

Enterprise Resource Planning

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Challenges of Group ERP System Implementation in China

Foreign direct investment in China is growing, and more foreign companies are setting up subsidiaries in China every year. The parent company usually requires their Chinese subsidiaries to use the same Enterprise Resource Planning (ERP) software such as SAP®, Oracle® and JDE®, or internally developed ERP software systems as the group to ensure unified management and group reporting.

In China, however, certain requirements must be satisfied to ensure the successful implementation and utilisation of a group ERP system. These include the financial system compliance requirements, the requirements of the PRC GAAP conversion, as well as the internal requirements of enterprises on local financial management.

Compliance Requirements of Chinese Regulators

According to the PRC statutory requirements, the accounting software used should meet the following requirements:

- There needs to be a Chinese version, including screen displays, data entry fields, report formats, menus, and a help file.
- The Chart of Accounts (COA) should conform to the relevant PRC accounting regulations and should also be outlined in Chinese.
- Reports generated by the system should be capable of being printed in a standard format as stipulated by the local authority.

- The system should be capable of exporting electronic data files in a standard format as stipulated in the National Standard of Data Interface of Accounting Software.
- The computerised accounting system should register in local financial authorities.

Furthermore, certain regulations may vary between provinces or even between cities.

Implementation of the new PRC GAAP

The PRC's Ministry of Finance (MoF) issued the new PRC GAAP in 2006, and according to the conversion plan issued by local authorities, most of the medium and large enterprises, including foreign-invested companies, were required to complete the conversion and adopt the new GAAP from 2012 onwards.

The implementation of the new GAAP will significantly impact group ERP systems, especially for multinational companies (MNCs) with branches or subsidiaries in China. This is because their headquarters usually require a consistent, centralised ERP system or accounting software to facilitate the preparation of consolidated financial reports. To meet the requirements of the new GAAP and to ensure

consistency in accounting policies among all the group entities in China, enterprises may need to revise, remap or reconfigure all the current business relevant information systems. They may even need to customise the information system for their branches or subsidiaries in China, or introduce a new system to capture, analyse and report new data. This is not only time-consuming, but it will also affect the consistency and logic of the data in the existing systems.

In addition, the revised, newly developed or introduced systems must satisfy the basic requirements for accounting software stipulated by the relevant financial authorities, and should be registered with such authorities after approval.

Internal Requirements

With the rapid development of their businesses in China and the increasing statutory reporting requirements, MNCs face growing challenges with local financial reporting, such as:

- Generating transactional levels of PRC accounting documents.
- Ability to automatically generate various sets of financial booking under different accounting standards.
- Offering flexibility in adjusting accounts, enabling automated adjustments for GAAP conversion, and maintaining relevant documentation and historical data for future retrieval.

- Offering flexibility to generate various types of customised statistical and analytical financial reports.

- Providing a standard platform for financial consolidation, and allowing for current accounts reconciliation.

- At the system level, standardising the accounting treatments and the preparation of financial statements across all its subsidiaries.

Many MNCs are increasingly required to enhance their financial reporting due to various external factors, which in turn, depend on the capability of its systems. As a result, it is imperative that a localised ERP solution is implemented to assist finance teams to increase the efficiency and quality of local financial reporting and enable multi-dimensional financial reporting.

Responding to the Challenges

For MNCs implementing the group ERP systems in their Chinese subsidiaries, they may want to consider adopting a specific and advanced local interface solution, through which the financial source data in the ERP systems (especially the general ledger module) is transferred to the local financial interface software recognised by the local finance authority for the purpose of generating financial reporting in accordance with the regulatory and internal management requirements.

The system solution can help the management deal with above challenges from compliance with regulations on computerised accounting system, conversion to the new GAAP, and enhancement of local financial reporting. Meanwhile, it can avoid additional customisation and localisation of their group ERP system, and reduce the risks involved in the implementation of their group ERP systems in China.

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In today's uncertain marketplace, disruptive forces are driving organisations to transform – not just change. To support you in this rapidly changing environment, we will provide you with insights through the 'Enterprise Resource Planning Quarterly Business Update'. If you would like to continue receiving these updates or have any questions regarding the information provided above, please contact:

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