STREAMLINE ACCOUNT RECONCILIATION FOR A SAFE & EFFICIENT FINANCIAL CLOSE

SAP AND BLACKLINE: AN END-TO-END SOLUTION

Data Source

In this report Mint Jutras references data collected from its 2014 Enterprise Solution Study which investigated strategies, goals, challenges and status of enterprise applications used to manage/run a business. It also benchmarked performance of these implementations.

Over 800 responses were collected from companies both large and small from a wide variety of different industries.

A financial close is not an optional business process. Public companies are subject to intense scrutiny, but even private companies, from the smallest to the largest, must reconcile accounts and close the books. Account reconciliation is perhaps the most time-consuming part of the process and definitely the most under-appreciated, yet it is a critical step in insuring the correctness of account balances that directly roll-up into the financial statements...statements for which CFOs and CEOs are personally accountable. Changing standards and regulatory requirements, increasing globalization, combined with new and emerging business models increase risk and place a heavier burden on finance departments today.

Yet there are tools out there in the world of enterprise applications that can help manage the complexities of account reconciliation, speed the process and even improve accuracy. The best of these tools are able to integrate with your Enterprise Resource Planning (ERP) system to form a complete financial close solution. We'll take a look at one such solution: SAP and BlackLine Systems partner to provide a single end-to-end solution for a fast and efficient financial close to create a foundation for better compliance, better decisions and better business performance.

THE COMPLEX WORLD WE LIVE IN

More than a decade ago regulations such as Sarbanes-Oxley (SOX) changed the way finance departments in companies both in the United States and elsewhere in the world viewed financial compliance and reporting. As a result of SOX, top management is held personally accountable for and must individually certify the accuracy of financial information. Penalties for fraudulent financial activity have become much more severe.

As a result of globalization, we have also seen efforts to better align U.S. accounting standards set by the Financial Accounting Standard Board (FASB and its international counterpart IASB) with the European Financial Reporting Advisory Group (EFRAG). In 2008, the convergence strategy of the Security and Exchange Commission (SEC) proposed a plan for the adoption of IFRS in the U.S. that could have had U.S. companies using international rules as early as this year. These efforts were stalled by the financial crisis, although the SEC's current strategic plan states, "Due to the increasingly global nature of the

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capital markets, the agency will work to promote higher quality financial reporting worldwide and will consider, among other things, whether a single set of high-quality global accounting standards is achievable."

This results in uncertainty about requirements in the future. In the meantime, CFOs must be more meticulous than ever in managing compliance and reporting and often must deal with multiple sets of standards.

THE IMPORTANCE OF ACCOUNT RECONCILIATION

Account reconciliation is a necessary step in the closing process, and the number of reconciliations multiplies with each set of books maintained. The focus of account reconciliation is on the correctness of account balances that directly roll up into the financial statements. While double-sided journal entries might guarantee totals across a general ledger are in balance, this doesn't necessarily insure that individual account balances are correct.

SOUND SIMPLE? IT'S NOT

Unless you operate on an entirely cash basis, most buy/sell transactions are compound in nature. In a pure cash business, a customer transaction credits inventory (or services rendered) and debits cash. But in the real world of business, this transaction can create dozens of individual transactions in any number of sub-ledgers.

The more automated this business process, the less likelihood of errors being introduced. Wrong accounts, incorrect quantities or amounts are quite easy to spot. When customers pay in a different currency than invoiced, there are account analysis fees. When freight is billed, often the amount accrued is an estimate. When invoicing in a foreign currency, currency fluctuations need to be accounted for. Suppliers levy unexpected fees. Customers take discounts not allowed. Any accountant will tell you the devil is in the details. When accounts that should balance don't, it is a clear indication of errors or something missing somewhere along the way.

It is through account reconciliation that discrepancies are discovered and resolved. There are many different variations on a theme when defining "reconciliation", but the implication is one of multiplicity: the comparison of data in two or more systems or sources of data. Totals that naturally occur in two (or more) places should match. Bookings should match to shipment/delivery should match to invoices should match to cash receipts. But of course it is never that simple.

