



GL Reconciliation Process

Introduction

When it comes to Finance, reconciliation processes tend to pose as a formidable challenge. Automation has proven to be a game-changer, successfully overcoming hurdles in the process.

At AGT, we understand these challenges and have a proven track-record of implementing our license-free, AI powered solution to drive desirable outcomes for our clients. Through this whitepaper, we aim to share our understanding of reconciliation processes using a sample process.

Overview of sample Process

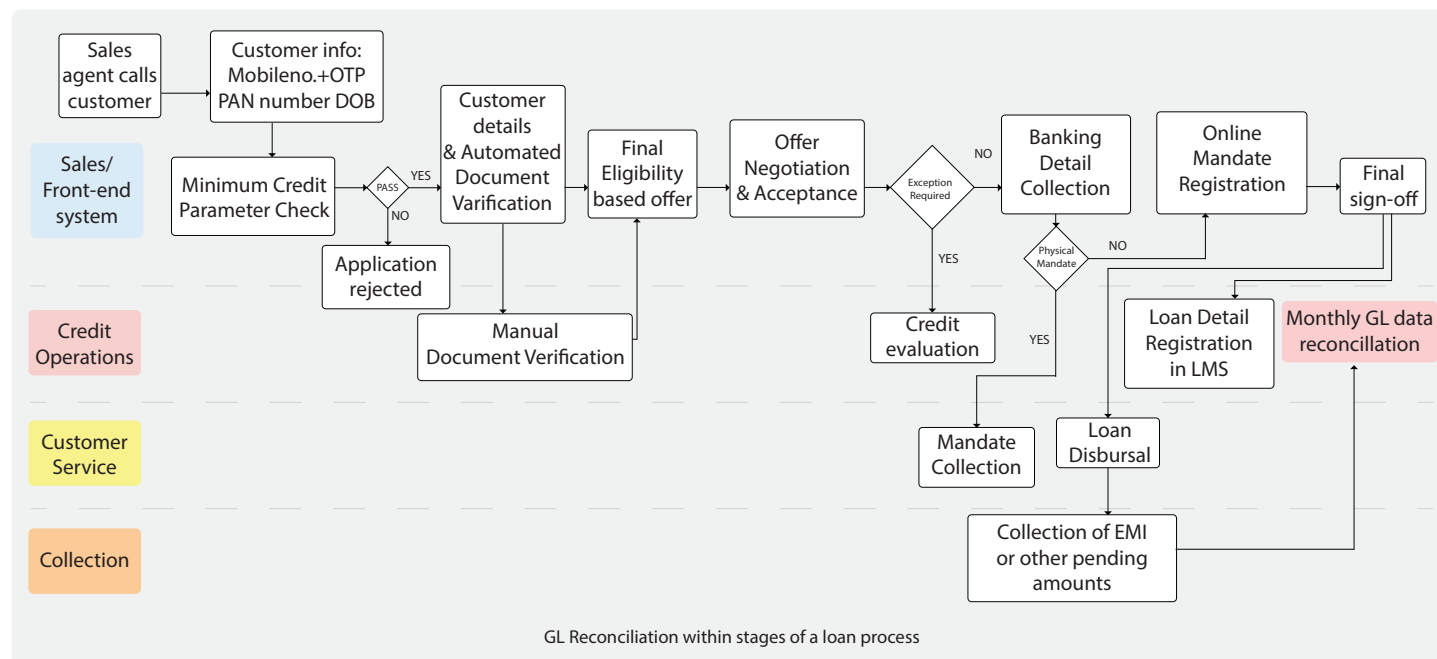
For the purpose of understanding what a reconciliation process may look like, we have considered the case of reconciliation between Loan Management System (LMS) and General Ledger (GL) data for EMI collected in the previous month. Due to various reasons, there could be a mismatch between these two data sets and this process aims to identify Loan Account Numbers or LOS IDs for which this mismatch has gotten created.

