Spoiler alert: Your chart of accounts should not be managed by your ERP

When an auditor asks for your chart of accounts, don't just turn to your ERP.

You need a broader solution; a solution that considers the holistic functions required for a digital financial organization. Enterprise resource planning (ERP) systems are powerful tools to unify back office IT systems and processes into one interface. Which is why many companies wind up using ERPs to unify their financial accounts and produce the chart of accounts (COA) that lists their natural accounts, along with cost center, department, location and business unit.

Grant Thornton Business Applications Principal, Joseph Coniker, said an ERP *could* produce a COA and related management structures—in a scenario where the ERP contains all of the company's financial data. Financial data typically includes: external SEC reporting, internal management reporting, budgeting, profitability and tax provisions. But one module does not include all the financial data perspectives for the varying finance functions.

Many organizations believe they can have every finance function managed in the ERP. Some companies think of the COA as simply a definition of how their accounts are categorized and connected. But, it's more than that—the COA has structures or hierarchies required for business analysis, many of which are not required for on-line transaction processing in an ERP. The CoA should be controlled as a business function in itself, providing a record of what has changed and who made the change so that controls are established across the various finance constituents, ensuring that audit standards are enforced. While it might be tempting to think the chart won't change often, it's almost impossible to guarantee. "Because there are multiple stakeholders with varying business applications, and a change in a business environment should always be assumed to occur, it's just of matter of how much change and when it will occur" Coniker said.

How the issue starts

"In the marketplace, there has been, and continues to be an overall push toward a common transactional processing solution," Coniker said. Once a company connects all of its back-office finance systems, processes and accounts in an ERP system, then the company might see the ERP as the system of record for their chart, and by default the de facto CoA maintenance tool.

"And that becomes the source for future issues when broader analytics is introduced," Coniker said. "Because business by nature is dynamic, and the business changes. Whether it be via internal business orientation adjustments to attract more market share, or through mergers and acquisitions. Your ERP doesn't contain the data and structures to support budgeting, forecasting, tax provisioning and extended functions for consolidation and close." ERPs do not manage the hierarchy structures for all back-office financial applications—because the ERP is designed to focus on the business transactions and intelligence based on the data that is in the ERP solution itself.

But finance requires additional applications, which in turn require additional views and hierarchies for their perspective of financial reporting. Case in point, tax requires revenue by legal entity, which requires its own view of entity or business unit structures.

"And that's where ERP-based chart of account management falls short," Coniker said. He recently told a client that was managing its COA from an ERP with multiple analytical applications planned in the near future that, "Using ERP to manage the COA for analytical applications is not a best practice; it will cost more time and money to maintain and will and increase risk during an audit". The ERP is a place to consume the COA, but you need to manage the COA with processes and a technology where the ERP is one of multiple systems and processes that consume that chart."

Mergers and acquisitions

Perhaps the biggest drawback with using an ERP to manage your COA is the need to integrate a new COA post-merger or acquisition. In a merger or acquisition, the two companies typically integrate their charts of accounts into one shared structure that encompasses and categorizes all accounts for the new joint entity. Even when an acquired company adopts the existing COA, there inevitably will be updates to it to support new transaction types, lines of business and locations of the newly acquired entity.

When an organization completes a merger or acquisition and cannot incorporate the new company's accounts into the existing ledger fast enough, it may generate reports from other applications which could contradict the new mapping, definition and understanding of the joint entity's COA.

Sharing a COA

Another use case for common COA management is that companies need to be able to share the COA with other business or analytical systems. Although the ERP consolidates back office systems, companies need to call upon their COA for planning

and budgeting, financial consolidation, profitability, account reconciliation and more. That's difficult to do if the COA cannot be easily modeled and shared with other financial applications.

For instance, a company that wants to do driver-based forecasting and profitability by customer, it needs to share certain COA and general ledger data with other analytical systems. Without the capability to share the COA on its own, a company can limit its decision making insight.

The move to cloud technology has made COA governance even more critical. "In the on-premise world, sharing common enterprise structures through technical integrations was good enough," said Grant Thornton, Business Applications-Managing Director, Matt Lavery. But, to capitalize on cloud agility, organizations must quickly provide constituent views of their hierarchies. "It's all about visibility. The visibility allows organizations to do things like budget against future structures while still report against current structures and perform change impact analysis as a strategic exercise, rather than just a technical exercise," Lavery said.

How to solve the problem

While it's true that an ERP must access the company's COA, the company should also have processes and technology that let other analytical modules access the same COA with their unique view. The other systems will need to update COA properties, business hierarchies, sales structures and account structures that are relevant to them, and they should be able to have this flexibility, while also maintaining the corporate controls for the base CoA values.