Defining the term "Reconciliation"

There are many different variations on a theme when defining "reconciliation", but the implication is one of multiplicity: the comparison of data in two or more systems or sources of data.

- ✓ *The process of making consistent or compatible*
- ✓ *To bring into agreement or harmony, make compatible or consistent*
- ✓ *To settle a disagreement*

IS ERP ENOUGH?

The natural place to start the account reconciliation process is in your general ledger (G/L), which is often an embedded module of ERP. A full ERP will also include many of the sub-ledgers (e.g. inventory, accounts payable, accounts

Definition of ERP

Mint Jutras defines ERP as an integrated suite of modules that forms the operational and transactional system of record of your business. While accounting modules are important, a full ERP must also manage purchase orders and customer orders. Where physical goods are involved, it must manage inventory and production.

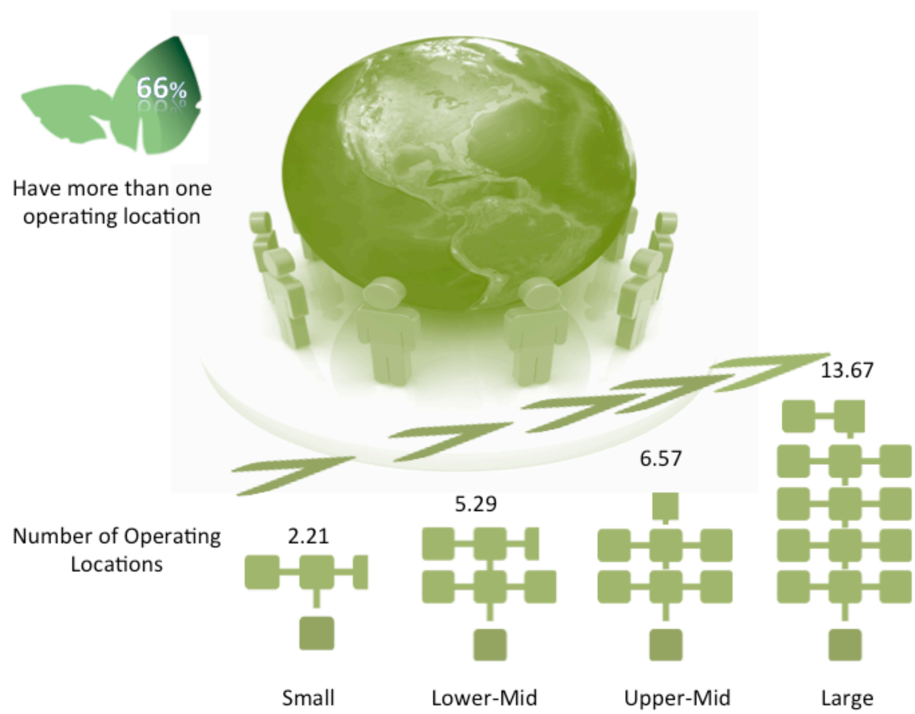
Company Size by Annual Revenue

- ✓ *Small: Annual revenues under $25 million*
- ✓ *Lower-Mid: Revenues between $25 and $250 million*
- ✓ *Upper-Mid: Revenue ranges between $250 million and $1 billion*
- ✓ *Large: Revenues exceed $1 billion*

receivable, order management, etc.) against which many of the G/L accounts must be reconciled.

This might lead you to believe that you should be able to perform your entire close process in your ERP system, including all your account reconciliation. But what if you have multiple legal entities? According to survey responses from the 2014 Mint Jutras Enterprise Solution Study, the average large enterprise (those with annual revenues over $1 billion) has 13.67 different operating locations, many of which are global, hence requiring separate legal entities. More often than not these different entities interoperate, requiring additional account reconciliation based on inter-company transactions.

