



Best-in-Class Intercompany Reconciliation Process

Leveraging state-of-the-art applications for a faster close



The purpose of account reconciliation is to ensure account balances are correct between two accounts at the end of a closing period.

Companies must reconcile all balance sheet accounts that could contain a significant or material misstatement. Doing so allows entities to identify and post all necessary adjustments to the general ledger in a timely manner, ensuring completeness and accuracy.

The critical steps to avoid a shipwreck and achieve a faster closing process

Highlights of the Intercompany Reconciliation Process

After the close of a financial period, it is required that each account in the financial statements is accurately reported. This involves reconciling the reported balance against other sources of information, for example comparing the balance for the cash account with an external bank statement.

Consistency and accuracy in financial reporting must be ensured upon every closing cycle and the process of account reconciliation is a key internal control, especially for listed corporations, as it provides detailed validation checks, a responsibility mapping grid and audit trails to back up all account balances.

The account reconciliation process typically follows these steps:

- Comparison of account balances between various independent systems
- Verification of statements and reports for accuracy, investigating discrepancies where identified
- Taking action to correct these discrepancies

Corporations, especially those that are listed, must reconcile all balance sheet accounts that could contain a significant or material misstatement. One of the most critical and time-consuming reconciliation processes in this scenario is intercompany reconciliation.

The number of intercompany transactions that must be matched and reconciled is often very high and, sometimes, the transactions have different attributes.

These tasks are typically executed in the ERP system, while the process of coordinating and monitoring them often takes place using spreadsheets and external tools.

Sequencing these activities in an optimised manner generally squeezes time from the close process.

Typical situation

Many organisations are unable to complete the reconciliation process in a **timely manner**, which introduces **risk**.

The process is often **manual**, with a suboptimal controlling environment, which also causes major risks of misstatement.

How it works

The intercompany reconciliation process typically follows these steps:

- **Comparison** of account balances between various independent systems
- **Verification** of statements and reports for accuracy and investigation of discrepancies where identified
- **Taking action** to correct these identified discrepancies

Operational Controls



Segregation of duties
reinforced with structured review and approval process for strict financial control and management of GL accounts



Section 404 of SOXCOSO Framework
assessment of internal controls over financial reporting



Monthly checklists
to ensure all reconciliations are complete and approved



Logging of queries, issues and corrections,
aged and escalated if required



What makes intercompany reconciliations so painful?

Key challenges: control during process, error analysis and manual effort

International firms across the globe and industries have different organisational structures and subsidiaries. It is vital to look at the key challenges the company will face and how a robust intercompany reconciliation process can help to solve the discrepancies between subsidiaries during daily or closure activities.

