

Financial Reconciliation Report

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1. Overall Reconciliation Rate

Based on the provided reconciliation summary, a total of 228 transactions were reviewed. To determine the overall reconciliation rate, we need to identify the number of transactions that were successfully matched.

- Matched Transactions: 2 (Rows 3 & 4)
- Total Transactions: 228

Reconciliation Rate: $(2 / 228) \times 100 = 0.88\%$

This indicates a very low reconciliation rate, highlighting significant discrepancies between the ERP system and bank statements.

2. Summary of Issues Found

The reconciliation process revealed several key issues:

- ERP Cancellation Conflicts: Two instances (INV0001 & INV0003) where invoices were marked as "Cancelled" in the ERP system but payments were received and recorded in the bank statement. This suggests a potential failure in communication between the ERP system and the payment processing system or incorrect data entry.
- Amount Mismatch: One instance (INV0002) where the invoice amount in the ERP system (1789.75) differs from the payment amount recorded in the bank statement (1788.62). These discrepancies, even if small, require investigation to identify the root cause (e.g., data entry errors, bank fees, or partial payments).
- Non-Invoice Transactions: Multiple transactions (Rows 223-227) present only in the bank statement ("right_only") and categorized as "Interest." These represent bank-related transactions (e.g., interest charges) not recorded in the ERP system. The volume of these transactions suggests a systematic gap in recording bank fees and interest within the ERP.
- Pending Invoices: One instance (INV0005) where the invoice status is pending in the ERP, but the payment is recorded in the bank statement.

3. Recommendations for Improvement

To improve the reconciliation rate and address the identified issues, the following recommendations are proposed:

- Investigate ERP Cancellation Conflicts: Immediately investigate the discrepancies between cancelled invoices in the ERP and corresponding payments in the bank. Determine the cause of the cancellation

and ensure the payment is correctly handled (e.g., refunded or reallocated). Implement controls to prevent future occurrences, such as automated notifications when a cancelled invoice has a corresponding bank transaction.

- **Refine Amount Matching Tolerance:** Establish a clear tolerance level for acceptable amount differences during reconciliation. Investigate any discrepancies exceeding this tolerance. Consider implementing automated matching rules that account for potential bank fees or rounding differences.
- **Automate Bank Transaction Recording:** Implement a process to automatically record bank-related transactions (e.g., interest, fees) in the ERP system. This could involve integrating the bank statement directly into the ERP or establishing a scheduled process to import and categorize these transactions.
- **Improve Communication Between Departments:** Enhance communication between the accounting, sales, and customer service departments to ensure timely and accurate updates to invoice statuses in the ERP system.
- **Regular Reconciliation and Review:** Conduct reconciliations more frequently (e.g., weekly or bi-weekly) to identify and address issues promptly. Regularly review the reconciliation process and adjust procedures as needed to optimize efficiency and accuracy.
- **Implement a Three-Way Match:** Consider implementing a three-way match process (Purchase Order, Invoice, and Receiving Report) to prevent discrepancies before they reach the reconciliation stage.
- **Training:** Provide comprehensive training to relevant staff on reconciliation procedures, data entry best practices, and the importance of accurate record-keeping.

By implementing these recommendations, the organization can significantly improve its financial reconciliation rate, reduce discrepancies, and enhance the accuracy and reliability of its financial reporting. Further investigation into the root causes of the identified issues is crucial for developing targeted and effective solutions.