Systems for a Smooth Transition to IFRS

Companies preparing for the transition to International Financial Reporting Standards (IFRS) are looking to technology and automation to help ease the change. IFRS, the accounting framework in use throughout Europe and in many other countries around the world, also presents finance organizations with an opportunity to make improvements in consolidation and reporting.

The following essays discuss the systems and processes that will enable organizations to make a smooth transition to IFRS. They are selected from our ongoing series, *Controllers' Corner: Two-Minute Essays on Financial Management and Control*. These essays are authored by industry thought leaders with extensive backgrounds in finance and accounting, and broad experience advising clients on financial processes and systems.

- **Common Technology Eases the Transition to IFRS**–Bryan Hall and Bill Marchionni, The Hackett Group
- **The Impact of IFRS on Systems and Processes**–Delbert Krause, Cognos Software, IBM Information Management
- **Managing the Transition to IFRS: Systems and Processes**–Gary Simon, Group Publisher, FSN Publishing Limited

Common Technology Eases the Transition to IFRS

Bryan Hall and Bill Marchionni, The Hackett Group

The IFRS preparation checklist includes many items, including embedding the new rules into operations and transactional systems. Companies can utilize technology to support this transition with an automated and auditable system of record for financial consolidation and reporting.

Q.What role can software and systems play in making the transition and providing ongoing support for IFRS?
From a technology standpoint, we know from our experience with successful finance organizations that having an integrated operating model, a common technological platform and common global process ownership will reduce the impact of the change to IFRS. If a company is on a single technology platform, it will enable a much easier and less risky conversion to IFRS, and ultimately a less costly one. We've seen that centralized reporting in shared services and having a global process owner for the general ledger (GL) side of things can also help.

To the extent that IFRS is an "add" to many of the other benefits an organization can gain by doing those things, we think that everyone today ought to be having this discussion. Those companies who are already under IFRS, did they really take full advantage of the opportunity it presented? The reality is probably not. There is still a significant opportunity there, and we imagine that will be evident as the data starts to emerge out of the European theater.

Some organizations are asking if IFRS is something that they will be able to comfortably address internally or should they find a partner to help them identify the best way to transform their environment. Right now, we don't think there will need to be an extensive use of external resources. But that question will evolve as companies move through the process.

We think there are things that organizations can and should do with in-house talent. Irrespective of where they are in their current implementation, there will need to be a dedicated team to monitor what's going on in the regulatory world–what's going to be mandated and when. Companies can perform those internal assessments themselves, including the statutory report inventory that we talked about earlier. (See *Finding the Opportunities in IFRS*, in the Controllers' Corner series.)

There will also be some areas, such as revenue recognition, that are going to be of critical importance from an IFRS perspective. That might be an area where companies will need external resources. With IFRS, there are going to be technology platform issues, and a lot of changes in policy and procedure as well.

The good news, for US-based companies, is that there's time to do this the right way, to build these capabilities internally. Companies can incorporate it into other initiatives and do it the right way once, as opposed to thinking of IFRS conversion as a "one off."

That's what every US organization ought to be taking a hard look at as they think about their strategic plans around the control function. They know this is on the horizon, but so are numerous other things that they need to think about. Finance people will ask, "How do I rationalize my key controls? Can I accelerate my close? How do I get better visibility and get information to management sooner?" All of those questions have always been present in most businesses, and can be addressed along with the IFRS issue.

At the end of the day, whether it is pre- or post-conversion, thinking about it as part of the continuum of the overall control process is a better way to think about the IFRS project.

About Bryan Hall

Bryan Hall is the Practice Leader of the Finance Executive Advisory Program for The Hackett Group. Mr. Hall has more than 20 years of experience in finance, accounting, systems and consulting, with a focus on transforming the finance function through effective planning, efficient process management and working capital management.

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The Impact of IFRS on Systems & Processes

Delbert Krause, Business Unit Executive, Cognos Software, IBM Information Management

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Q. What role can software and systems play in making the transition and providing ongoing support for IFRS?
The direct impact of IFRS on financial systems and processes will be to cause organizations to roll up their sleeves and assess the state of all their financial systems, in particular those that support corporate reporting. As part of the financial data delivery network, supporting systems for financial consolidation should be reviewed. And with external financial statements being a critical deliverable for IFRS, evaluating the gaps in existing systems with an eye to improvement offers a unique opportunity, not only to deliver on IFRS requirements, but to improve automation and control in existing systems where a more sustainable solution is required.

Best-in-class systems to support IFRS and GAAP exist today and are already helping organizations in three key areas.

1. **Pre-close preparation and validation of financial information.** IFRS will require the entire organization to collect and prepare their financial data for consolidation. In this important step, collecting data and validating it against both the rules and balances are critical to ensuring a smooth glide path to IFRS. Transparency in transactions and reconciling inputs into financial consolidation are particularly important at this juncture. In particular, important changes in inventory, deprecation and amortization schedules must be matched between distributed systems and corporate balances.

IBM Cognos solutions can collect information for financial consolidation, ensuring data alignment across all constituents. Controls to ensure accuracy and track adjustments make this important first step work – synchronizing balances and input across the entire organization.