Figure 1: Distributed Environments Require Additional Reconciliation

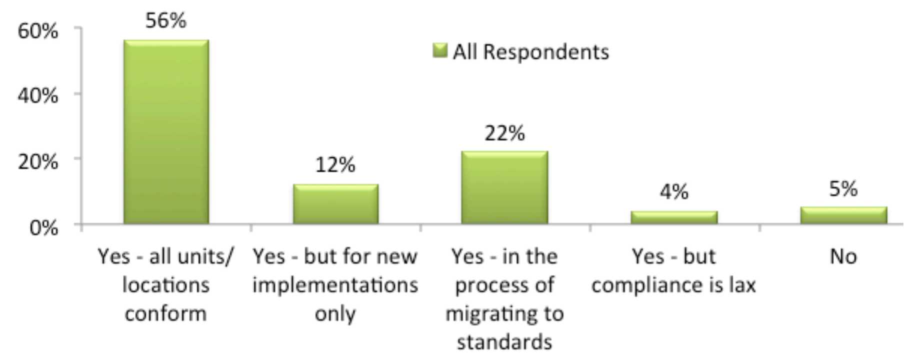


Source: Mint Jutras 2014 ERP Solution Study

Do all these different legal entities run the same ERP solution? The simple answer: Not necessarily. Many of these multi-entity, multi-national enterprises have grown over time through expansion, often fueled by merger and acquisition (M&A). When a new company is acquired or merged, it often comes with its own ERP. Even when growth was not through M&A, in the past divisions were often left to make their own decisions to purchase and implement solutions, resulting in a proliferation of solutions.

This philosophy has changed over time and today the vast majority has developed corporate standards (Figure 2).

Figure 2: Have You Defined Corporate Standards for Enterprise Solutions?



Source: Mint Jutras 2014 Enterprise Solution Study

But defining a corporate standard doesn't necessarily mean a single ERP solution. These standards may in fact be multi-tier. Thirty-seven percent (37%) of our survey respondents have defined these standards with a different ERP at the divisional level than that which is running at corporate, and that percentage increases as the size and diversity of an enterprise increases. Even with recent consolidation efforts many have undertaken, the average large enterprise has 3.78 different ERP solutions.

So even if you are hoping to perform account reconciliation and your financial close entirely in your (corporate) ERP you might still be required to reconcile across different solutions. And then of course there is the data that doesn't reside in your ERP, against which account balances must be reconciled… data from your bank or other financial institutions, for example.

Potential Weaknesses of the Close Process

- ✓ *Lack of visibility – can you trace back to source?*
- ✓ *Little or no standardization*
- ✓ *Too many manual processes*
- ✓ *Unclear ownership of tasks*
- ✓ *Room for human error*

This may very well be easier to accomplish in an ERP-neutral solution requiring specialized functionality that reaches beyond consolidation and eliminations, a solution designed to automate the majority of the reconciliation process. Yet even when using a specialized application for account reconciliation, it must be well integrated back to ERP, because that is where the source documents reside, and the financial statements. Without that link, when you rely on spreadsheets, email trails or disconnected homegrown solutions, the reconciliation happens in a black hole.

Can you document the assessment and link to supporting documents? Are those documents spreadsheets and emails, or even worse… paper? Is your account reconciliation easy to track and verify by the auditors? If not, consider augmenting your current tool set with a solution designed specifically to handle this process in an integrated manner.

SPECIFIC FUNCTIONALITY TO LOOK FOR

The good news is: There are solutions today that can help standardize, support and automate the reconciliation process, even when you need to maintain multiple sets of books. The following can be used as a checklist to be used in evaluating potential solutions:

- A system that can be used for the entire balance sheet, including pre-paid, accruals, bank, subledger, debt, equity accounts
- The ability to link accounts across different standards to minimize the amount of manual labor
- Auto-certification of low risk reconciliations
- Templates-based processes for standardization and quality
- The ability to save/access supporting documents from within the system
- Approval workflow – Multiple levels with flexible scheduling and delegation of duties
- Automated email alerts for proactive notification/monitoring
- Reporting for real-time status updates
- Support of multiple languages; multi-currency capability
- Centralized, global access – Anywhere, anytime
- Easy integration with existing ERP systems