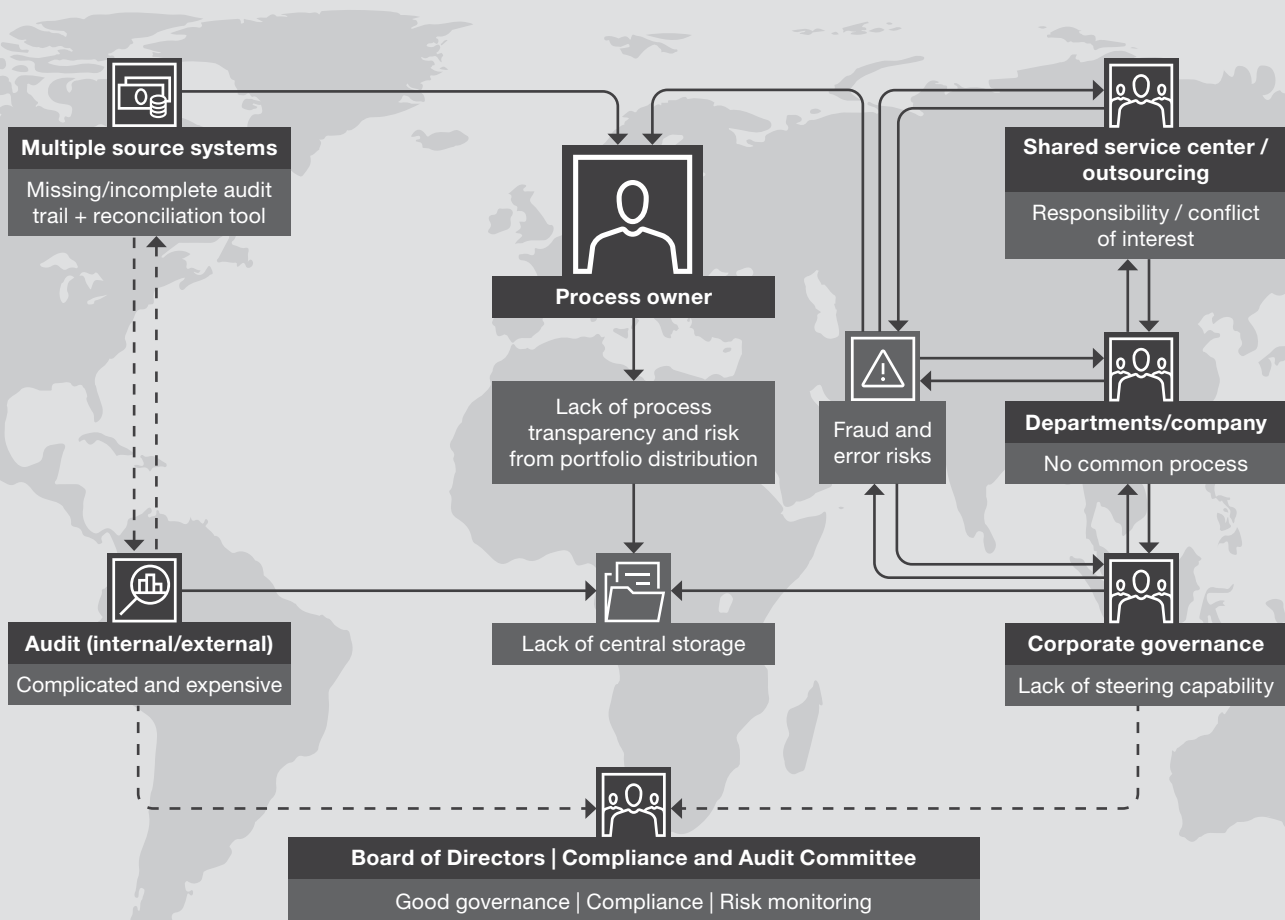
The nature of such discrepancies could vary a lot across various industries due to the nature of their business, and the root cause of these is due to:

- **Lack of control:** decentralised data sources, sub-ledgers, data formats, multiple accounts, contributors and tasks — these are just a few factors complicating balance sheet accounts. Furthermore, typical closing timelines – with requirements nowadays pointing towards detailed data granularities in shorter cycles – create additional challenges, especially when responsibilities, controls and validation checks are not embedded: clear process monitoring supported by modern workflow functionalities is an essential tool for risk mitigation.
- **Prone to error:** data decentralisation, segregation of duties and lack of controls tend to lead to increased vulnerability to errors and, as a consequence, lack of trust in the reported figures. Thus a single data source, centralised in a single application, ensures that data is consistent and accurate throughout the whole closing process.
- **Manual effort:** intercompany reconciliation processes, especially in global enterprises, involve thousands of reconciliations across different locations and business units. Without a centralised system in place, this process is done manually: it is effort-intensive and time-consuming. By using a centralised application leveraging automation logics, the risk of errors is reduced, improving the overall closing performance and relieving accountants of manual reconciliation exercises.

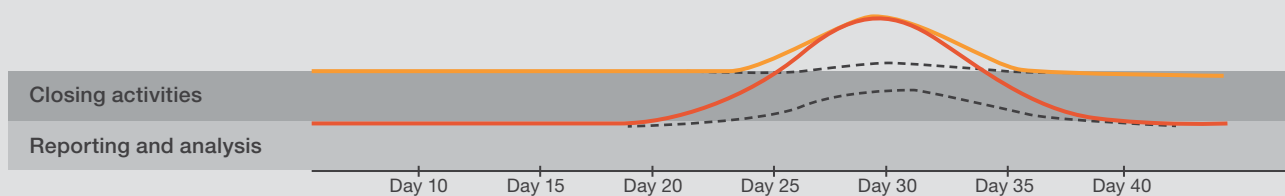


Several parties are involved in the intercompany reconciliation process, with multiple interactions and challenges

