Five key considerations for successful risk mitigation and controls effectiveness in ERP system implementations

From implementation to management: Modernizing business processes and internal controls as part of your transformation

At the center of most business transformations today is an enterprise resource planning (ERP) system implementation waiting to unfold. With so much riding on these large-scale investments, companies commit to striving toward ERP implementations that contribute to a successful business transformation.

However, opportunities are sometimes missed. For finance and accounting organizations, one of the more common pitfalls is not adequately addressing the governance, risk, and controls (GRC) requirements of the ERP implementation. It's also one that can be avoided with the right planning and perspective.

A compliance-focused mindset can help organizations effectively mitigate control risks in business transformations and ERP implementations as a mechanism for value creation and return on investment.[1] Approaching the process through the lens of compliance by design can elevate a governance and implementation framework to a controls-conscious transformation.[2] The later sections of this POV outline five steps to consider for ensuring a control-focused implementation that will likely bring the most value to your organization.

Why governance, risk, and controls get left behind

Effective GRC processes are foundational to improving the accuracy and reliability of a financial accounting and reporting system. Because an ERP transformation will likely introduce new capabilities and risks, it is essential to maintain effective controls in all stages of the rollout and to have effective internal control processes in place once the system is in production. That means addressing governance and controls from the earliest phases—design, during implementation and testing, and finally at and post go-live. All too often, however, controls are an afterthought in the ERP system design and implementation.

But why would an organization neglect such a critical aspect of the implementation? One reason is transformations today happen at a dizzying pace. Initiatives that once took five or six years to complete are now being implemented in much less time, thanks to the accelerating pace of business disruption and agile approaches.

In addition, ERP implementations require a level of integration and alignment that many enterprises are not prepared to handle because they may not have experience with these types of projects in-house. Since these efforts are not recurring activities within most organizations, in-house finance and accounting teams weren't necessarily created with the skills and experience to manage their nuanced requirements. Moreover, because ERP implementations are such large, complex undertakings, finance teams may not think they have the influence to put their requirements front and center in such a major IT-led undertaking.

Finally, many finance teams harbor the misconception that they can implement or improve system controls after the fact. What they don't realize is that adding proper controls once the system is operating is an expensive and time-consuming proposition. Imagine upgrading the control system of a new cruise ship months after it has been placed into service—when it rarely stops moving. In the meantime, threats are introduced to the underlying financial control environment, and the organization incurs unacceptable levels of risk to internal controls over financial reporting.

Common pitfalls in addressing GRC requirements
Here is a summary of additional reasons governance and controls can get left behind in an ERP implementation:

- **Difficulty redesigning complex business processes:** Deciding that processes are too complex and time consuming to redesign during a fast-track implementation keeps complex control frameworks in place that could be streamlined. An ERP implementation is the opportunity to address process pain points and strengthen preventative and automated controls for reliance in the control framework.

- **Complex and lengthy financial close and consolidation process:** The challenging close process can deter organizations from taking time out to adequately address controls. Organizations accept inefficient processes as the way it's always been instead of taking the time to envision the possibility of more efficiently designed processes and a rationalized control framework that mitigates risk.

- **"Lift and shift" implementation approach:** Because the system is considered turnkey, or "off-the-shelf," modules are considered already designed, resulting in reduced interaction with finance and accounting departments.

- **Failure to transform and streamline manual processes:** Highly manual accounting and finance processes that aren't addressed during system design and implementation will invariably result in inefficiencies and data integrity risks as well as manual controls being carried over to the new ERP system.

- **Data deficiencies:** Data not structured to achieve desired agility, efficiency, and reporting results will likely lead to shortcomings in the new system. Lack of ownership by the finance and accounting organization typically results in poor access to data, inferior data quality, and lower overall data integrity (e.g., data that is not designed with industry-nuanced accounting outcomes in mind). These issues can also impede the inclusion of enhanced analytics and meaningful insights.

- **Project cost:** Sometimes organizations are pressured to reduce the cost of the overall project by excluding regulatory or reporting controls from the scope of early project phases. This results in more costly post-go-live projects later to address these gaps.

Some steps to consider for successful GRC management during your ERP system implementation

With the importance of timely GRC activities established, here are five measures that can be put into place early in the transformation journey to mitigate risk and produce better system outcomes.

1 Make sure finance, accounting, and controls subject-matter resources are included from the beginning.

The risks of waiting to address GRC requirements are clear. But how early in the ERP system implementation process is early enough to begin thinking about governance, risk, and controls? A controls mindset should underly the project from the outset. The first communications from the office of the CIO or CFO that an ERP implementation or finance transformation is being considered is often the cue for finance and accounting leaders to begin embedding their teams into the process. In case it's not already understood, it's vital to clearly communicate to project initiators the intention of finance and accounting to be a central player in system design and implementation from the earliest phase of the project. That phase is typically the proposal process to evaluate ERP systems.

