



White Paper

How Well Do You Manage Internal Controls?



Automated Reconciliation Helps Meet Internal Control Requirements

Financial institutions are held to strict operating standards to prevent financial misstatements, mitigate fraud and safeguard against failure. Regulatory agencies require internal controls, which include the policies and procedures financial institutions establish to reduce risks and ensure they meet operating, reporting and compliance objectives. Noncompliance can result in penalties and other administrative actions. So how do financial institutions maintain appropriate internal controls with the same staffing and increasing responsibilities?

Defining Internal Controls

Internal controls have been part of accounting practices since at least the early 1900s. But it wasn't until a framework was established in 1992 that businesses had a widely accepted model to follow in developing and implementing those controls. Here are three major events around internal controls:

- The Federal Deposit Insurance Corp. (FDIC), created in 1933, requires all financial institutions have controls, systems and programs appropriate for their size and the nature, scope and risk of their activities
- The [Committee of Sponsoring Organizations of the Treadway Commission](#) (COSO) developed an internal controls framework in 1992 for designing, implementing and assessing the controls
- The Sarbanes-Oxley Act of 2002 mandates that publicly traded companies establish, maintain, assess and report on internal controls and procedures for financial reporting

Meeting Internal Control Standards

So how do you ensure your financial institution meets internal control requirements? A crucial area to address in meeting internal control standards is the accuracy and depth of your account reconciliation process. That is because regulations regarding internal controls require your management team and auditors understand and document every aspect of the financial process, including how you:

- Assess material misstatement risks, including identifying where in the flow of transactions a misstatement could arise
- Evaluate controls for the period-end financial reporting process
- Meet laws, regulations and internal policies
- Provide timely and accurate financial, operational and regulatory reporting
- Assess fraud risks and safeguard assets
- Analyze and report on the effectiveness of internal controls, including any deficiencies or weaknesses

According to the [FDIC's Internal Routine and Controls \(3/15\) manual](#), "Every bank is unique, and one set of internal procedures cannot be prescribed for all institutions. However, all internal control programs should include effective control environments, risk assessments, control activities, information systems, and monitoring programs."

The manual also states: "Recordkeeping systems should be designed to enable the tracing of any transaction as it passes through accounts."

