Using Group ERP / Accounting System in China

General Ledger Interface Solution

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Introduction

With the rapid development of China’s economy, foreign direct investment in China is increasing yearly. By the end of 2009, foreign direct investment in China has reached the amount of USD 90 billion, as more and more foreign companies have invested in China to set up their subsidiaries. When setting up the subsidiaries, the parent company usually requires their Chinese subsidiaries to use the same accounting software as the headquarters does, so as to save efforts in unified management and group reporting. The software systems can be those well developed packages such as SAP®, Oracle® and JDE®, or the accounting software developed internally.

According to the Accounting Law of the People’s Republic of China, Regulation on Using Computerised Accounting System, the National Standard of Data Interface of Accounting Software (GB/T19581—2004), as well as the provincial and municipal local financial requirements (such as Using Computerised Accounting System in Shanghai, issued by Shanghai Financial Bureau in 2002), the use of accounting software should meet the following requirements:

• The software used should have a Chinese version, including screen displays, data entry fields, report formats, menus and a help file in Chinese;

• The Chart of Accounts (COA) should conform to the relevant PRC accounting regulations and should also be described in Chinese;

• Reports generated by the system should be capable of being printed in a standard format as stipulated by the authority, including the Balance Sheet, P&L, Cash Flow, Accounting Books and Vouchers;

• For banks and insurers, the accounting software should conform to the relevant China Banking Regulatory Commission (CBRC) and China Insurance Regulatory Commission (CIRC) regulations on COA, printing output and information security;

• The system should be capable of exporting electronic data files in standard format stipulated in the National Standard of Data Interface of Accounting Software; and

• The computerised accounting system should register in local financial bureau, which reviews the exported electronic data files and sample accounting documents to ensure the compliance with relevant regulations.

Furthermore, certain regulations may differ at each province, or even among different cities.
Options to be Compliant

Options:

For multinational companies (MNCs) who are determined to use their group ERP / Accounting system in China, there are normally two ways to be compliant.

Option A: Adoption of Financial General Ledger Interface Solution (Such as KPMG’s solution)

Option B: Localisation of the group ERP/ Accounting systems

Option A adopts the general ledger interface program, through which the financial general ledger data is transferred to the local accounting software recognised by local financial authority, and can generate the financial statements, ledgers and vouchers required by PRC accounting regulations to achieve the compliance. (Please refer to Figure 1)

Figure 1: The General Ledger Interface Solution
Using Group ERP / Accounting System in China

Option A is normally considered as a "shortcut" to meet the local compliance requirements and adopted by many MNCs in China. Its characteristics include:

- Roll-out of group ERP system can mainly focus on group requirements or easily copying the instance from overseas company, i.e. do not need to set two sets of COA and consider the local outputs requirements. Chinese version of group ERP system is not mandatory;

- Interface program is used to retrieve financial general ledger data from group ERP system to generate local accounting data;

- Electronic data extraction requirement according to "National Standard of Data Interface of Accounting Software" (GB/T19581—2004) can be easily fulfilled by the front-end local accounting/reporting package. System can be upgraded timely according to the changes of national standard;

- GAAP adjustment, e.g. IFRS to Chinese GAAP, can be made in local accounting/reporting package to keep group ERP system in line with group accounting policies;

- Relative low cost and short implementation time

Option B localises the ERP system for compliance. Issues of time, resource and cost should be considered carefully at the ERP system localisation. Firstly, a Chinese version of group ERP system must be in place; secondly, at least two sets of COA have to be set in group ERP system, i.e. the group COA and PRC standard COA; next, all local reporting/output requirements have to be incorporated into the group ERP system, including locally required financial statements, general ledgers, sub-ledgers, bank/cash book and vouchers; Lastly, electronic data extraction requirement must be fulfilled according to the National Standard of Data Interface of Accounting Software (GB/T19581—2004) and for overseas ERP system it normally needs additional programming and involvement of overseas programmers and vendors.
Comparison between Option A and Option B:

<table>
<thead>
<tr>
<th></th>
<th>Option A</th>
<th>Option B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modification to group ERP/accounting system</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Chinese version of group ERP/accounting system needed</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Maintain local database for financial data</td>
<td>Yes</td>
<td>No (for overseas systems)</td>
</tr>
<tr>
<td>Compatible in case of system upgrade</td>
<td>Yes</td>
<td>No, need upgrade too</td>
</tr>
<tr>
<td>Additional interface/accounting package needed</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Security level of financial data</td>
<td>Depends on additional security controls on interface and front-end accounting/reporting package</td>
<td>Same as the group system</td>
</tr>
<tr>
<td>Easy upgrade for possible changes on compliance requirements</td>
<td>Yes</td>
<td>No, needs local development</td>
</tr>
<tr>
<td>Implementation Time</td>
<td>6 to 8 weeks</td>
<td>Depends on the complexity of the ERP in use</td>
</tr>
<tr>
<td>Cost (both implementation and operation)</td>
<td>Low</td>
<td>High</td>
</tr>
</tbody>
</table>

Most global companies tend to keep one same accounting system within the group, rather than perform excessive system customisation or localisation for local compliance purpose. Thus, we recommend option A to the clients, namely the General Ledger Interface Solution.

Typical Benefits of Option A:

A major benefit of using an authenticated local financial system solution is that the software vendor can provide assurances on the compliance related issues that include meeting language requirements, setting COA and providing printing format as required. In addition, you can also see the following benefits:

- It typically requires zero modification on the group business/financial system and related database. Cost can therefore be significantly saved compared with the spending on the customisation or localisation of ERP system.
- It keeps a local database, which makes it easier to generate local financial reports and PRC statutory reports.
- It enables two sets of COA for both Chinese GAAP and the group accounting policies.
- It should improve efficiency and eliminate manual errors.
- It does not require changes to local financial system when the group ERP system is upgraded.
- It is easier to implement the conversion of accounts from the old PRC GAAP to the new PRC GAAP.
Introduction of Financial General Ledger Interface Solution

Data flow of Financial General Ledger Interface Solution

Financial General Ledger Interface Solution has two relatively independent parts, the interface program and the local accounting system. Every month, after the detailed financial data is exported from the group ERP or financial system, it can be automatically imported into the interface program, where it can be converted according to pre-set mapping rules. Then, the local accounting system can generate the financial statements, ledgers and vouchers. Also, the interface program features report customisation. Whenever necessary, the users are able to tailor make various types of management reports based on the financial details, which avoids additional development of the group system. The data flow of the Financial General Interface Solution is shown in figure 2:

Figure 2: Financial General Ledger Interface Solution – Data Flow
Implementation of Financial General Ledger Interface Solution

Financial GL Interface service, i.e. option A, is a part of KPMG’s IT Project Advisory service. It helps you manage the risks throughout the implementation of your Financial GL Interface project and in an independent way, can assure that the project is appropriately controlled. Our Financial GL Interface service is designed to help you take appropriate and timely action to avoid expensive delays and project failure.

KPMG’s Working Phases

KPMG’s Financial General Ledger Interface service is carried out in four major phases:

Phase I: Business requirement analysis

<table>
<thead>
<tr>
<th>Phase I Activity</th>
<th>Management Meeting</th>
<th>Deliverables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kick-off meeting and planning</td>
<td>Kick-off meeting</td>
<td>N/A</td>
</tr>
<tr>
<td>• Kick-off meeting</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Program planning</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Determine hardware and software installation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business requirement analysis</td>
<td>Requirement analysis meeting</td>
<td>• Requirement Analysis Report (Draft)</td>
</tr>
<tr>
<td>• Financial requirement survey</td>
<td></td>
<td>• GAAP Analysis Report (Draft)</td>
</tr>
<tr>
<td>• Identify mapping relationship</td>
<td></td>
<td>• COA Mapping Table (Draft)</td>
</tr>
<tr>
<td>• GAAP analysis and COA review</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Confirm export data format of group accounting system</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Phase II: Interface Development (perform with local software vendor)