ERP leading practices call for a close collaboration between company IT and business leaders. The old days—when IT ran the show with minimal consultation with businesses—should be relegated to the dustbin of ERP history. Again, finance and accounting staff, along with system controls, must be included from the beginning and at every phase of the ERP project.

2 Put GRC front and center during system design.

Another potential key to success for any ERP system implementation is making sure that governance, risk, and control requirements are primary focuses of the system design phase. Addressing GRC requirements in the design phase should include determining how system controls will support accounting and compliance standards, such as the implementation of ASC Topic 606, Revenue Recognition.

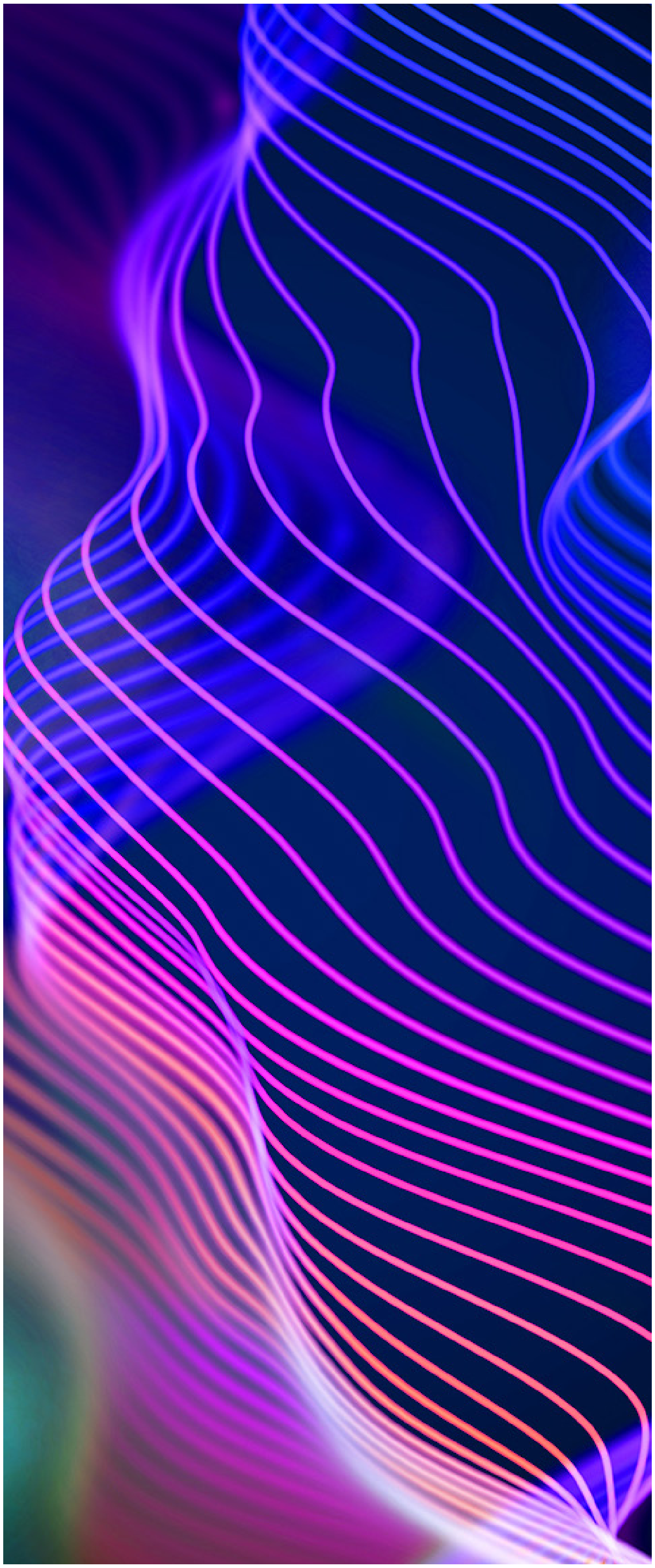
The design phase should also focus on the most effective way to standardize business processes (such as billing processes and integration of time collection systems) and the system's data structure (including chart of accounts to support compliance with the applicable accounting and reporting standards). This phase should also address how central processes, such as procurement, expense, and capital expenditure procedures that have direct impact on accounting records, should be designed to support compliance with the relevant accounting and reporting standards.

An institution learns from missteps

An institution learned the hard way about the expenses of leaving GRC requirements until the end of its ERP implementation. Thinking they could address controls later, the project team did not include them in the initial system design.

