-art financial software. During the typical month-long account reconciliation process, for instance, accountants and controllers can leverage the software to evaluate, approve, and complete the reconciliations. Just from an evaluation standpoint, the value is considerable: With an automated system they no longer have to thumb through thousands of accounts and paper documents. Both speed and efficiency increase exponentially, particularly for global organizations where access to needed documents can be elusive. By liberating these time-consuming tasks, accountants, controllers, and CFOs can focus on the critical accounts that need to be reconciled.

There is even greater value when such automated systems are provided via a cloud-based Software-as-a-Service (SaaS) delivery model with real-time monitoring and built-in workflows. Companies are better able to manage workflow, staff tasks, and scheduling. Without real-time reporting, CFOs are waiting for finance and accounting staff to update tracking spreadsheets or e-mail them hard copies—obviously not the best use of their time.

An SaaS model provides anytime, anywhere information delivery of account reconciliations, journal entries, and all supporting documentation. The workflow is time-stamped to ensure everything moves forward through the approval process with the greatest degree of accuracy—that is, no version-control issues. The bane of many CFOs is line-item reporting out of the account reconciliations, where errors reside but someone can't discern if there's a mistake, much less who made it and when it occurred.

An automated solution should include a task management module—the steps that organizations need to take over time to ensure an accurate close from a validation standpoint. Right now, many companies chart these steps manually with Excel spreadsheets, such as when they should expect a particular report from someone in a different country. No CFO or controller is completely comfortable with this practice—he or she wants to know which steps have been accomplished, which remain, and when they will be addressed. An automated task management system takes the worry out of this process and others, such as tracking Human Resources (HR) processes or the tax returns that need to be filed for all jurisdictions. With SOX compliance hanging over the heads of CFOs like the sword of Damocles, this assurance is vital.

The range of automated financial solutions is so important that Gartner, the technology research and advisory firm, in early September renamed the existing category for reconciliation and close management "Enhanced Finance Controls and Automation." In analyzing several financial management software products to provide actionable insight for companies as they plan and prioritize their IT investments for the coming year, the firm discovered expanded functionality in this asset class. "The close/reconciliation management asset class has expanded over the last year to include a wider range of functionality that extends beyond the month-end close, into a broader solution that can enhance the management and control of any finance process throughout the accounting cycle," Gartner stated (see "Enhanced Finance Controls and Automation," p. 36).

Caveats to Contemplate

When considering the use of third-party software, there are a few things to think about:

- Will the solution be in-house or hosted?
- Will the solution easily integrate with my ERP system?
- Can it be used for all of my account reconciliations?
- How easy is it to use? What training is available and at what cost?
- How easy is it to implement?
- What security measures are in place to ensure the data is protected? Do they have SSAE 16 SOC 1/2/3 Type II, ISAE 3402, and the ISO/IEC 27001 certifications?

Finance and accounting teams can expect the following attributes of a state-of-the-art financial close suite:

- Visibility, control, and assurance over the entire financial close using automated account reconciliation software.
- Automated tie-outs between general ledgers and consolidation systems in addition to auto-certified reconciliations.
- Elimination of tedious, error-prone, manual data collection, tracking, and managing.
- Account reconciliation templates that are pre-populated with accurate and relevant data drawn from any ERP system.
- Multilanguage applications with multicurrency capabilities.
- An SaaS delivery model that is accessible anytime, anywhere.
- Pinpoint management of intercompany transactions on a timely basis, reconciling millions of transactions in minutes, leaving preparers with only the exceptions to address.
- An online document repository that stores the associated supporting documentation, allowing approvers, management, and auditors to see the whole picture, also reducing paper and storage costs.

Today's modern business is managed at a blistering pace on a global stage. Obtaining real-time visibility into the account reconciliation and financial close processes is critical, as is ensuring accuracy in the numbers.

By optimizing workflows, minimizing risks, and reducing the time spent on manual reconciliation processes, management accountants can focus on more strategic activities, not time-consuming, tedious tasks. **SF**

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