

Chapter 22:

Enhancing Accounting Accuracy and Efficiency by Automating Financial Processes to Mitigate Risks

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ABSTRACT

Human error in accounting remains a significant challenge, particularly in manual reconciliation and data transfer processes, leading to inaccuracies, inefficiencies, and compliance risks. This paper examines the financial, operational, and reputational risks associated with accounting errors and their impact on compliance with key standards such as MFRS 101 and MFRS 108. Additionally, errors in financial reporting can result in regulatory penalties under the Income Tax Act (ITA) 1967, further exacerbating financial strain. To mitigate these risks, this study highlights the necessity of automation in modern accounting processes. Recommendations include leveraging SQL for reconciliation, implementing Power Automate for invoice generation, and integrating ERP systems with SQL to streamline data transfer. These automation strategies enhance accuracy, reduce processing time, and improve compliance with regulatory frameworks. Furthermore, embracing automation aligns with workforce expectations, particularly among younger professionals who prioritize efficiency and innovation in their roles. Organizations that invest in digital transformation not only improve financial accuracy and operational efficiency but also attract and retain top talent. By integrating automated solutions, companies can future-proof their accounting processes, ensuring sustained growth, compliance, and competitiveness in a rapidly evolving financial landscape.

Key Words: Accounting Errors, Financial Compliance, Reconciliation

1. INTRODUCTION

Human error remains a persistent challenge in accounting, particularly in processes that involve manual intervention. This issue is most apparent in the reconciliation and data transfer stages, where human mistakes can lead to significant consequences. These errors frequently result in omissions, inaccuracies, or delays, which undermine the reliability, accuracy, timeliness, and overall efficiency of financial operations. Accounting errors that result in inaccurate financial data can have far-reaching effects, potentially leading to poor decision-making and missed growth opportunities (Howlader, 2024). The impact of such errors on a company's financial standing and reputation cannot be overstated.

2. LITERATURE REVIEW

The risks associated with accounting errors can be broadly categorized into three key areas which are financial risk, operational risk and reputation risk.

Financial risk

Financial risk arises from the potential for omitted or incorrect payments, such as to statutory bodies, which can result in penalties and additional costs. A practical example can be seen in the late payment of RM 100,000 in tax payable to LHDN, which led to a 10% penalty of RM 10,000. As Mr. Howlader notes, small businesses are particularly vulnerable to the financial repercussions of such errors, as failure to adhere to regulatory requirements can lead to fines, penalties, and even legal issues (Howlader, 2024).

Operational risk

This risk involves disruptions to business processes, such as delays in payments to suppliers that can strain relationships and disrupt essential operations. For instance, a late payment to a property maintenance supplier may result in delayed maintenance services, ultimately affecting the overall functionality of the business.

Reputation risk

Finally, reputation risk stems from the perception that the company is unreliable. Repeated mishandling of transactions can harm the company's corporate image, making customers and suppliers question its management practices and business reliability.

3. DISCUSSION

The risks posed by human error in accounting processes not only have immediate implications for the affected organizations but also create long-term challenges for the accounting industry.

Impact on Compliance with Accounting Standards

Human error directly challenges the integrity of financial reporting, which is governed by Malaysian Accounting Standards Board, MFRS 101 (Presentation of Financial Statements) and MFRS 108 (Accounting Policies, Changes in Accounting Estimates and Errors). These standards require that financial statements fairly present a company's financial position, performance, and cash flows. The importance of these standards lies in ensuring that stakeholders (investors, regulators and auditors) can rely on the reported data to make informed decisions. When human error enters the reconciliation and data handling processes, the accuracy of financial data is compromised. Omissions or inaccuracies in the reconciliation process, such as missed payments or unaccounted receipts, can distort financial reports, violating the fair presentation requirement set out in MFRS 101. Moreover, MFRS 108 specifies that any material misstatements, whether intentional or due to error, must be corrected. When such errors occur such as omitted receipts or incorrect payments then financial statements fail to comply with these accounting standards. For instance, a missed receipt could lead to an understatement of revenue or a missed payment could cause a misrepresentation of expenses. Both instances undermine the reliability of financial statements and potentially expose the company to further scrutiny or regulatory penalties.

Financial Risks and Penalties

The financial risks associated with human error in accounting are amplified by the regulatory environment in which companies operate. Specifically, errors in data handling and reconciliation can directly impact compliance with tax regulations, such as Income Tax Act (ITA) 1967. If accounting errors lead to incorrect returns such as understating income or incorrectly reporting expenses, the company could face substantial penalties. The ITA 1967 imposes severe consequences for such misreporting including fines of up to RM10,000 or 200% of the undercharged tax (PwC, 2025). This underscores the financial risks associated with human error in accounting processes which can result in significant monetary losses and damage the company's financial reputation. An overlooked transactions have led to penalties for late payments further complicating the financial situation. Due to mistakes and delays in processing payments, there are now discrepancies and out-of-balance states that make it harder for the company to meet its tax responsibilities and maintain timely filing requirements. There could be penalties, audits or more attention from regulators and the company could also be fined.

