

Consistency, control & compliance – optimising General Ledger reconciliations

General Ledger (GL) reconciliations form a critical business control function and yet for many organisations remain a manually intensive, fragmented task. SmartStream spoke to UK-based insurers Aviva and Prudential, to discuss the benefits of automation.

Chris Pallister
Finance TLM Technical Authority
Aviva

Ben Wood
Financial Systems
Aviva

Steve Sharman
Finance Manager
– Systems Prudential

Russell Hatton
Senior Business Consultant
SmartStream

What are the biggest issues around GL reconciliations?

Russell Hatton | Overall it's a lack of consistency due to an over reliance on manually-intensive processes and a fragmented infrastructure using Excel and Access databases. When volumes start to rise it impacts closure at month-end, quarterly and year-end. There's also an issue around controls required for Sarbanes-Oxley compliance as managers – those legally responsible for signing off accounts – lack visibility into the accuracy or status of account reconciliations.

Steve Sharman | As a result of the number and complexity of the systems there were a number of different reconciliation tools used and no consistent control standard or methodology employed. The knock-on effect of multiple tools is it prevents firms from reducing overall staff costs, inflates training costs and causes difficulties trying to provide cover for unplanned absences. They do not provide a secure or robust environment for critical controls.

Chris Pallister | It's a question of process. We had multiple teams performing reconciliations and multiple people within those teams responsible for them, which meant there was no standard approach. We also became reliant on individuals within those teams who were experts on what might be causing a particular exception or could second guess and reason for a mis-match.

The timeliness of reconciliations in order to meet reporting deadlines and service level agreements (SLA) was critical. Without visibility into outstanding items we couldn't re-direct resources to fix the issue and we'd then be into the next monthly cycle. We'd also find the half-year was upon us quickly. Getting down to an exception level was crucial to understanding what the issues are and see if there was any missing data.

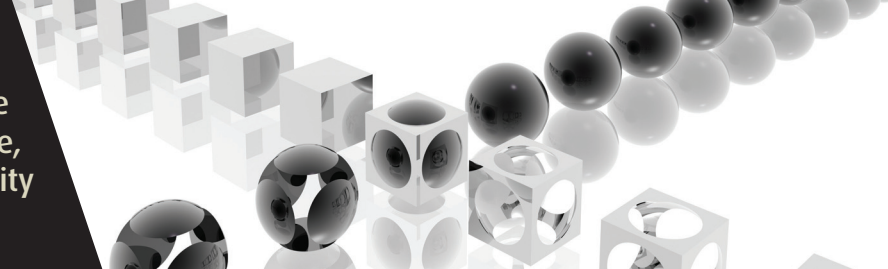
How does automation overcome these issues?

Russell Hatton | Automation enables firms to support much higher transaction volumes, while also making the close cycle more efficient. Advanced matching capabilities achieve the highest match rates and ease of configuring match rules enables firms to introduce continuous process improvement.

Ben Wood | We're feeding in around four million entries a month into TLM® Reconciliations. That simply wouldn't have been possible using Excel and manual processing. And with volumes rising we wanted a solution to introduce operational best-practice.

Steve Sharman | The ability to monitor and review status of all reconciliations and early warning of issues were definitely uppermost in our minds. And of course with that level of automation you're looking at cost saving opportunities.

Introducing TLM was seen as a way to standardise the processes and therefore reduce cost and create a fully auditable, location independent reconciliation capability



Chris Pallister | It was also a case of using technology to identify processes, where underlying issues lie and putting corrective measures in place to ensure everyone performs reconciliations in the same way regardless of location or team.

What were the business drivers for automation?

Steve Sharman | Our GL reconciliations are high volume, complex to manage and control, and a high resource overhead. We are constantly exploring opportunities to enhance current processes. Introducing TLM was seen as a way to standardise the processes and therefore reduce cost and create a fully auditable, location independent reconciliation capability. In addition to normal controls and audit requirements the company needed to meet Sarbanes Oxley regulations and demonstrate effective controls throughout Finance. TLM is now a key tool in maintaining this environment.

Chris Pallister | We wanted a solution that was fully integrated supporting reconciliations and exception management. It needed to be a credible solution that was proven to handle the volumes we were already transacting and the expected increase over the course of two to five years. TLM is installed in some of the most demanding banking environments, so we knew that it could meet our business requirements.

What are the benefits that automation brings to the GL reconciliation process?

Russell Hatton | Automation creates standardised and repeatable processes through a common workflow-based tool. Reconciliations are more

efficient, helping to reduce the cost per transaction and overall operational cost, while also reducing operational risk. The back office team's productivity is increased through the introduction of a proactive, exceptions-based process ensuring exception items are efficiently prioritised and assigned for swift resolution.

Chris Pallister | We've created a consistent approach that demonstrates to the auditors that we have systems and controls in place to efficiently reconcile our books. We've also improved the integrity of our reconciliations by building rules around how reconciliations should be performed.

Ben Wood | Reconciliations emphasis has changed, enabling us to become more proactive. Our staff are now concentrating on the exception items and repairing those. It's also delivering economies of scale to the business and a decrease in unit costs because we're able to reconcile a higher volume of transactions without increasing our head count.

Steve Sharman | TLM has significantly improved the process through its powerful matching processes and automation resulting in staff reductions within the Finance area and increased controls.

It's also easy to monitor the effectiveness and maintenance of reconciliations providing increased confidence in controls and early warning of issues. Most of the users have embraced the benefits of TLM once any early resistance is overcome. Further, TLM has been fully endorsed by our auditors and that enables them to verify balance and controls easily.

About SmartStream

SmartStream is a recognised leader in financial transaction management solutions that enables firms to overcome their post trade processing issues through increased automation.

SmartStream's industry-leading automated match rates create more proactive, exceptions-based processes, lowering the cost-per-transaction while enabling firms to reduce operational risk, aid compliance and improve customer

service levels. As a result, more than 1,500 clients, including over 70 of the world's top 100 banks, 8 of the top 10 asset managers, and 8 of the top 10 custodians rely on SmartStream Transaction Lifecycle Management (TLM®) solutions to deliver greater efficiency to their middle and back office operations.

For more information please visit:
www.smartstream-stp.com