Controls Integration and GRC – Why It's Important for ERP

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This essay is part of a series, *Controllers' Corner: Two-Minute Essays on Financial Management and Control*, which asks industry thought leaders for their opinions on critical issues facing today's finance organizations.

The renewed emphasis on internal controls created by Sarbanes-Oxley (SOX) and other transparency regulations has forced many organizations to invest additional time and resources in compliance. While SOX legislation focused on controls for financial reporting, many organizations have also put substantial effort into their general and application controls.

Q. How important is it for organizations to upgrade their internal controls in the financial consolidation and reporting process, and what areas are most in need of improvement?

Sarbanes-Oxley legislation and interpretation by the Public Company Accounting Oversight Board (PCAOB) have deemed that newly designed systems which have a significant financial impact must have internal controls designed, documented and tested in order to receive the annual sign-off on Section 404.

Sign off requires, first of all, that management have effective internal controls in place over financially relevant systems at all times. To confirm this, external auditors must express a 404 opinion on the operational effectiveness of the company's internal controls over financial reporting. And if a project does not pass implied SOX compliance tests at "go live," it will likely result in costly delays or even a re-implementation.

IBM recommends addressing controls throughout an implementation or upgrade project. Our approach is

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based upon the following key value drivers:

- **Automation of controls:** Finance is process and control driven. Manual controls are far more costly and less robust than automated control features available in ERP systems. Therefore, IBM's approach is to implement controls to maximize system/automated features. Automation is driving many ERP technology integration initiatives and helps to optimize controls within key processes, resulting in improved process efficiency, reduced cost and more effective compliance management.
- **Scope of controls:** Our approach addresses the major control types: financial application controls, IT general controls, SOD-compliant security, and IT infrastructure controls for data conversions, interfaces and customizations.
- **Limited implementation surprises:** Addressing control processes too late can result in costly re-work or, in the extreme, a re-implementation due to deficiencies in control processes or failure to achieve 404 sign off.
- **Encourage external auditor involvement:** IBM supports the involvement of external auditors as part of the controls integration and GRC (governance, risk and compliance) approach, which will provide increased awareness, with "no surprises" related to controls at go live.

Continuous-control monitoring tools continue to mature in the marketplace and are viable options in helping companies reduce the cost of compliance. Finance professionals should remember that control and security is a collaborative process. It requires a cross-functional effort in which controls and security-related activities should be incorporated into every phase of the implementation project cycle.

When a project is done properly, standardization, centralization and automation of internal controls can make your compliance program more effective, and in many cases reduce costs related to controls.

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