<table>
<thead>
<tr>
<th>Phase II Activity</th>
<th>Management Meeting</th>
<th>Deliverables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interface design</td>
<td>System development meeting</td>
<td>• Interface User Manual</td>
</tr>
<tr>
<td>• Interface design books</td>
<td></td>
<td>• Interface Maintenance Manual</td>
</tr>
<tr>
<td>• Interface development</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Testing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting system development</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>• Accounting system design</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Adjustment procedure documentation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Testing</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Phase III: User acceptance testing (UAT)

<table>
<thead>
<tr>
<th>Phase III Activity</th>
<th>Management Meeting</th>
<th>Deliverables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prototype set up and UAT</td>
<td>User acceptance testing meeting</td>
<td>User acceptance testing report</td>
</tr>
<tr>
<td>• Prototype set up</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Point to point testing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Prototype testing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• User acceptance testing</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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Phase IV: User training and system go-live

<table>
<thead>
<tr>
<th>Phase IV Activity</th>
<th>Management Meeting</th>
<th>Deliverables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data conversion</td>
<td>Data conversion meeting</td>
<td>N/A</td>
</tr>
</tbody>
</table>
| • Group accounting system data export
  • Interface data import
  • Local accounting system data import |
| User training     | N/A                 | User training programme |
| • Interface end user training |
| Period end closing| Post-implementation review meeting | Requirement Analysis Report (Final)
| • Monthly end closing
  • Year-end closing |
| | | GAAP analysis report (Final)
| | | COA mapping table (Final) |

Financial GL Interface Solution Project Timeline

KPMG’s extensive project experience has enabled us to develop a mature methodology to implement the Financial GL Interface. Thus, it shortens the time required to finish the whole project cycle, from business requirement analysis to system go-live. A timetable of a typical project cycle is shown in Figure 3. (Project timeline differs due to the size, COA complexity and reporting requirements, etc.)

Figure 3: Financial GL Interface timeline

- Communication with management on results

KPMG Additional Services

In addition to the core service described above, KPMG firms also help clients to register the system in use to the local finance and tax authorities for records.
Case study

Case 1: A large European communication equipment provider

Multi-site implementation and rich analysis reports for large enterprise

- The Group planned to roll out SAP system all over China to replace its legacy SCALAB® system. Over 10 Chinese subsidiaries participated in this project. A dedicated project team was assigned by the group head office to do the implementation work. The team has already successfully implemented SAP at the subsidiaries in many countries.

- At the planning phase, the SAP project team noticed that the compliance requirements of Chinese authority would significantly affect the time frame and cost of the whole project. Their research within the group showed that a joint venture under another business division of the group who had implemented SAP earlier had managed to apply the KPMG Financial General Ledger Interface Solution.

- After further analysis, the project team decided to roll out the KPMG Financial General Ledger Interface Solution in the entire project, rather than take efforts on complicated localisation of the Group’s standard SAP system. Consequently, the time and cost of SAP implementation within the Group was largely saved.

- One of the group’s Chinese subsidiaries was the group’s largest joint venture globally. Every month it produced over 3 million vouchers. After this subsidiary decided to use the KPMG Financial General Ledger Interface Solution, it was able to have the PRC statutory reports ready within 2 days of SAP monthly closing. For other smaller subsidiaries, this job could be finished within one day or even half day.

- Besides the local compliance requirements, some subsidiaries required additional functions that the system produces local financial analysis reports, which further proved the agility of the financial reporting function of KPMG’s Financial General Ledger Interface Solution. The company can have a local financial reporting analysis tool in addition to SAP.

- Three years after this project, the group upgraded the SAP system and centralised all accounting operations to its shared services centre located at its headquarter in Beijing. Without much change, KPMG’s Financial General Ledger Interface system dealt with the upgrade collectively within very limited time. The company, thus, was able to save its operating cost significantly.
Case 2: A giant in global mining industry

**Multiple company codes under one legal entity**

- The client is the mining giant’s trading company in China. As the trading company needs to deal with product lines of many divisions of the group, it set eight company codes in the SAP system to produce reports for each division. For local compliance, financial data under all company codes have to be consolidated and reported in a single set of financial statements of the trading company.

