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Indirect Tax Conference
Configuring ERP systems

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7 May 2015

Configuring ERP systems

- ERP Overview
- Implementing or upgrading an ERP
- Improving delivered systems

ERP Overview

Introduction to ERP

What are they?

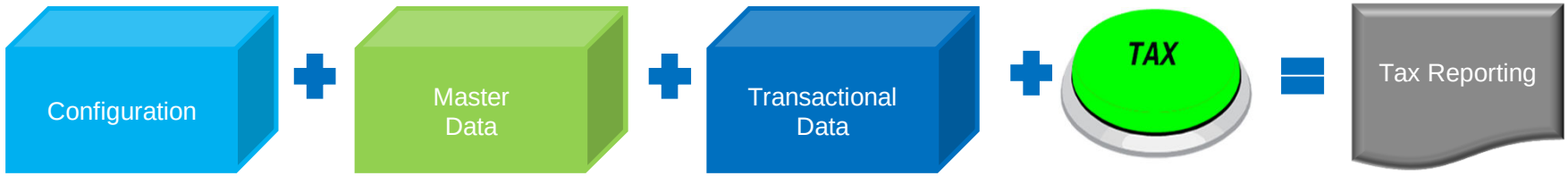
- Enterprise Resource Planning systems
- Organisational-wide systems that support supply chain, procurement, sales, HR and finance functions, etc.
- Usually multiple versions, or ‘instances’, which support different business units / geographies

Purpose

- Overall aim of ERP is to improve efficiency; controls; and information quality
  - One shared source of data to provide 'single version of the truth’
  - Generally, data entered once and flows through to subsequent business processes
  - Controls are improved by access security; audit trails; internal validations; etc.

Building blocks

Key building blocks within ERP which are important for tax reporting – all three work together to provide an accurate final output



The building blocks

All ERP systems have the same fundamental parts within one system, these are important for indirect tax compliance and reporting:

Enterprise Structure

- **Legal Entities** — Handled best by uniquely assigning entities to distinct companies
- **VAT Groups** — Can assign multiple entities to the same VAT grouping
- **Foreign Reg.** — Usually physical locations within a legal entity

Master Data

- **Customer** — VRNs, entities, addresses/locations, liability of customers/suppliers, ship-to, ship-from
- **Vendor**
- **Material or Product** — Material group, commodity code, incoterms, standard price

Tax decision making

- **Tax logic** — Use elements with logic to automate determination. Conditions include delivery terms, commodity codes.
- **Tax codes** — VAT rates, countries, date ranges, recoverability
- **Inventory** — Goods movements, classification of goods/product

Transaction processing

- **Inter/intra Company** — VAT groups, domestic and cross-border inter group transactions
- **Sales / Purchases**
- **Employee expenses** — Liability of expenses, categories of expenses
- **Projects** — Supply of services, contracts, continuous supplies

Finance – General Ledger

- **Payables (AP)** — Input tax liability and invoice retention
- **Receivables (AR)** — Output tax liability and invoice production
- **Tax accounts** — Input, output, netting, manual, characteristics

