Investigating the Relationship between Management Accounting, Internal Audit and ERP systems

C.J. Stefanou\textsuperscript{a}, M. Vardaki\textsuperscript{b}

Abstract

Purpose – The purpose of this paper is to investigate the impact of Enterprise Resource Planning Systems (ERP) on management accounting practices (associated with the adoption of sophisticated accounting techniques) and internal audit.

Design/methodology/approach – The authors’ approach is based upon an examination of 6 large firms in Greece. Four of them are listed in the Athens Stock Exchange. The firms represent different sectors, such as the manufacturing industry (food), health, tourism (hotels), ferry, construction (building materials) and chemical. Preliminary interviews with managers of the firms adopting ERP systems were carried out in order to cater for the limited empirical evidence available as well as the lack of underlying theories in this context. The questionnaire included mostly open-ended questions concerning both the management accounting practices and internal audit.

Findings – Evidence found supports the existence of a significant relationship between ERP systems, reporting and decision-making. The firms adopting ERP systems experience higher levels of information integration, improvements in terms of reporting and decision-making, and use of sophisticated accounting techniques. The level of integration of the ERP system seems to be a major factor for this positive effect. On the other hand, it is not clear if ERP systems expose organizations to significantly greater risks including business interruption, change management dysfunctions, process interdependency, privacy and confidentiality, data content quality, and system security.

Research limitations/implications – Based upon the empirical results, the managers of the firms should examine the implementation of the ERP system carefully. Given the complexity of the ERP systems, managers should also examine the risk that exist if the organization converts from existing legacy systems to ERP, the changes of management accounting practices that are likely to occur and the risks associated with privacy and confidentiality, data content quality, and system security.

Originality/value – The paper provides an examination of the interaction between management accounting, internal audit and ERP systems. There is a lack of research concerning ERP systems and internal audit and the paper tries to fill this gap. From the internal audit perspective, ERP systems create new opportunities, as well as new challenges, as the use of an integrated system increases transparency in business processes and eliminates the need for controls assuring data consistency and accuracy.

\textsuperscript{a} Alexander T.E.I. of Thessaloniki, S.M.E., Dept of Accounting, T.E.I. of Crete, MSc Accounting and Auditing, Estavromenos, 71500 Heraklion, Crete, Hellas, tel. +30-2310-013206. Email. stefanou@acc.teithe.gr

\textsuperscript{b} T.E.I. of Crete, S.M.E., Dept. of Accounting, MSc Accounting and Auditing. Corresponding Author: Email. maria_vardaki85@hotmail.com
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