- When implementing KPMG’s General Ledger Interface Solution, we firstly obtain an understanding on the company’s business requirement on multi-code management and report consolidation; then we met the requirement by delivering the relevant technical solutions during interface customisation. Also, we adjusted the solution accordingly in terms of data verification, error control and information security. After the system go-live, feedback came that human cost spent on local financial statement preparation was significantly saved. Meanwhile, the data accuracy and efficiency were also improved.

Case 3: The Shanghai branch of a renowned Swedish equipment manufacturing Group

**Compliance solution to its in-house developed system**

- The Group developed an ERP system in-house to use at all subsidiaries. The system was not able to provide the financial data and statements required by China’s Ministry of Finance. Moreover, the Company had not registered the ERP system in use with local government for records. Both potentially brought serious compliance risk.

- KPMG’s General Ledger Interface Solution successfully eliminated the compliance gap brought by the in-house developed ERP system. Besides, KPMG professionals helped clients register the accounting system to the local finance and tax authorities for records. The compliance risk was therefore mitigated.
Case 4: A leading global entertainment and media company

Complicated Group COA Mapping

• As a well-known entertainment and media company from US, the client applies a core ERP system across the group. With the complicated Group COA, the system is not able to provide financial data and statements required by China’s Ministry of Finance. In addition, since the system is controlled centrally at Group level, local users are granted very limited access rights. They are not allowed to download data, only perform some system query.

• KPMG’s General Ledger Interface Solution successfully eliminated the compliance gap brought by the ERP system. KPMG firms or professionals also helped clients register the accounting system to the local finance and tax authorities for records. Meanwhile, KPMG professionals designed a special process to help the client acquire the data from the core ERP system based on available access rights, which saved the headquarter from additional system development efforts.

Case 5: An equipment manufacturing joint venture

Requirements on dual reports

• The client uses Fourth Shift ERP® system. Management requires that the interface program generate not only the financial statements required by China’s Ministry of Finance but also the management reports for the foreign management’s monthly review.

• Firstly, KPMG’s General Ledger Interface Solution met the client’s requirements to automatically obtain the original financial data from the Fourth Shift system and generate the required PRC financial statements and ledgers from local accounting software. Then, together with the client management, KPMG professionals analysed the reports required by foreign management and defined a list of reports to be produced at the interface. Through the automated monthly batch run of the interface, the workload of manual reporting was significantly reduced.
Case 6: A large domestic software solution provider (Acquired by a world leading software group)

Integration of the system internal control mechanisms to meet the requirements of SOX 404

• The client uses one Sun® System across the whole group. The system does not support Chinese and cannot generate the financial statements and ledgers required by Chinese authority. Personnel at the Chinese branch do not have the right to customize the system generated reports. The absence of those reports with local compliance hindered the company from enjoying the favorable policies offered by the government to high-tech enterprises, such as tax rebates. Furthermore, the holding company is listed in the US, so the system solutions to be implemented must meet SOX 404’s requirements on internal controls.

• KPMG’s General Ledger Interface Solution, without changing the configuration of Sun System, enables the client to obtain the original financial data from Sun System through the general ledger interface and produce the locally compliant financial statements and ledgers directly in the local accounting software. Meanwhile, with the assistance of KPMG professionals, the system solution can successfully integrate the IT internal control mechanism to meet the requirements of SOX 404.

Case 7: Shanghai branch of a global leading strategic consulting company

Providing a variety of data / report output format to compensate the limitations of ERP system

• The client uses DCW system at group level. The system has limitations in its financial data/report output. It could generate neither the financial statements required by China’s Ministry of Finance, nor the necessary management reports. To change the group application based on the requirements of Chinese authority, the client will require people to cooperate across the border and cost huge manpower and time.