Outputs

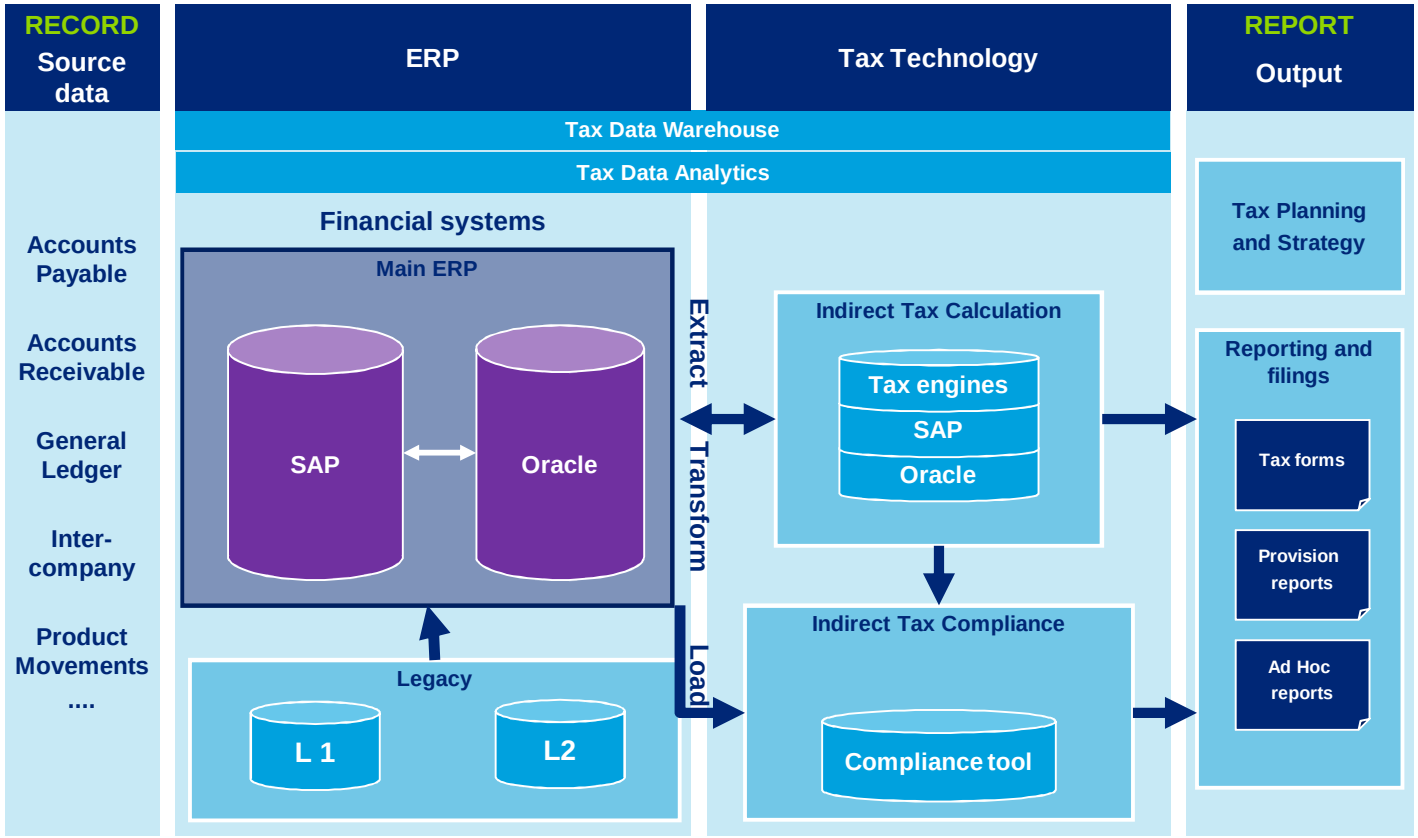
- **Reporting**
- **Invoices**
- **Payments**

Wealth of standard downloadable reports that can be easily manipulated for layouts, sub-totals. Requirements vary, so some customisation is typically required, includes VAT Returns, Intrastat, ECSL

End-to-end tax processing

Indirect tax technology landscape

- There are many components to the indirect tax reporting process, from pertinent data contained in many upstream systems through consolidation and then reporting and filing of indirect tax returns, ERP forms the hub of this end-to-end reporting cycle.



Indirect Tax Compliance Cycle:

- Technology forms a large part of the compliance cycle, from data collection and validation to management and external reporting

ERP systems – key stages to consider

1. Before implementation / upgrade

- Lack of understanding of complexity of tax requirements
- Insufficient taxes included in scope
- Tax Value opportunities – cash and efficiencies easily lost

2. Implementing or upgrading ERP

- Ownership through implementation process – tax requirements diluted / lost
- Communication with wider project team
- Tax/ERP skillsets within implementation

3. Delivered system

- Disconnect between tax view of business and systems set-up
- Opacity – difficult to see how systems are configured and operate
- Error magnification – even small inaccuracies will be repeated multiple times
- Future-proofing not achieved
- Maintenance / housekeeping requirements – extent and ownership

Implementing or upgrading an ERP

1. Before implementation / upgrade

Why now?

