

RECONCILIATIONS

What is a reconciliation?

A reconciliation refers to the process of comparing departmental records of anticipated financial transactions for the period to the actual transaction details that have been recorded on the general ledger account for that period.

Since data entry errors or other types of mistakes may occur when information is entered on to the ledger from various sources, it is important to find them and make corrections on a timely basis.

A reconciliation itemises, identifies and explains the difference between two balances at a given point in time, for instance the difference between a bank ledger balance and a bank statement balance.

A ledger report listing transactions on a code is **not** a reconciliation. There **must** be two separate documents for a reconciliation, a primary document (such as a bank statement) and a secondary document (usually the ledger).

For a reconciliation to be satisfactorily completed there must be no unexplained differences, however small. The concept of materiality does not apply to reconciliations, as small net differences could mask large differences in opposite directions.

Any differences that have been identified in the reconciliation as having occurred because of errors should be corrected. The reconciliation should document what action has been taken, for instance the journal number if a journal has been raised.

Example of a good reconciliation

Department Y – debtor accruals reconciliation

Amount	Reason	Date	Status	Journal Ref
£250.00	Prepayment on invoice 01234567	05/04/2011	Brought Forward - Confirmation this is still an active debtor, due for repayment in May 11 John Smith 29/03/11	2010/11 10000039
£1,257.00	Adult care invoices due	01/04/2011	New	100000103
£209.00	Sales of Jam in March 2011	05/04/2011	New	100000203
£300.00	Grant Claim Q4 2010/11	07/04/2011	New	100000309
£2,016.00	Balance of Debtor Accruals required in 2010/11			

£2,576.00 **Ledger Balance on XXY-01234 as at 12/05/11**

£560.00 Difference

Reason for any differences:

Department Z accidentally coded journal ZZ98765 to wrong code, Joe Bloggs correcting
£560.00 12/05/11. Correcting journal number is PP98345.

Completed by XY on xx/yy/zz

Reviewed by PQ

xx/yy/zz

The primary document is the departmental accruals listing and the secondary document is the ledger.

Example of a poor reconciliation

Department Y – debtor accruals reconciliation

Amount	Reason	Date	Status	Journal Ref
£100.00	Grant Claim Q4 2010/11	01/04/2011	New	100000238
£250.00	Prepayment on invoice 01234567	05/04/2011	New	100000459
£1,560.00	Sales of Jam in March 2011 not yet invoiced	05/04/2011	New	100000543
-£290.00	Money owed to Them PLC for trees	05/04/2011	New	100000555
£290.00	Reversal of AA0138 (should be a creditor)	12/05/2011	New	100000723
£1,910.00	Balance Carried Forward 2010/11			

- There is no primary document, therefore this is not actually a reconciliation.
- The composition of the outstanding debtor balance cannot be determined, as the brought forward balance is £1,910, reversals are £1,660 and the difference of £250 is not explained.

Why are reconciliations performed?

Reconciliations are a critical internal control, designed to ensure that the Council's financial statements are accurate and complete.

Timing

Reconciliations should be undertaken as soon as possible after the date to which the reconciliation is being performed. If too long a period lapses then the chances of all the items being identified, and the reconciliation being satisfactorily completed, diminishes. It is best practice to set a target date after the period end by which a reconciliation should be finalised, with all issues identified and corrected.

It is important that reconciliations are performed regularly. Whilst reconciliations should be undertaken at least every year, it is best practice to perform monthly reconciliations. This means that any issues are promptly identified and can be resolved before the problem grows. Waiting until the end of the financial year to research and correct issues is not a good idea, since there may not be enough time to resolve discrepancies and process correcting journal entries.

Documentation

Reconciliations should be documented and this documentation retained. There should be sufficient detail in the documentation to allow re-performance of the reconciliation, if necessary, at a later stage. This means that any documents not included within the reconciliation working papers should be clearly referenced to allow them to be located, for instance by way of invoice or cheque numbers and a description, as well as the amount.

The documentation used to support reconciling items should ideally be third party evidence.

Reconciliations should be evidenced by the person completing them and also evidenced as reviewed and approved by someone with suitable authority.