Preparing for the Arrival of IFRS

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

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.

IFRS, the accounting framework used by most companies in the world today, is likely to be adopted soon in the U.S. Most companies will require a significant investment of time and resources to address the strategic, business and technology related issues that will arise in a conversion to IFRS.

Q. What advice can you offer companies that need to plan and prepare for IFRS?
As IFRS is accepted in more jurisdictions, both mandated as a filing requirement and as an approved source of financial information, organizations should take this opportunity to review how their financial processes may be directly and indirectly affected by IFRS. This is materially significant in light of the financial systems and data that drive performance management. In many cases, financial information provides the foundation for decision making processes including forward-looking budgeting, forecasting and planning; historical reporting and analysis; and real-time dashboards and scorecards. The challenge is to continue fulfillment in these decision-making areas while reviewing the scope and impact of IFRS on the financial data supporting these systems.

IFRS will require a number of changes to processes and finance systems at various levels, from base-level transactions to summary-level details across a broad range of financial accounts and ratios. The direct impact may be felt in many critical systems, in particular the close, consolidate, report process, including pre-close, post close and financial consolidation activities.

In light of this, we believe it is prudent to assess opportunities for improvement as early as possible and take a look at the entire close, consolidate, report cycle, including the analytics and reporting needed to support a stronger, cost-effective financial governance environment. The trickle-down effect into performance management should flow automatically from this assessment.

Scrutiny of the close, consolidate, report process should focus on three important areas.

First, ensure the completeness of data preparation across operational, management and statutory financial information. The old adage, "bad data in, bad data out," has never been more important. Reporting and reconciliation systems that provide insight into the information are essential at this stage. Important considerations include being able to report on and analyze individual transactions affected by IFRS and oversight at the reporting level to see the changes and understand the information under the new guiding principles.

Second, evaluate the state of your financial consolidation system. How have the processes evolved and how confident are you in the data quality? All too often, the systems and processes in place are the result of numerous additions and extensions, perhaps through acquisitions and divestitures, perhaps through reactive changes. Spreadsheets usually function as the "duct tape" of these processes. They offer comfort in knowing that the patch works (although with a lot of effort) and discomfort in knowing that the long-term risk for error is high. IFRS may require the adoption of different accounting policies for investments, inventories and reporting adjustments. So now might be a good time to automate and transform the systems to support the delivery of financial statements.

Third, prepare your downstream reporting. Post-close distribution of financial statements to internal and external shareholders absolutely requires insight into the details of differences brought on by IFRS. Finance stakeholders who are accountable for financial results should have the means to understand the data. Business stakeholders should have the means to make decisions. Still, too often surveys reveal a gap in the overall satisfaction regarding reporting timeliness and impact. Now may be an ideal time to review reporting and information systems linked to financial data.

In short, your pre-IFRS review should focus on these three areas:

- Completeness in preparation of statutory and management information
- Information accessibility and understanding through financial analytics and reporting
- Direct support for performance and compliance imperatives

IFRS offers an important opportunity to tackle those areas that could benefit from automation and transformation, especially where the enterprise information systems that drive decision making are supported by financial data. But with all the possible avenues of review, it is important to not take your eye off the prize, ensuring that reporting systems are IFRS-ready across operational, financial and statement reporting.

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.

About IBM Cognos BI and Performance Management

IBM Cognos business intelligence (BI) and performance management solutions deliver world-leading enterprise planning, consolidation and BI software, support and services to help companies plan, understand and manage financial and operational performance. IBM Cognos solutions bring together technology, analytical applications, best practices, and a broad network of partners to give customers an open, adaptive and complete performance solution. Over 23,000 customers in more than 135 countries around the world choose IBM Cognos solutions.

For further information or to reach a representative: www.ibm.com/cognos

Request a call

To request a call or to ask a question, go to www.ibm.com/cognos/contactus. An IBM Cognos representative will respond to your enquiry within two business days.

© Copyright IBM Corporation 2009

IBM Canada
3755 Riverside Drive
Ottawa, ON, Canada K1G 4K9

Produced in Canada
May 2009
All Rights Reserved.

IBM, the IBM logo and ibm.com are trademarks or registered trademarks of International Business Machines Corporation in the United States, other countries, or both. If these and other IBM trademarked terms are marked on their first occurrence in this information with a trademark symbol (® or ™), these symbols indicate U.S. registered or common law trademarks owned by IBM at the time this information was published. Such trademarks may also be registered or common law trademarks in other countries. A current list of IBM trademarks is available on the Web at "Copyright and trademark information" at www.ibm.com/legal/copytrade.shtml.

Other company, product and service names may be trademarks or service marks of others.

References in this publication to IBM products or services do not imply that IBM intends to make them available in all countries in which IBM operates.

Any reference in this information to non-IBM Web sites are provided for convenience only and do not in any manner serve as an endorsement of those Web sites. The materials at those Web sites are not part of the materials for this IBM product and use of those Web sites is at your own risk.