Reputational Risks

Beyond financial and regulatory consequences, human error in accounting also brings reputational risks. Companies that consistently make errors in their financial processes can develop a poor reputation in the marketplace. Customers, suppliers, and investors may begin to perceive the company as unreliable or unprofessional. For example, the manual invoicing process leads to frequent rejections and delays which strains cash flow and undermines operational efficiency. This in turn affects the company's reputation especially when it becomes known for handling financial transactions poorly. Frequent delays in receiving accurate invoices will lead to the client's thinking of the company's overall reliability. Similarly, late payments to suppliers, due to reconciliation issues or missed transactions could strain relationships, and suppliers might even decide not to do business with the company anymore. All these mistakes could really hurt the company's image, making it more difficult to attract new business or maintain existing relationships. A negative reputation could also make it harder for the company to get money or form partnerships that make money, which would hurt its long-term growth chances.

Operational Inefficiencies

Manual reconciliation and data entry processes are time-consuming and prone to errors. Cases such as the manual transfer of data between the Enterprise Resource Planning (ERP) system and Structured Query Language (SQL) software has resulted in inaccuracies and delays. The issue of data misalignment between the two systems has led to discrepancies, which in turn delay the company's ability to produce timely financial

reports. The amassed data from years of operations complicates this process, increasing the likelihood of data input errors and extending the time required to rectify the differences. These inefficiencies have the potential to slow down decision-making and impact monthly reporting cycles, which can have an impact on the entire accounting process. Management may not have a clear picture of the company's financial situation if reporting is inaccurate or delayed, which hinders their ability to make strategic decisions. This also affects the company's ability to respond quickly to market changes or financial pressures, further undermining its competitive position.

4. RECOMMENDATION

To mitigate these risks, companies should adopt more automated solutions that minimize the reliance on manual input. By embracing automation and integration solutions, these organizations can overcome the challenges posed by manual processes, including human error, data discrepancies, inefficiencies, and delays.

Embracing a Tech-Savvy Generation

According to ACCA (2019), the Middle East's workforce is uniquely positioned for digital transformation, with over 40% of its population under the age of 25, a demographic that is inherently tech-savvy and accustomed to rapid technological advancements. This generation, which dominates finance departments (aged 25–35), views manual, repetitive tasks such as Excel-based reconciliation or invoice generation as outdated and disengaging. By automating these processes for example by using SQL for reconciliation or Power Automate for invoicing, companies can align with the expectations of a workforce that thrives on innovation and efficiency. Automation not only gets rid of boring tasks, but it also frees up workers to do more mentally stimulating and career-advancing tasks like financial analysis, strategic forecasting, or process optimization. Furthermore, adopting tools like SQL and Power Automate provides employees with opportunities to upskill in cutting-edge technologies, fostering a culture of continuous learning. This aligns with findings that millennials prioritize workplaces that invest in their professional growth (Deloitte, 2024). By meeting these expectations, organizations can boost employee satisfaction, reduce turnover and attract top talent in a competitive market.

Automate Reconciliation Using SQL

It is recommended that companies automate reconciliation using SQL to address critical inefficiencies and risks inherent in their current manual Excel-based processes. By switching to an integrated SQL reconciliation tool, firms can eliminate time-consuming manual data transfers, reduce human error, and speed up transaction matching through predefined algorithms that automatically reconcile bank statements with payment vouchers and invoices. This automation not only speeds up work, but it also makes sure that problems like missing payments or duplicates are found right away. This way, unreconciled things can be fixed right away, avoiding mistakes in the books or fines from the government. The most important thing is that SQL's features make sure that transactions are always checked and audit trails are kept, which is in line with regulations like MFRS 101, which requires accurate financial reporting.

Implement Power Automate for Invoice Generation

In addition to SQL, Power Automate can also be introduced to automate the recurring monthly invoice generation process. Power Automate can be programmed to extract recurring customer information, such as names and addresses, from a central database and use predefined templates to generate invoices. This solution can minimize manual input and reduce errors. Automation also speeds up the invoicing process, ensures on-time production, and reduces delays that lead to late customer payments. Additionally, Power Automate integration can streamline invoice workflows, improve operational efficiency, and manage cash flow.

System-to-System Integration between ERP and SQL

System-to-system integration should be implemented to facilitate seamless data transfer between the ERP system and SQL software. This integration will allow SQL to directly receive data such as receipts, payments, supplier and customer invoices, and journal vouchers from the ERP system without manual intervention. Automatic data synchronization ensures consistency between the two systems. In addition, integration will reduce the time required for data entry and transfer, enable timely monthly reporting, and improve overall operational efficiency. This allows companies to overcome the challenges associated with high data volumes, reduce errors, and improve compliance with accounting standards and regulations.

5. CONCLUSION

As technology continues to evolve, the workforce will become more digitally savvy, especially younger workers who have grown up using digital tools. By embracing automation, companies will evolve in tandem and be able to create a more engaging and efficient work environment. Automating repetitive tasks can reduce manual errors, increase productivity and allow employees to focus on higher-value activities, such as strategic decision-

making and problem-solving. This shift not only improves operational efficiency but also helps attract and retain tech-savvy talent in a competitive job market.

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