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WHITE PAPER

LEVERAGING TECHNOLOGY TO SOLVE STATEMENT RECONCILIATION

Ensuring Integrity, Completeness and Accuracy of Your Financial Reporting.

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Supplier payments account for the largest cash outflow in most organisations, therefore, accounts payable reconciliation is crucial to ensure the integrity, completeness, and accuracy of financial reporting. One of the most effective ways to validate month-end accruals and supplier payments is the reconciliation of the company's ERP (Enterprise Resource Planning) system data to supplier statements.

Any missed or delinquent payments, overlooked credits, and duplications do little to promote positive partnerships with vendors and can affect the reputation of a business. Having effective controls in place to validate against 3rd party statements reduces the risk of missing anything and simplifies external audits.

Statement reconciliation is a procedural, recurring, and time-consuming task which allows human errors to make their way into the process. It takes time to complete, and the effort involved can be substantial when problems arise. However, adopting and integrating technology tools to assist in the process means this part of fiscal management can be transformed.

The Background

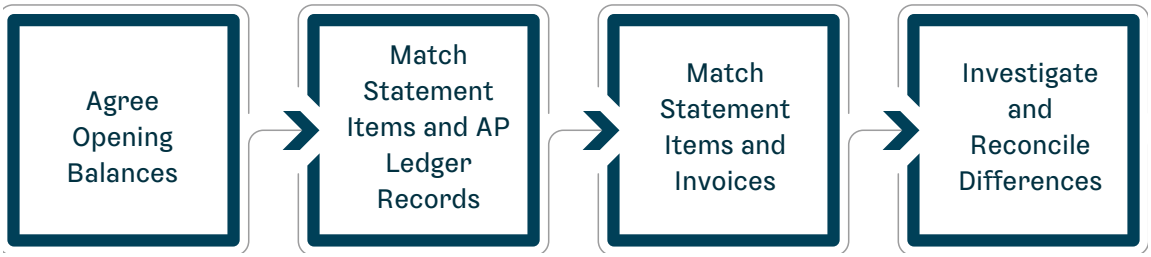
The Finance department is required (on a regular basis) to reconcile all Balance Sheet accounts, and this will include balances outstanding to vendors. This reconciliation process normally involves a vendor-generated statement being reconciled to the internal ERP systems to identify any omissions, duplications, errors, or fraud. Supplier statements are often provided in .pdf format which means that they are effectively an image and require a literal comparison, by eye.

It is clear that a thorough reconciliation is necessary, but the level of manual effort involved is variable depending on the approach that is applied.

The Typical Approach

Here are the basic steps involved in the typical approach to supplier statement reconciliation:

- Opening balance on supplier statement is matched to the AP (Accounts Payable) ledger.
- Items contained on the supplier statement are (manually) compared with those in the AP ledger, items that match are removed from the reconciliation process.
- Credits and payments on the supplier statement are offset against the relevant invoices.
- Any discrepancies need to be investigated until they are explained and reconciled.



This process is highly manual and depending on the number of suppliers and transaction volumes involved, the effort required can be significant and the possibility of mistakes is high. However, the risk of not reconciling is much higher.

Typical Discrepancies

As with bank reconciliations, differences can be related to timing. Postings made by the vendor and by the business can easily happen at separate times.

For example, if a business issues a payment to a vendor, it may immediately record the payment on the vendor's account in the AP ledger. However, the vendor may not have received or been notified of the payment before issuing its period-end statement to the business. When the business receives the statement, the payment does not appear and becomes a reconciling item in the vendor statement reconciliation (normally referred to as "payments in transit").

Omissions and **errors** can occur for many reasons. An invoice, credit note, payment, discount, or adjustment might have been omitted or incorrectly posted in the financial records. For example, the wrong price may have been applied due to a material oversight, or the amount may be allocated to the wrong supplier account in the accounts payable ledger; regardless, this type of error will result in a reconciling item on the vendor statement reconciliation.

Fraud Prevention

Invoice fraud is a popular method for fraud because it offers the highest amount of return for the least amount of effort. For organisations with large volumes of suppliers and invoices, it is conceivable for a fraudulent invoice or transaction to make it into the mix and have it paid. In 2019, an individual pleaded guilty to defrauding $123 million from Google and Facebook over the span of a few years, through invoice fraud.

A survey by KPMG determined that internal and external audits only have a **58%** chance of catching fraudulent activity. Even more concerning is the fact that of the **58%** of the time that fraud is detected, on average, businesses only regain **25%** of their missing funds. That's essentially a **50/50** chance to recover **a fourth** of what has been lost.

That is why businesses need to take precautions to protect themselves from the risk of invoice fraud going undetected in the first instance. There needs to be an effective way to minimise the possibility of illegitimate invoices being paid.