Organisational and technical challenges in the intercompany reconciliation process



Period-end close peak



Benefits of a tool: “close to disclose” in a centralised solution

How to create the required consistency through the harmonisation and standardisation of methodologies

There are several tools available on the market that enable companies to load, match and reconcile their intercompany transactions:

1. Built-in functionalities in the ECC and S/4HANA systems (e.g. SAP ICR, SAP S/4HANA ICMR)
2. EPM software platforms (e.g. CCH Tagetik, OneStream, etc.)
3. Stand-alone, ‘agnostic’ intercompany solutions (e.g. BlackLine, SmartClose, etc.)

ICMR is a built-in solution within SAP S/4HANA, starting from the SAP S/4HANA 1909 initial release, which allows you to match transactions and reconcile your financial data in real time. After data collection, ICMR can analyse, process and present data at the line-item level and at the aggregated level. The matching engine can directly access information loaded from several data points (Universal Journal, Group Reporting Balances, non-SAP data). It offers out-of-the-box reports to analyse reconciliation statuses and matching results.

OneStream provides an integrated and unified solution approach to account reconciliations, embedded in Consolidation and Planning, providing a risk-based approach for reporting and insight into the entire process.

CCH Tagetik has released a pre-packaged solution that offers built-in process monitoring, audit trail, reconciliation reports and approval workflows where balances can be reconciled, reviewed and approved, bridged with the Consolidation and Planning environment.

BlackLine is a cloud-only solution, which provides an interface for performing account reconciliations that includes standardised templates, workflows for preparation and approval, and integrated storage of supporting documentation. It offers segregation of duties and the creation of post-certification, view-only records. The solution does not come as a part of an EPM solution but is bundled with the SAP offering.

The market solutions meet industry requirements and accelerate intercompany reconciliation processes

Current challenges		Main innovations
	Inefficiencies in the mismatches investigation process	• Automatic adjustment postings • Built-in workflow • Email notifications
	Time-consuming ETL processes and complex matching rules	• Pre-delivered data sources • Flexible matching rules • Real-time matching
	Fragmented and inflexible reporting	• Out-of-the-box reports • Aggregated view of risk and open issues • Audit reports
		 Streamlined closing process

Our S/4HANA Application Services Leadership leverages a combination of technology and business service offerings

PwC's experience and expertise in S/4HANA and Central Finance projects is recognised by Gartner for our vision of business-led transformation and benefits; we take a business-oriented approach to engagements and bring strategy, industry, financial effectiveness, tax and SAP experience to bear on a programme.

Our approach goes beyond technical implementation. We focus on outcomes – emphasising the alignment of business with IT and adding value in differentiated processes, which makes us a clear fit for SAP-enabled transformations.

With our industry-led management consulting and tax heritage, we bring a combination of strategy, business and technology consulting and tax and regulatory expertise to organisations looking to reimagine their ERP platform, as opposed to upgrading their current system.

Additionally, we have expanded our territory footprint to more than 80 countries to support global client projects and have doubled the number of S/4HANA resources.

Gartner SAP S/4HANA Application Services' Magic Quadrant Report 2021 – with more than 11300+ S4HANA professionals, we are ahead of all the large SAP system integrator organisations.

Our client experience

Global Agro-Chemical based in Switzerland



Project scope

- Global end-to-end intercompany reconciliation process design optimisation within a complex ERP (SAP and non-SAP) landscape including Central Finance

Results/benefits

- Efficiencies gained through simplified processes with high utilisation of centralisation, automation and self-service
- Better mismatch investigation support based on realtime
- insights, data drill-down and advanced analytics on a single platform
- Business users can use out-of-the-box reports to analyse reconciliation statuses and matching results

Global Pharma based in US



Project scope

- Global end-to-end intercompany reconciliation process design optimisation for 100+ company codes within a landscape including Central Finance

Results/benefits

- Closing Time reduction thanks to real-time reconciliation
- Easy identification and correction of transactions with missing trading partners
- Business users can use out-of-the-box reports to analyse reconciliation statuses and matching results in transaction currency, company code currency and group currency all at the same time

Contacts

If you want to know more about how to reinvent your intercompany reconciliation process and make your closing cycle easier and smoother, please contact us:



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