The decision proved costly. Unmitigated risk was introduced into the new system environment, and internal and external financial reporting requirements were not fully considered in the chart of accounts design. This lapse increased the need for manual processes to manipulate financial reporting, and finance team members did not fully leverage the system until the shortcomings were addressed well after it went live.

Remediating the system's control deficiencies post-go-live was not only expensive; it also burdened teams that had just completed a major implementation to redo their work.



Developing control requirements early in the process allows the teams to map the internal controls design to business requirements and identify key report requirements into configuration documents at the start. Once these considerations and evaluations are complete, design of the accounting engine in the new ERP system can progress with an eye toward automating compliance and increasing transaction processing efficiency. This process includes designing master data elements to improve transparency and visibility in key financial attributes and enable efficient financial reporting and accounting disclosure (e.g., cost and profitability and absorption costing) elements to improve transparency and visibility in key financial attributes.

3 Make financial reporting controls a focus of the implementation.

The design and implementation of external reporting controls should not be an afterthought. Internal controls over financial reporting (ICFR) should have a workstream from the beginning of the project. The idea of increasing efficiency in the financial reporting and disclosures process needs to be part of the initial planning and design phases to ensure no opportunity is missed.

Leading practices for ICFR design and implementation can include:

- Incorporating requirements from key stakeholders, process owners, and business users from the finance functions to allow for the design to meet leadership's strategic vision.
- Understanding that chart of accounts (COA) design contemplates reporting (record to report).
- Designing the external reporting process so that it leverages the capabilities of the future system to improve the external reporting close process.
- Reducing manual intervention when producing a standard management reporting package.
- Understanding that financial reporting addresses known compliance gaps.

4 Take the opportunity to transform processes and controls.

Business process redesign is essential to an effective implementation of GRC processes. GRC implementation should be an opportunity for true transformation of current processes. It is common, however, for long-standing institutional practices to cloud underlying regulatory requirements. As a result, legacy practices are frequently reimplemented in new systems in the name of compliance.

Moving inadequate legacy processes to the new ERP environment will produce substandard results. That's why it's crucial to take the opportunity to modernize the control structure. As you modernize, consider opportunities to automate manual processes and calculations that may mitigate risks, including financial, operational, regulatory, and strategic risks.

Evaluate and update current policies, procedures, and guidelines to capture any process-related changes (e.g., revenue recognition, inventory accounting, etc.). Taking advantage of the system's sophisticated controls and compliance capabilities to ensure controls are as automated as possible in each finance and accounting process will lead to greater system efficiency, adoption, and return on investment.

5 Make sure there are controls around the system implementation as well as the end finance and reporting environment.

Governance, risk, and control process implementation typically focuses on the new financial and reporting environment. But let's not forget that GRC needs to apply equally to the implementation process as well as the end system. This means understanding that there are controls around implementation itself as well as accounting and reporting operations. It is important to pay attention to both control environments. Controls around the implementation process should include managing the cutover of data, reconciling complete and accurate production against source data from the old system.

Let's talk

Deloitte has a strong record of assisting organizations navigate effectively through the challenges of transformation generally and GRC specifically to mitigate risk and deliver insights. Our global network of accounting and auditing professionals with business and technology experience, as well as extensive industry-specific specialists, mean we can provide the advice and services to address the governance, risk, and controls system of your ERP system implementation.

We can provide valuable perspectives and objective insights on how to manage any number of GRC challenges, including hands-on expertise throughout the system implementation and beyond, including the following:

- Identifying, designing, documenting, and testing internal controls over financial reporting
- Understanding what your auditors will require related to system conversions as well as the design and implementation of internal controls of any new processes
- Deep understanding of management's responsibilities for internal control over financial reporting and regulatory requirement
- Highlighting opportunities to leverage the full capabilities of the newly implemented/considered tools to automate internal controls and/or reporting, including consideration of supplemental tools that may be considered
- Understanding how to consider and leverage internal control efficiency opportunities in the design and implementation of new systems or tools
- Assisting with the system design that will facilitate the organizations compliance with technical accounting and reporting standards
- Providing perspective on challenges that may occur related to the project, how to consider what can go wrong, and how to manage the related risks

Want to know more?

Want more answers to big questions about GRC transformation? Contact either of our Audit & Assurance leaders listed below to get the conversation started.

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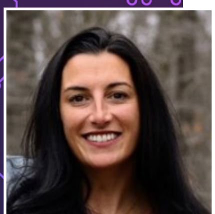

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Endnotes

1. Charmaine Wilson, "Assurance by design: Insights for a controls approach to transformation," Deloitte, November 2021.
2. Ibid.

SOX and ICFR Services