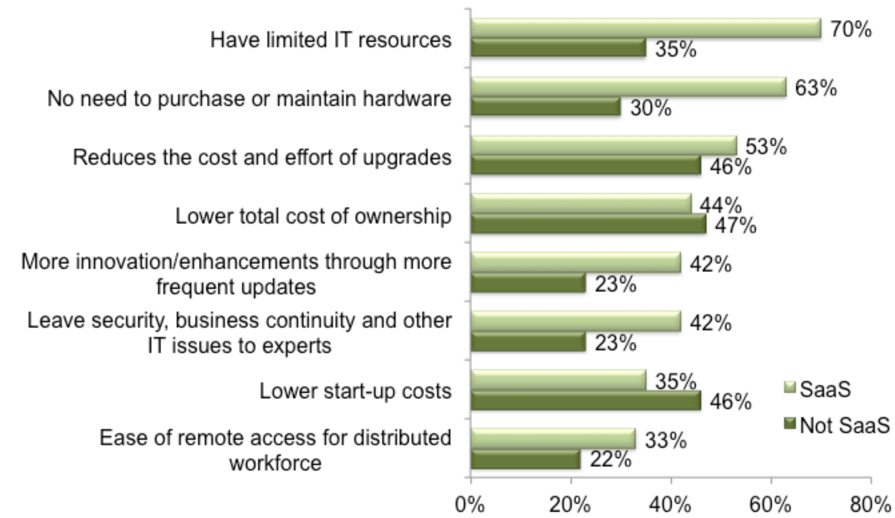
Selecting and implementing a solution that is ERP-neutral may actually be cleaner, easier and require less disruption to your business. You can essentially upgrade your processes without having to replace existing solutions.

ON-PREMISES OR IN THE CLOUD?

"Cloud" is one of the hottest trends in enterprise software today and therefore decisions regarding deployment options are also top of mind today. Mint Jutras has been following perceptions and preferences for deployment closely. Acceptance of and interest in software that is delivered as a service (SaaS) through the cloud is growing. Mint Jutras research finds the promise of "access any time, from anywhere" and lower costs have universal appeal. And in comparing the appeal of SaaS expressed by those already using SaaS to those just considering this option, it would seem that once in the cloud, the benefits become even more apparent (Figure 3).

If you have limited information technology (IT) resources, or would like to reallocate those you have to more strategic projects, SaaS can be a big plus. If you aren't interested in purchasing or maintaining hardware, it looks even better. Obviously you will need a SaaS solution provider with the power and hosting capacity that can grow with you, but the peace of mind in terms of business continuity and disaster recovery alone should help CFOs and CEOs sleep better at night.

Figure 3: Those Running SaaS Solutions See More Benefits



Source: Mint Jutras 2014 Enterprise Solution Study

CONCERN OVER SECURITY LINGERS

And yet, the top concern over SaaS is still one of security. We agree security should be a prime concern, but not just for those running a SaaS solution, but for anyone. As data becomes more accessible, as we all are more connected, all are vulnerable to attack. However, those running solutions on-premises may be even more exposed, especially those companies not well equipped to manage information technology (IT) security.

On the other hand, SaaS providers are subject to internationally recognized auditing standards developed by the American Institute of Certified Public Accountants (AICPA) and International Auditing and Assurance Standards Board (IAASB). These standards assess the effectiveness of processes and controls in service organizations and companies providing software as a service are subject to these rigorous standards.

The AICPA's SSAE 16 effectively replaces the prior Statement on Auditing Standards No. 70 (SAS 70). This is extremely important in solutions involved with account reconciliation and financial close, as the corporate data is highly sensitive. Look for a SaaS solution provider that has successfully completed an SSAE 16 audit, and if you are operating internationally, also the completion of the ISAE 3402 to insure the company also has the proper controls and processes in place to meet international audit and accounting reporting standards.

Also look for a solution provider that has been formally audited and certified compliant with the ISO 27001 standard, part of the ISO 27000 family of standards to manage the security of assets such as financial information, intellectual property, employee details or information entrusted to third parties.

