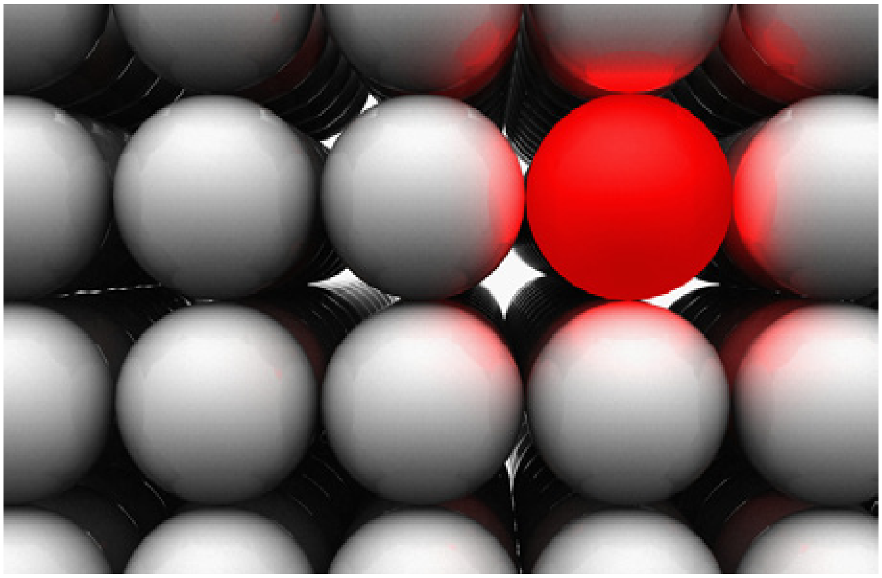
Managing the Transition to IFRS—Systems and Processes

Gary Simon, FSN Publishing Limited

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.

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?

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.

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

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Ottawa, ON, Canada K1G 4K9

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