That means the company needs a data governance process and data governance technology which relates to the ERP and other systems, including: data warehouses, analytical applications, profitability solutions and budgeting applications. But how does a company ensure that its data governance processes and technology will achieve success?

1. **Analytical functions:** "I'd start with the process," Coniker said. He suggested companies look at the analytical functions they want over a three-year period, such as profitability, consolidation, cost management, tax provisioning, account reconciliation, budgeting and forecasting. They should also consider the business outcomes they want. "I've had companies say 'We want to close the books in two days,' or 'I want to forecast to the street in seven days, and I want to be more accurate,' or 'I want to look at my profitability by product or financial instrument for insurance companies, as an example.' What are the outcomes that lead to your business decisions?"

2. **Data governance council:** Next, you should have a data governance council to establish norms and definitions. The council establishes what your COA contains, and which elements can be changed and by whom. It also establishes the accounts, cost center and departments at the corporate level, as opposed to the accounts deferred to a lower departmental business unit level.
3. **Sovereign technology:** Once the process is in place, with norms and definitions established, you can consider a sovereign technology to manage the COA, show the chart and augment or add the hierarchies needed for different business applications. The technology must also be able to seamlessly share the COA with the ERP and other business applications.
4. **Process workflow:** Lastly, you will need to establish a process workflow for changes and updates. "It goes back to the data governance council to allow for mobile reviews, mobile input, approvals of changes to terms and changes to how do you define the terms," Coniker said.

Achieve real value

By managing your COA into a discrete business application, managed apart from your ERP system, but consumed by your ERP, you can achieve the value of risk reduction, organizational optimization and better decision making.

- **Risk reduction:** For many companies, the COA is at the heart of a highly audited and highly regulated function where business changes must be documented with timeliness and precision.

  "The financial impact is hefty if you get things wrong," Coniker said. "If you report to the street incorrectly, set accounting standards incorrectly, address minority interest or revenue recognition incorrectly—to actually go back and restate your financials, there's a cost." A company's internal audit director, audit committee, board of directors and CEO can quickly appreciate the value of reducing the risk of an audit, or an audit violation.

- **Organizational optimization:** "The organizational value is that you can actually be more nimble if you set up the data governance process as a win," Coniker said. He explained that, as businesses evolve or merge, companies might be left with separate business units that target the same customers. The company might be accustomed to tracking the profitability of those business units separately, but it could attract more market share through better organizational alignment. Often, that's not easily done in large system footprints.

  "But, without changing the ERP system, your data governance process can set up a hierarchy from the charts and relationships, and you can reframe your analytics, budgeting and profitability solution to reorganize your business and maintain the integrity of everything in your ERP—so you have both agility and historical integrity," Coniker said.

  "Plus, you have the ability to actually share that new structure to all downstream business applications, because you have a data governance process, you have the data

governance council and you have the enabling technology. I've seen this done over a weekend—all analytical systems being updated with the new organizational or product structure that went out in a Friday-morning email from the CEO," Coniker said.

- **Better decision making:** "You can't have good analytics without data governance. That's my experience," Coniker said. He pointed out that the analytics and artificial intelligence that drive your decision making can only be as accurate as their base input. Companies can use data governance to establish common standards at the corporate level while maintaining differences required at the business unit level. "And there hasn't been a company in my 25-year career that doesn't acknowledge there are different needs at the local or plant level—and they want to maintain those differences while also maintaining corporate standards," Coniker said.

  With data governance that maintains a COA as a discrete process integrated with your ERP, "your company has the analytical definitions and agility to make decisions on the profitability of your customers, of your channels, of your products—which lets you make the decisions to improve your ROI."

- **Agility:** Although technical integration built to share the COA across systems can achieve the goal of aligning the values across the application footprint in the near term, it falls apart when dealing with major organizational change. Having a central location with the ability to visualize the change impact to subscribing applications, enables much more rapid and controlled execution of reorganizations, M&A or major system upgrades.

Actually make it happen

The issue of data standardization propagates across most companies, and many have already made heroic attempts at data governance in the past. Often executives think their company is too big to solve all of these issues, but implementing a data governance solution for one business area, or even for corporate, is a good place to start. While implementing a data governance framework across an enterprise might seem insurmountable, that doesn't mean you can't gain value from thinking through the process, and beginning to look at data as a strategic asset. Coniker suggests that

companies start by governing the COA with back-office financial systems. By focusing on the data framework, governance, technology and workflow that establish a COA apart from the ERP, companies can set a realistic goal that achieves real value.

"In fact, it sounds strange to say it, but there's even more value in going through the process than in the end state itself," Coniker said. The reason being is that the process draws out collaboration and provides controls, while also enabling people to think through agile solutions for their desired digital finance organization.

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