A Finance Transformation project is a good opportunity to ensure that tax requirements are protected and enhanced

Why consider tax?

There are a number of reasons why tax has to be considered differently. These include:

- Tax spans the project
- The number of different taxes within 'tax'
- Getting tax right is a statutory requirement
- There can often significant cash benefits to be gained
- Off-system tax processes

Goals

- Cash and cash-flow savings
- Improve process automation
- Minimising manual entries
- Reduced error rates by improved system controls
- Improve tax data reports
- Robust audit trail
- Improved Senior Accounting Officer (SAO) compliance

Challenges

- Understanding the tax technical issues in a system and process project
- Pre-planning tax/finance processes to avoid going 'past the point of no return'
- Working a tax solution within budget constraints
- Identify the right balance of technical and tax resources
- Getting the appropriate stakeholder buy-in for the tax objectives

Design Concepts

- **Keep it simple** – key to success
- **Template** - minimal localisations per country, per business
- **Flexible** - key to quickly addressing changes & future-proof
- **One version of the truth** – one version of data
- **Governance** – strong control of build and maintenance
- **Customisations** – keep customisation to a minimum
- **Automate** – where possible and practical to do so
- **Integration –** most VAT decisions originate in supply chain

Lessons Learnt

- **Sponsorship** – buy-in of key stakeholders as early as possible
- **Scope** - get right taxes in scope
- **Vision** - don't just aim to replicate "as is"
- **Communication** – educate relevant project teams on tax issues
- **Integration** - get embedded at heart of project
- **Change** – don't underestimate amount of training / change mgmt
- **Testing** – tax & ERP knowledge required
- **Resourcing** - ideally need to have Tax and ERP skills

2. During implementation

Vision	• Perform Tax Value Analysis to determine potential for cash savings / process efficiencies • Advise on most tax-efficient way of executing the project itself • Determine **taxes in scope** and any additional tax software required
Design	• Run tax workshops to identify **business requirements** for tax & attend other team workshops • Document the findings in Tax Business Requirements / Functional Requirements • Perform fit / gap analysis between Functional Requirements and standard ERP functionality / global template • Determine **resolution for all gaps** identified – draw up full Tax Design document
Build	• Perform tax configuration and work with other teams to ensure tax-relevant config is accurate • Drive customisations through development and ensure that delivered objects function as expected • Perform unit and integration **testing** on tax functionality and defect resolution
Deliver	• Check tax requirements are maintained through Cutover process • Prepare and deliver all required **training** for tax and wider finance users • Go-live with production environment
Operate	• Monitor system operation and remediate any required areas • Provide support and guidance to tax users • Test output from system against expected results for all tax processes and reporting

Case study – Multinational media company

Overview and challenges:

- Global finance transformation programme consisting of ERP upgrade and outsourcing of finance processes to third party provider.
- All VAT aspects in scope: recording transactions, generating compliance data, completing returns, return to balance sheet reconciliations.
- Challenges included: obtaining the right granularity of data to facilitate analysis, reducing manual intervention in AR and AP, and embedding common processes and controls.

Solution:

- Tax workstream as part of the Oracle configuration included configuration of tax codes, accounting, a single, multi-functional report, and implementation of ONESOURCE indirect tax reporting tool.
- Reduced compliance time and costs and increased controls because of a single data source and automated VAT reporting.

Impact of increasing complexity

The Problem

- Tax functions find that after implementing ERP, they still have difficulties gathering tax-sensitised data
- This is often a result of insufficient tax input into the design of the system itself
- Once an ERP is live then it almost immediately becomes out of date – maintenance is also key
- This reality is concerning given that tax departments are the largest users of financial data

External complexity

- Changes in legislation, e.g. POSS; EU changes to VAT rates
- Increasing focus on compliance e.g. SAO; SOX
- Tax authority interrogation techniques, e.g. automated rather than sampling
- Move towards electronic data exchange, e.g. SAF-T; iXBRL
- Globalisation of information and data exchange