2. **Financial consolidation.** The systems supporting the aggregation of financial results will require improvement and modification in many places. The impact depends on current accounting policy. However, it is most likely to have a dramatic impact on the controls and data supporting areas of difference between local GAAP and IFRS. Some of the affected areas are minority ownership, inventory, depreciation and amortization and tangible/intangible assets. In assessing the current state of your financial consolidation systems, important decisions will need to be made concerning the reduction or elimination of spreadsheets, improving control of accounting policy, managing financial results and integration with performance systems.

IBM Cognos solutions are optimized individually for each customer deployment. The solution setup consists of configuration and customization – simply applying menu items, parameters and check boxes per your company's needs. Attention is given to all corporate reporting and local GAAP requirements. However, special attention to IFRS and local GAAP rules is delivered in areas such as: **a)** legal ownership and rules for equity, consolidation or proportionate roll-up, **b)** inventory accounting, including loss/gain on net realizable value, **c)** depreciation charges including tracking LIFO reserve, and **d)** impairment charges and recovery, which are automated and tracked. IBM Cognos solutions are designed to support these and many other GAAP and IFRS accounting rules, in concert, in the same application.

3. **Post-close reporting.** Another critical area is the preparation and delivery of financial statements. Group level adjustments and other entries to prepare financial statements will require unique application under IFRS. Financial systems will not only require the delivery and management of IFRS results, but also the parallel reporting of local GAAP and the reporting and identification of differences between local GAAP and IFRS. In geographies of change such as the United States, detailed accounting and reporting on US GAAP vs. IFRS must be reflected in financial data and reports.

Managing multiple versions of corporate reporting is paramount to the control of the financial consolidation reporting process and IBM Cognos solutions are uniquely designed to meet this challenge. Each version of the data – local GAAP such as US GAAP, the adjustments to support IFRS, or IFRS views of the same data – are managed from a single, centralized solution. Each version may be analyzed and reported on independently, while control and accounting policies are centralized.

What's important? Preparing financial consolidation systems for modification to support IFRS reporting, or improving automation and control for companies already reporting effectively but looking for the next level of system improvement.

How can IBM help? IBM Cognos solutions are focused on overcoming the challenges and providing insight into the close, consolidate and report process. IBM Cognos can assist companies preparing financial consolidation systems for modification to support IFRS reporting, and improve automation and control for companies already reporting effectively but looking for the next level of system improvement. Financial consolidation in particular should be reviewed to eliminate spreadsheets as critical system elements for data and accounting rules, and to centralize control and management of accounting policy, internal controls, and delivery of financial statements.

About Delbert Krause

Delbert Krause is the Business Unit Executive, Financial Performance Management Solutions, for Cognos Software in the Information Management division of IBM. In addition to his formal training in finance, Mr. Krause has more than 20 years of experience in consulting, selling, and marketing performance management software solutions for finance, business and IT users. Mr. Krause can be reached at delbert.krause@ca.ibm.com.

Managing the Transition to IFRS —Systems and Processes

Gary Simon, FSN Publishing Limited

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Once organisations realize the likely impact of IFRS on their financial statements, the next step is to consider the consequences for systems and processes. The precise implications will vary from company to company as well as by industry sector. Nevertheless, there are some broadly based principles that apply in most situations that have a direct bearing on systems.

There are four important areas to consider:

- Potential need to collect additional information to satisfy new disclosures
- Requirement to isolate IFRS adjustments in the accounts
- Need to restate prior-year comparatives on the new basis
- Requirement to reconcile and report between one basis of measurement, (US GAAP in this instance) and IFRS.

These principal factors directly determine the scope of systems and process changes. The European experience of implementing IFRS suggests that the changes are not as severe as one might imagine. Data capture does not necessarily have to change markedly and in many cases adjustments can be made at the group level rather than disturbing local reporting entities' operational systems. But the reporting pack will need to change because of new requirements and the different basis of measurement between US GAAP and IFRS, for example, depreciation policy or segmental accounting definitions.

The most important aspect of managing the transition to IFRS is to keep a careful record of the accounting adjustments. Theoretically, this can be achieved through 1) setting up specific entities in the reporting hierarchy to hold the adjustments, 2) altering the chart of accounts for specific IFRS adjustment accounts, or 3) a combination of these approaches. In practice, it has been found that the easiest approach is to alter the chart of accounts structure and rely on advanced reporting functionality to "pull out" the adjustments, present multi-GAAP accounts and generate reports showing the reconciliation between local GAAP and IFRS.

However, the work involved in implementing these changes should not be underestimated. While the approach outlined above avoids a complete rewrite of a consolidation system, the changes needed are deeply embedded and require significant knowledge of the application and keen accounting skills to redevelop the chart of accounts and all of the related validation logic. Great care must be taken in migrating from the local GAAP-based application to IFRS while maintaining the two in tandem and preparing prior years' comparatives on the new basis.

The key to a smooth transition is very careful and detailed planning, working closely with your software vendor to ensure that appropriately skilled resources are available. Remember that all companies will be making the change at more or less the same time. So, for the popular packages, this will mean a scarcity of resources to help. But early planning will help you avoid last-minute surprises.

About Gary Simon

Gary Simon is the Group Publisher of FSN Publishing Limited, Managing Editor of FSN Newswire and the author of many product reviews and white papers on financial software. Simon is a graduate of London University, a Chartered Accountant and a Fellow of the British Computer Society with more than 23 years of experience implementing management and financial reporting systems. Simon was a partner with Deloitte for more than 16 years and has led some of the most complex information management assignments for global enterprises in the private and public sector.

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