About BlackLine Systems

BlackLine Systems is an SAP Gold partner, with headquarters in Los Angeles, CA, regional offices in London and Sydney and BlackLine certified implementation professionals all around the world.

With 800+ clients (many in the Fortune 500 / Global 1000) and over 85,000 users worldwide, it was the first to market and offer software to automate the entire financial close process.

BlackLine was also the first account reconciliation provider with a SOC1 (SSAE 16), SOC II, & SOC III independent audits & ISO 27001 certification.

The BlackLine Financial Close Suite for SAP® Solutions is an SAP-endorsed business solution and is the only financial close solution to achieve this.

SAP AND BLACKLINE FOR AN END-TO-END SOLUTION

SAP is well-known for offering one of the most comprehensive end-to-end solution suites for the accounting and financial close process. Its comprehensiveness helps customers gain real-time insight, with the goal of making faster and better decisions. This kind of efficiency and speed aids in ensuring governance and compliance. Solutions are available on-premise and in the cloud.

Its flagship SAP® ERP covers all requirements of recording and valuating business activities. It supports multiple, parallel accounting standards and a huge number of country and industry-specific requirements. Because SAP serves large, multi-entity enterprises, its enterprise customers typically must close individual entities as well as the overall corporation.

For entity close, the period-end functionality of SAP ERP is augmented with dedicated solutions like Intercompany Reconciliation and the SAP Financial Closing cockpit, the latter useful in helping customers in planning, executing, monitoring and analyzing the potential for thousands of closing tasks across their subsidiaries.

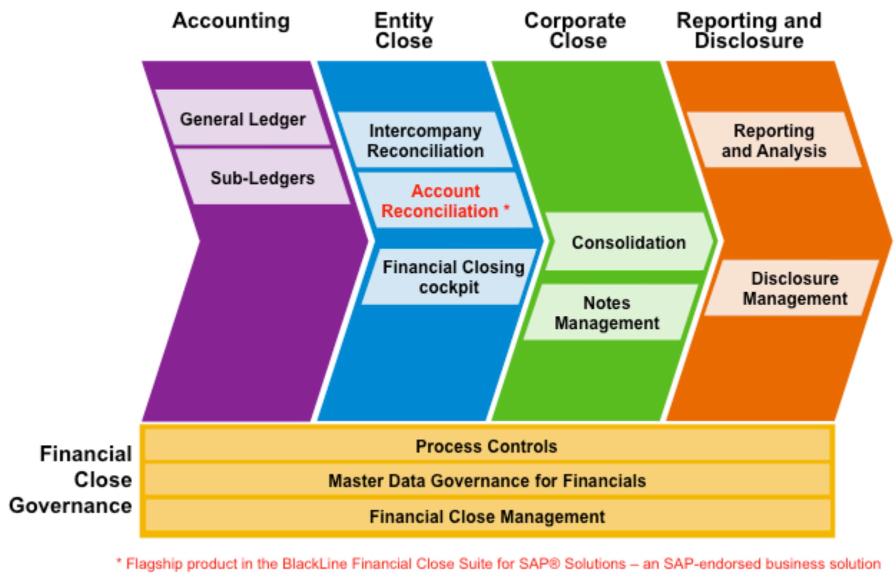
For corporate close, SAP provides consolidation solutions. A comprehensive suite of business intelligence solutions and a dedicated solution for disclosures fulfill the external and internal demands for reporting and analysis. This is rounded-off by specific governance solutions for ensuring consistent financial master data management and sound internal controls.

Yet, even the biggest enterprise application solution providers have white space to fill and SAP recognized this gap in terms of the account reconciliation process. Since SAP doesn't have unlimited resources and doesn't try to be everything to everyone, it saw BlackLine as a ready-made solution with the specialty expertise to fill that white space.

BlackLine Systems offers a comprehensive financial close suite, delivered exclusively through the cloud as SaaS. It can potentially integrate with any ERP system to provide all the required close functionality from account reconciliation, through creating necessary journal entries, all the way to audit response. BlackLine has partnered with SAP to provide a complete, pre-integrated solution: the BlackLine Financial Close Suite for SAP Solutions, an SAP-endorsed business solution.