Automating Reconciliation and Certification

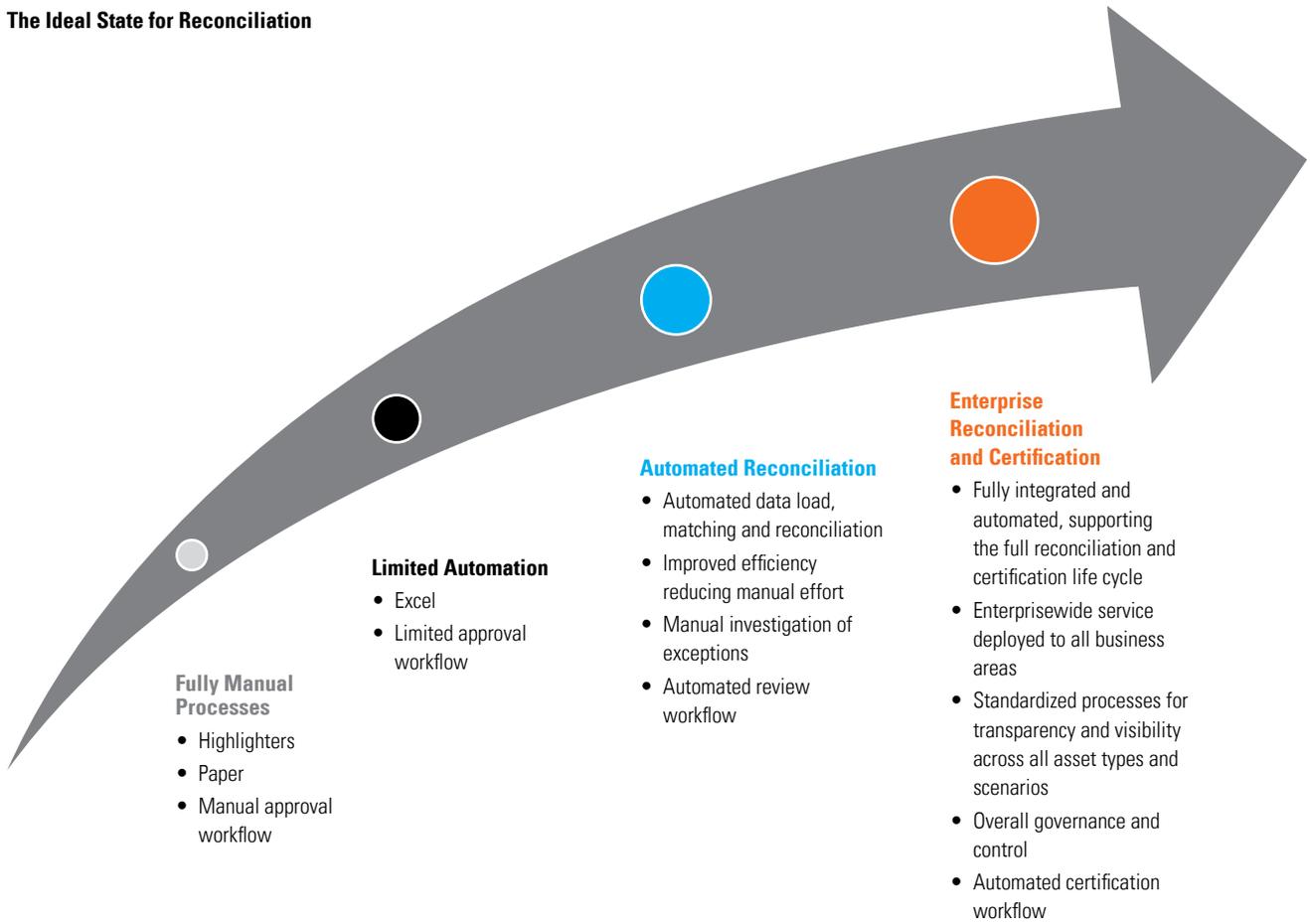
Reconciliation and certification are key components of an effective internal control infrastructure, meant to assure the accuracy of information feeding into the financial close process. However, if you are using a manual reconciliation process, like many companies do, you may have problems meeting internal control and other compliance requirements.

To ensure the internal control structure is effective, data integrity and visibility are essential. Manual reconciliation processes can be error-prone and provide no visibility into how the balance sheet was derived. That means senior management (or the audit committee) who are held personally responsible for any financial misstatements must certify financial statements without necessarily seeing the underlying transactional detail or exception-handling process.

Misstatements could also result from manipulation of data during manual processes. Companies often write off unresolved exceptions because they cannot trace an error back to the source, raising the question of possible fraud.

An end-to-end enterprise reconciliation and certification solution can serve as an integral part of an internal control framework because it forms a complete account reconciliation picture that provides transaction-level detail, makes exceptions instantly visible and eliminates manual interventions. Workflows fully automate labor-intensive processes, and automated checks ensure compliance with corporate and regulatory controls. The right automated solution minimizes the risk of financial misstatement and errors and provides a full audit trail. Executives can feel confident in their internal controls because they know the details behind the numbers.

The Ideal State for Reconciliation



Key Benefits of Enterprise Reconciliation and Certification

- Provides accurate data for use in financial close process
- Offers greater data visibility and exception detection with transaction-level matching
- Minimizes manual intervention so no manipulation of data occurs that could result in misstatements or fraud
- Provides full audit trail
- Achieves major efficiency improvements and lower operational costs
- Helps meet regulatory requirements
- Enforces process consistency through documented match rules
- Stores policy procedures documents in one place
- Improves/strengthens internal controls

For more information about meeting internal control requirements with Frontier™ Reconciliation from Fiserv, call 800-872-7882, email getsolutions@fiserv.com or visit www.fiserv.com.

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