The purpose of this activity is to ensure that audit and compliance requirements can be kept in check. If this activity is not conducted on a monthly basis, the data mismatch will compound over time, therefore raising questions from audit that we may or may not be able to solve for given that the systems have cumulative data since inception.

Significance in the Loan Process

A loan process entails several stages for which the responsibility of execution is entrusted to largely four or five functions, depending on the way a particular NBFC is organized. These functions (broadly) are Sales (lines of business), Credit & Operations, Customer Service and Collection. In fig. 1, we see a high-level process diagram of stages of a loan and the sequence following up to GL Reconciliation.

A General Ledger or GL is a company's double-entry accounting system that encompasses all transactions needed for financial reporting such as generating income statements, balance sheets and so on. A Trial Balance (TB) is a report that lists every GL account and its balance. On the other hand, Loan Management System (LMS) is the front-end system that users interact with for posting entries to the GL. Once the EMI or other such amounts are collected from the customers, a reconciliation between the LMS and TB must be done on a monthly basis to account for system/ human errors causing differences in both these data repositories.



Sample Reconciliation Process Overview

In this section, we illustrate the sequence of steps that in the GL Reconciliation Process.

Elements:

Loan Management System (LMS) data, Trial Balance (TB) data, Product code mapping data, Branch-wise mapping,

Step 1: Verify Branch-wise report by comparing with Product-wise report

Step 2: Use accurate Branch-wise report to calculate knock-off values between LMS data and TB data

Step 3: Compare entries with previous month data to ensure only current month entries appear in latest Recon

Step 4: Calculate difference for TB data using Product + Branch-wise combination

Step 5: Map data with LMS to identify entries or LOS IDs where data is mismatched

Step 6: Verify that all entries have a valid and unique LOS IDs as identifiers

Python for Automation of GL Reconciliation

The GL Reconciliation process has a set of clearly defined rules or decision guidelines which makes it a suitable candidate for automation. Among the different tech solutions for automation, Python has certain capabilities that can drive successful outcomes, especially in the BFSI automation space; they are as follows. We also discuss their relevance to the GL Reconciliation Process.

- **Data Extraction and Preparation:** Availability of Python libraries facilitates data extraction and standardization. In the GL reconciliation process, financial data from different sources need to be extracted and consolidated. With Python, these activities can be performed in less time and without errors that may occur during manual execution.
- **Data Matching and Reconciliation:** Python has the ability to match transaction records across different accounts, identify discrepancies, and reconcile them through its filtering, grouping, and aggregation functions. This ensures accuracy in crucial steps of the GL Reconciliation process.
- **Exception Handling and Error Reporting:** It is important to flag and report anomalies during any process automation. This capability can help organizations track discrepancies and investigate their root cause.
- **Scalability and Customization:** As transaction volumes grow, Python's ability to handle large datasets and process them efficiently becomes crucial. In the GL Reconciliation Process, the organization has to work with cumulative data which will only grow in volume with time. Therefore, it is important to deploy a solution that can cater to this requirement.

Thus, Python provides a robust and flexible framework for automating the GL reconciliation process, enabling organizations to improve accuracy, efficiency, and financial control.

Glossary

Explanation of Technical terms

- **General Ledger (GL):** The company's double-entry accounting system that encompasses all transactions needed for financial reporting such as generating income statements, balance sheets etc.
- **Trial Balance (TB):** The report that lists every GL account and its balance
- **Loan Management System (LMS):** The core banking system that holds data of all loan accounts and users can interact with it through this system.
- **Loan Origination System (LOS):** Platform that is used by financial institutions to automate and oversee the complete end-to-end loan process from application to loan disbursement.

LOS IDs: IDs generation in LOS as identification for each distinct loan account.

About AG Technologies

AG Technologies headquartered in Mumbai is a human-centered digital transformation company that focuses on creating value for our stakeholders through the integration of people, processes, and technology.



For more information, contact
sales@ag-technologies.com