Preparing Your Finance Organization for IFRS

International Financial Reporting Standards (IFRS), the accounting framework used by most companies in the world today, are expected 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 this conversion.

The following essays address the IFRS issue as part of 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.

- **Managing the Transition to IFRS**–Gary Simon, Group Publisher, FSN Publishing Limited
- **Finding the Opportunities in IFRS**–Bryan Hall and Bill Marchionni, The Hackett Group
- **Preparing for the Arrival of IFRS**–Delbert Krause, Cognos Software, IBM Information Management

Managing the Transition to IFRS

Gary Simon, Group Publisher, FSN Publishing Limited

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?
Moving from any local GAAP to IFRS is a significant challenge, but not always for the reasons that people expect. A natural response is to suppose that IFRS causes systems and process upheaval but, while it is true that these impacts are important, there are far more fundamental and earthy matters to be considered first.

The biggest issue by far is that migrating to another accounting rule book is game-changing. The implementation of new methods of measurement can have a material impact on the way that profits are reported (up or down) and have profound consequences for the balance sheet. The exact impacts and their magnitude can be highly dependent on your industry segment. In Europe, for example, IFRS 39 caused consternation and debate in the financial services industry, while capital intensive industries struggled more with permitted methods of depreciation.

Back in 2005, when IFRS was first implemented, many of the concepts and standards were still fluid and businesses had to contend with constantly shifting sands. Thankfully, IFRS is now more established but the onus is still on individual companies (rather than regulators or standard setters) to understand the impact of the proposed changes on the business and take ownership of communicating this in a meaningful way to analysts and investors. So, before you go anywhere near systems and processes, the first priority is to understand what you are letting yourself in for.

Education and training for the finance function should be your first port of call. The major accounting firms play an important role in explaining the application of IFRS and helping companies navigate their way through the transition, distinguishing the important changes that hit pension funds, bank covenants and profits, from the minor changes that do not have a material impact. Most of these big issues become obvious at an early stage of the migration to IFRS, but the sooner you start, the more manageable the change becomes. In a group finance environment everyone with responsibility for financial (statutory) accounting needs to be on the same page as early as possible.

Armed with this knowledge, it is advantageous to take an objective look at earlier years and examine what the impact would have been under IFRS. How would you have explained away the differences between US-GAAP (or other local GAAP) and IFRS and what items could have caused embarrassment if reported in the public domain?

Once these matters are resolved, the more detailed work of specifying changes to data capture, charts of accounts and group reporting packs can commence. In the meantime, assemble a dedicated IFRS project team, liaise carefully with your external auditors, and ensure plenty of high-quality training for the finance function. But above all – start early!

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. Gary Simon may be contacted at gary.simon@fsn.co.uk.

Finding the Opportunities in IFRS

Bryan Hall and Bill Marchionni, The Hackett Group

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?
At Hackett we have spoken with many different organizations about IFRS, and we've found a wide spectrum of views. The situation is somewhat analogous to Sarbanes Oxley (SOX). When SOX came along, there were some companies who said, "this is a regulatory fiat and nothing more than a tax on my business." But others said, "if we have to go through this, how can we use it to drive value?" We see a similar range of philosophies in addressing IFRS.

The organizations that we have talked to fall into three categories. One is the group of leading, forward-thinking companies who are looking for opportunities in the conversion to IFRS. These companies see IFRS as having the potential to do the following things. It can help with further consolidation of their statutory reporting into a global business services center. They believe that having a single, "universal language" will give them more flexibility from a talent management perspective. They will be able to move resources across geographies–either physically move people, or shift roles and responsibilities.

They are also looking at the impact of IFRS on their general ledger strategy, particularly organizations that might be going through a conversion or consolidation of their existing finance system platform. There are opportunities for efficiency in combining those changes with the switch to IFRS. Finally, there are the obvious cost aspects of a conversion to IFRS. When is the right time to begin planning for this, and at what level? Those are the possibilities that leading organizations are talking to us about.

On the other end of the spectrum are companies who say, "IFRS is not going to have a major impact. There is uncertainty about when it will be required, and from a systems perspective, I expect that my provider will have a patch. So this will not be a significant initiative for us." Then there is a group in between, which says, "I'm not sure. I've done some initial planning, but I'm not sure if this is an opportunity to make other process improvements or not. I'm keeping my eyes and ears open and I need to know more about what is involved."

Those are the three categories. Now, let's drill down into some of the steps that the leading organizations are taking. What we have seen and what we would recommend for most organizations, is that these forward looking organizations have done an inventory, if you will, of their statutory reporting. They've asked, how many reports do we have? What systems are providing the information for us? Where are the reports being produced physically? What language is being used? And what local GAAP is being used?

That inventory allows these organizations to ask other questions regarding IFRS. Are the changes required by IFRS de minimis or are they material? Right now, these companies may have people who are anchored in one place because of the need for detailed knowledge of local GAAP. With IFRS, that need will begin to disappear. If they go to IFRS, can they begin to move this work? If they do, can they move the people? And if so, where and in what timeframe?

So while there is uncertainty about the ultimate adoption dates for IFRS, these issues play into some more strategic decisions. We recommend that organizations do a high-level assessment, augmented with the statutory reporting inventory. That will give them a better view of the impact of

IFRS for their organization. Then they can make the decision to view IFRS simply as a compliance mandate, or as an opportunity for broader process improvement.

About Bryan Hall

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Preparing for the Arrival of IFRS

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

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

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