• With the assistance of KPMG and external software provider, the company implemented the General Ledger Interface Solution. It enables the company to obtain the financial statements, ledgers and vouchers required by China’s Ministry of Finance through well-developed local accounting software, as well as the management reports required by the executives.
Case 8: A Global leading wireless antenna and telecommunication products manufacturer

**No local IT staff**

- The client is a renowned US wireless antenna and telecommunication products manufacturer. The ERP system used across the whole group was not able to produce the financial data and statements as per the requirements of China’s Ministry of Finance. More than that, there is no IT staff deployed at its Joint Venture at Tianjin.

- KPMG’s General Ledger Interface Solution eliminates the compliance gap caused by the core ERP system. In the process of implementation, as the first step, KPMG performed requirements analysis and system development based on the direct remote communication with the client’s US IT team. Then, KPMG assisted the implementation team to finish installing and testing the financial GL interface program at the Tianjin Joint Venture. As a result, the client’s local accounting system successfully met the local compliance requirements. The compliance risk was therefore mitigated.
About KPMG

KPMG, as one of the leading professional service organisations, has a global coverage with which others could rarely compete. KPMG operates in the central business areas of 146 countries and has over 140,000 people working in 800 member firms around the world. With convenient communication channels and a thorough understanding of the local markets in which we operate, we could provide appropriate advice to our clients with high-efficiency. At present, KPMG operates across China with 13 offices and more than 9,000 professionals in Beijing, Shanghai, Shenyang, Nanjing, Hangzhou, Fuzhou, Xiamen, Qingdao, Guangzhou, Shenzhen, Chengdu, Hong Kong SAR and Macau SAR (including KPMG Advisory (China) Limited). Our single management structure for all our China offices allows efficient and rapid relocation of experienced professionals to provide services to clients with high quality. The flexibility of this single structure allows us to effectively serve companies across China, and enables professionals from different offices work together under the supervision of experienced partners.

KPMG’s network of firms is often recognised by businesses, professional bodies and regulators around the world as a professional service organisation that provides high quality and efficiency. Member firms’ clients include world famous multinational companies, large enterprises, syndicates and financial institutions. In international financial markets, our comments and observations are regularly recognised by institutional investors, investment fund managers, commercial banks and law firms.

Service Overview

KPMG China provides professional services, including Audit, Tax and Advisory services. Our approaches to establish sound relationships and deliver quality service helps our clients, both local and international, develop new business opportunities, to improve performance, manage risk and enhance firm value, which typically benefits shareholders as well.

Audit — KPMG’s Audit practice can deliver independent, objective and high quality audits, and helps clients manage risk so they can focus on their core businesses. By understanding each client’s business, we convert information into insights to help uncover issues and opportunities to assist clients improve efficiency, performance and financial reporting.

Tax — KPMG’s Tax practice is also focused on helping clients find opportunities in the form of significant tax savings. Through tailored approaches, the practice helps clients to reduce their bottom-line expenses.

Advisory — KPMG’s Advisory professionals assist clients through a range of Financial Advisory Services and Risk Advisory Services. Together these services can help address a client’s strategic needs in terms of growth (creating value), governance (managing value), and performance (enhancing value).
IT Advisory (ITA) Services of KPMG’s Advisory Services can help bridge the communication gap between business executives and IT professionals. Our ITA professionals bring a powerful combination of technical skills, financial understanding and business experience which represents a unique value-add for our clients. ITA services can support clients at any stage in the IT lifecycle.

Figure 4: KPMG services throughout the IT life cycle
Contact us

For more information or to discuss how KPMG China can help your business, please contact:

**Reynold Liu**
Partner
IT Advisory
Tel: +86 (21) 2212 3626
reynold.jg.liu@kpmg.com

**James Zheng**
Senior Manager
IT Advisory
Tel: +86 (21) 2212 3630
james.zheng@kpmg.com

**Annie He**
Manager
IT Advisory
Tel: +86 (21) 2212 3632
annie.he@kpmg.com
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