Organisational complexity

- Mergers/acquisitions
- Complex business models, e.g. tax efficient supply chain; multiple VAT Registrations
- Complexity of supply chain, e.g. cross-border; low cost manufacturing; customs/duties
- Routes to market
- New markets/global footprint
- New offerings (goods, services, combinations)

Support function complexity

- Adoption of new/different technologies
- Budgets/budgetary constraints
- Back office support models
- Governance and control, including appetite for risk
- Leadership changes
- Profile of tax within business / boardroom
- Expectations of better MI

The Impact

- Tax personnel overworked during busy compliance periods through inefficiencies in tax processing
- Large amounts of time spent in low-value data gathering with highly skilled resources being underused
- Information is money – cash deductions can be lost to the business forever
- Less time to focus on strategic tax planning and provision calculation
- Manual manipulation of data maintained in spreadsheets
- Reduced audit trail and increase in errors

3. Delivered system

The good news…

- Change *is* possible outside of an ERP implementation
- Often relatively small systems changes can provide significant improvements for tax purposes
- Changes for tax purposes can provide opportunity to identify wider business improvements

…but…

- Usually resistance to systems changes from cost, time and risk basis
- Lead times for changes can be long – IT function will usually have busy schedule of works

Overcoming the challenges

- Clear business case will highlight benefits of changes requested – cash / time savings are often considerable multiples of costs of change
- Proactively provide potential solutions for change, with clear impact assessments for wider Finance and Business processes
- Find out when wider systems changes are planned and dovetail with those where possible
- Helps to have statutory requirements behind requests for change

Improving delivered systems

Common challenges for existing systems

A common challenge – systems do not deliver the granularity, accuracy and reporting required.

ECSL	**VAT reporting**	**Automation**
Data quality	**Reconciliations**	**Irrecoverable VAT**
Multiple ERPs	**Complex transactions**	**Intrastat**

Potential solutions for existing systems

Standard reporting	• Usually a wealth of standard reports available. Many can be easily tweaked to produce reports in a better format for filing or transfer to Excel. Standard reports can be copied and changed also, which may help. Sometimes difficult to get ERP support for making changes.
Exception reporting	• Exception reporting can preventative or detective. Usually the Tax function is too busy to monitor all transactions. Examples of exception reporting include checking new master data creation, domestic VAT charged on cross border transactions, changes in tax codes, etc.
Business Intelligence	• BI reporting can come from ERP, BI specific solutions (BW, Cognos) or specific indirect tax reporting (ONESOURCE, Vertex). In addition, advances in technology mean that we are seeing more uses of visualisation engines to quickly identify irregularities in data, e.g. Tableau, QlikView.
Excel solutions	• The majority of businesses rely on Excel for both analysis and VAT return preparation. Can be enhanced to provide better/more robust controls. Relies on source data from the ERP so need to consider end to end process. Considered a risky solution, but easy and flexible to use.
Data analytics	• Increased emphasis on analytics to interrogate data to provide key info to relevant stakeholders. This come from within businesses, but also with HMRC and tax authorities around the world. Sampling is being replaced by more sophisticated and holistic methods of interrogation.
Compliance software	• Can consolidate and file returns, providing a wealth of standard tests. These are purpose built and so do the job well. However, they are an additional step in the process and so data coming in and going out needs to be tightly controlled and any adjustments should be reconciled back to source.
Master data standardisation	• Key to being able to produce accurate reporting, whether this is stored in one instance or across multiple ERPs. By reviewing, cleaning up and taking a standard approach to your Master data, this can lead to more accurate reporting capabilities. Are you using enough fields for tax granularity?
Determination software	• Can be used to give tax control over the tax logic and tax coding. Recent enhancements in the capabilities of tax engines mean they are more applicable for European VAT. They also allow organisations to address limitations within the ERP and provide legislative monthly updates etc.
Business / Tax integration	• One of the key reasons for errors in VAT is a lack of understanding of the supply chain on VAT. We find that where tax teams and the wider business is well integrated there is a clearer understanding of VAT and also changes in the business are identified at an earlier opportunity.