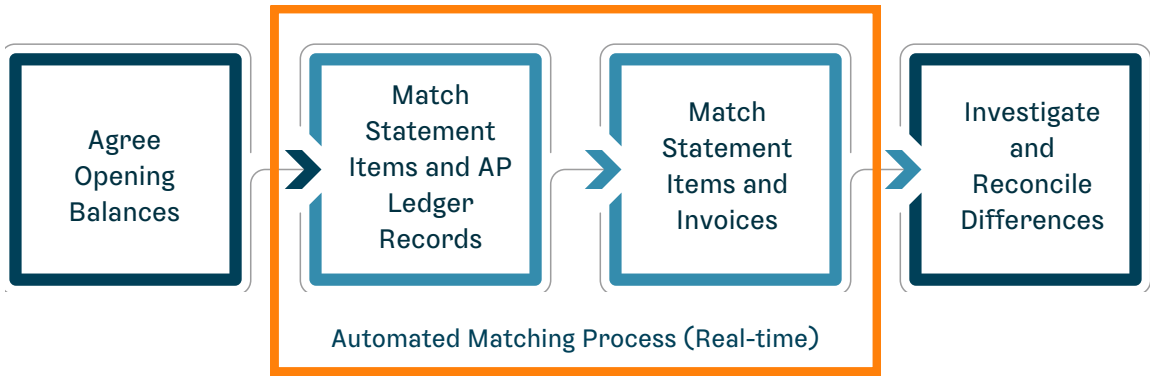
Leveraging Technology to Mitigate Risks: Modern Reconciliation

The adoption of technology, from automated data capture and consolidation to robotic process automation to cleanse and analyse your data, removes many of the pain points for AP Departments. An automated reconciliation dashboard that runs against all the relevant data sources will chart an efficient way to identify any material differences and speed up the reconciliation process.

The traditional approach to statement reconciliation can involve physical printouts, multiple spreadsheets, formulas, and calculations – all of which consume a lot of time and effort from the AP team and can also introduce errors into the process.

If you are not using a statement reconciliation tool or system to support your process, this is an option that should be considered. An automated reconciliation report based on the supplier statements data, AP ledger and invoices information will help identify any material differences in a fraction of the time.

This will help drive efficient use of capital, reduce vendor queries, improve your vendor relationships, and secure the supply chain. Importantly, the richer analytics and datasets will provide an effortless way to monitor vendor spend on an ongoing basis.



At Glantus, we are driving a shift towards a more automated approach to reconciliation with organisations applying our technology to monitor their data on a continuous basis and automatically detecting missing or suspicious invoices, duplicates, and missed credits before payments are made. This means that the reconciliation report becomes a simple sense check rather than a to-do list.

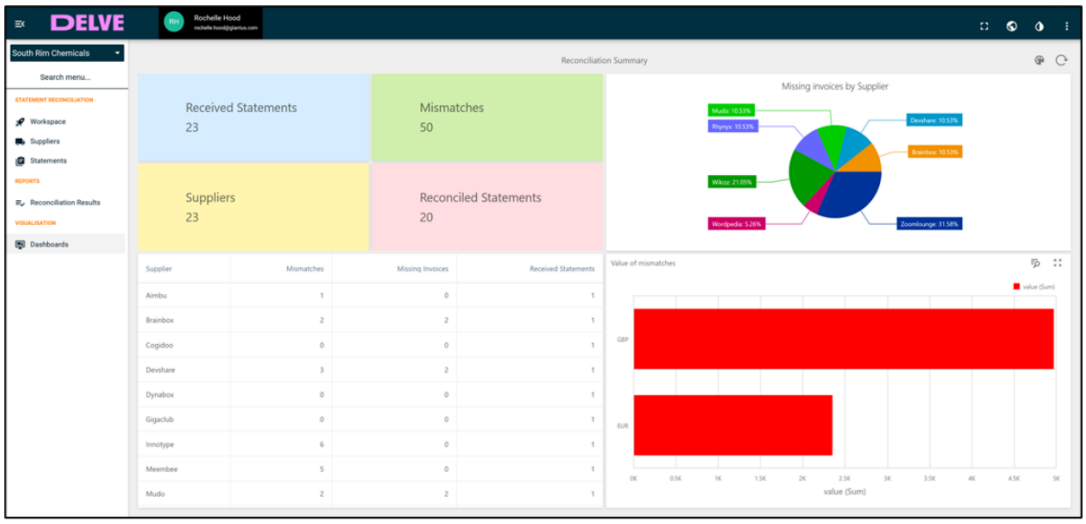


Figure 1. Screenshot of Glantus DELVE reconciliation dashboard

Conclusion

The right technology can transform the AP function, which will have a direct impact on the integrity of financial statements, the efficiencies of working capital, and the direct reduction in costs associated with the AP function.

However, the real benefit of a modern approach to reconciliation is the mitigation of risk by applying a continuous process that will protect your revenue, at all costs.

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