If you are an SAP customer today looking to improve financial processes you just might benefit from the standardization, automation and integration provided by BlackLine Systems' account reconciliation module of the Financial Close Suite.

Figure 4: SAP Accounting and Financial Close and BlackLine Financial Close Suite for SAP® Solutions



Source: SAP and BlackLine Systems

BlackLine 's Financial Close Suite Modules

- ✓ *Account Reconciliation*
- ✓ *Task Management*
- ✓ *Transaction Matching*
- ✓ *Journal Entry*
- ✓ *Variance Analysis*
- ✓ *Consolidation Integrity Manager*

For more information visit BlackLine Financial Close Suite

BlackLine's solution takes a role-based approach. Not only are all accounts assigned specifically to preparers, approvers and reviewers, but also extracted data is automatically matched to accounts based on configurable business rules. Low risk accounts can be identified and auto-certified, saving time and preventing more errors. And let's face it: Do you really pay close attention when you manually reconcile these low-risk accounts? BlackLine applies straightforward algorithms to low-risk accounts, so you insure the reasonableness of these account balances, yet alleviate the repetitiveness and tedium of documenting the reconciliation.

Dedicated, template-based reconciliation process workflows are organized around accounts and each step is electronically captured for visibility and timeliness of completion. Dashboards assist in monitoring the portion of the process that cannot be fully automated.

The BlackLine Financial Close Suite for SAP® Solutions gives you more control over the process through clear and complete account ownership and a well-defined workflow. Added control comes from:

- Segregation of duties by account, distinguishing between preparers, approvers and reviewers
- System decertification when account balances change
- A certification audit trail

- System decertification when account balances change
- Lock down of documents after certification
- Accountability and control for new accounts

BlackLine, together with SAP, combine a controlled process with real-time monitoring and reporting, and integration that preserves the integrity of the data source.

ONE MORE SYSTEM TO PURCHASE, INSTALL AND MAINTAIN?

This might be the next question you ask. With BlackLine Systems, the answer is, "No." The solution is offered exclusively as a cloud-based SaaS solution, which means no software or hardware to purchase, install or maintain and no capital outlay. The potential benefits of a SaaS solution were noted earlier but account reconciliation and the financial close deals with some of the most sensitive data and information about your company.

As a SaaS provider, BlackLine is intimately aware of the risks and puts safeguards in place. BlackLine's SSAE 16 Soc 1 Type II audit details the extensive precautions taken to protect this data. If you are concerned about security, ask yourself if you have the expertise and resources it would take to pass such an audit. If not, your data and process may be more secure with BlackLine than with your own staff.

SUMMARY AND KEY TAKE-AWAYS

Account reconciliation is quite often an under-appreciated process, all too often conducted as a manual or spreadsheet-assisted process that leaves the financial integrity of your company vulnerable. Weaknesses and inefficiencies can lead to mistakes and misrepresentation on the balance sheet and inaccuracies.

New rules and regulations are not making this any easier for businesses, especially as they become more distributed across the globe. Multiple standards and uncertainty over looming changes only serve to exacerbate the problem. Replacing manual processes and spreadsheets with software to automate this labor-intensive, error-prone activity can provide more control and transparency, thereby reducing risk. An automated, efficient, accurate and timely close cycle can indeed create a foundation for better compliance, better decisions and better business performance.

If you are an SAP customer (or the customer of any ERP solution provider for that matter) that could stand to improve this process, be sure to include BlackLine in your quest for a better process.

About the author: *Cindy Jutras is a widely recognized expert in analyzing the impact of enterprise applications on business performance. Utilizing over 35 years of corporate experience and specific expertise in manufacturing, supply chain, customer service and business performance management, Cindy has spent the past 8+ years benchmarking the performance of software solutions in the context of the business benefits of technology. In 2011 Cindy founded Mint Jutras LLC (www.mintjutras.com), specializing in analyzing and communicating the business value enterprise applications bring to the enterprise.*