Case study – Global Material Company

Overview and challenges:

- Thousands of missing master data records where data fields not mandatory within the system, duplicate vendors / customers, incorrect data entered
- Unclear ownership of processes and data spanning Supply Chain, Finance and Tax with limited documentation making consistent processing, training and succession planning difficult
- Limited training to Tax function and limited training of tax functionality to other teams
- Manual / off-system processes, or workarounds all lead to greater risk without robust controls
- Communication at the time of implementation and afterwards on impact of changes between project and business, and between teams within the business
- Incorrect tax coding as a result of weaknesses in training and non-UK SSC coding

Solution:

- Specific in-depth technical remediation work across all indirect taxes and industry specific taxes
- Bulk of recommendations were left with the in-house project team to complete/

Case study – Telecommunications company

Overview and challenges:

- Existing corporate tax client, with internal focus on cost reduction, experiencing challenges with having the right data and/or people available to complete indirect tax reporting.
- Accounting system review helped identify issues and provided the opportunity for Deloitte to provide improvement recommendations.

Solution:

- Desktop review of system extracts, invoices and system configuration, and interviews with technical teams and other client stakeholders to develop a view of accounting system strengths and weaknesses.
- Improvement recommendations presented according to priority and ease of implementation.
- The client commenced outsourcing via GTCE as a result of their internal circumstances and report recommendations.

Case study – Global Medical Equipment Business

Overview and challenges:

- Existing consulting and indirect tax client, looking at changing their European Supply Chain, standardising Finance processes and upgrading to a new ERP. During this transition the client also acquired a new company to be embedded.
- Our client created new VAT reporting obligations in sixteen countries, requiring new tax rules that weren't in place before.

Solution:

- Desktop review of system extracts, invoices and system configuration, and interviews with technical teams and other key stakeholders to develop a view of accounting system strengths and weaknesses.
- Performed review of the system design, improvement recommendations according to priority and ease of implementation.
- Following the review, the client then performed design work on the remaining countries; SAP / VAT support for the project, QA for testing and they outsourced the new VAT reporting obligations.

What should you be doing?

In addition to the areas above, there are many other areas of the system which can be improved from a tax perspective. We've grouped some of the main areas into 5 key categories:

- **systems; process; controls; reporting; and tools**

These range considerably in terms of complexity and effort to implement which is why it is important to understand key risks and opportunities in advance of making these system changes.

Systems	Process	Controls	Reporting	Tools
•Master Data - Customer - Supplier - Material - Ownership •Tax config •Tax matrices •Tax logic •Tax engines •Landscape •CoA sensitisation	•e-invoicing •AP coding tool •Self-billing •Self-service •P-cards •T&E •Workflow •SRM / CRM •Inter-company •Intra-company •SSC •Outsourcing •Co-sourcing	•Spreadsheets •Tax involvement in projects •Succession planning •Training / doc •Workarounds •Automation •Manual effort •Standardise •Workflow •Roles & security •System validations	•VAT; ESL; Intrastat •Exception Reporting: - Preventative - Detective •Data Warehouses •Consolidation •Spreadsheets / databases •Tax engines •Compliance software •Archiving	•VIES check •AP coding tool •ERP coding •Process review •SAO assessment •Data Analytics •Single •Integrated •VAT Review Smart •IDEA •Point solutions e.g. tax accrual

Questions?

Appendix

Benefits of Integration with a Global Tax Engine

Automatic updates for legislative changes	Globally managed rates and rules content (product/service taxability)	Scalability and flexibility to manage changes in business model
Tax department managed application (decreased dependency on IT)	Increased consistency via automation of tax decisions	Central tax warehouse repository to support compliance reporting, data analysis and VAT audit defense
Multiple ERPs can be managed from a single platform	Decoupling of tax codes and rates	Streamlining complex supply chain transactions

Increased control, transparency, and scalability

Benefits of Compliance Tool

VERTEX

ONESOURCE®

THOMSON REUTERS

Easy to integrate with standard ERP reports	Data storage by VAT entity, reporting period and VAT classifications	Data interrogation
Analytics	Legislative updates	Robust Audit trail
Consolidation of data from multiple sources	Ownership of tax	Automation

Increased control, transparency, and scalability

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