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IFRS Requires a Financial Reporting System of Record

May 2009

The International Financial Reporting Standards (IFRS) preparation checklist includes many items, such as 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.

The following question was posed by IBM Cognos to Kathleen Wilhide, research director of IDC's Compliance and Business Performance Management Solutions practice, on behalf of IBM Cognos customers as part of the company's analyst series *Controllers' Corner: Two-Minute Essays on Financial Management and Control*.

Q. What role can software and systems play in making the transition and providing ongoing support for IFRS?

A. The compilation and delivery of financial statements in an evolving regulatory landscape that includes U.S. Generally Accepted Accounting Principles (GAAP), IFRS, and other local reporting environments will continue to have a significant impact on enterprise accounting, financial reporting, and business practices. An important consideration for companies today is recognizing that the technology supporting the business rules and processes for transactional accounting, as well as the reporting and delivery of information, must change to support this transition.

Financial consolidation software has been a key category of financial performance management software for some time. The evolution of disparate general ledger systems within many organizations precluded the compilation and analysis of financial results on a consistent basis, and spreadsheet-driven processes are a high-risk alternative. Finance departments implement these solutions initially to support information integration and rollup reporting, but as they have become the enterprise "system of record," more sophisticated capabilities have evolved.

Solutions today are not simply reporting tools but platforms with accounting and consolidation logic that can support complex reporting environments and represent a best practice for finance organizations. As the financial reporting environment evolves in response to finance and accounting standards such as Sarbanes-Oxley and IFRS, financial consolidation platforms will be a key enabler for finance departments. In addition to serving as a system of record for financial results, consolidation solutions provide the ability to respond to business changes or new legislation with key capabilities such as:

- The ability to manage and deliver multiple versions of financial statements
- Flexibility to support a changing legal entity and chart of account structures
- Calculation logic to support accounting changes, currency valuation, and intercompany transaction eliminations, among other processes

Unfortunately, many companies don't yet take full advantage of a financial consolidation platform, implementing the solution at a summarized, parent company level but not enabling full capabilities enterprisewide. To meet the challenges of new legislation, and in particular IFRS, organizations must take full advantage of the functions that financial consolidation solutions offer in support of an enterprise implementation. This strategy will form the basis for sharpening processes and controls that support an effective transition and provide the flexibility required to support additional accounting and regulatory changes in the future.

Financial consolidation solutions can provide the necessary capabilities to support a structured and auditable approach for IFRS requirements. Organizations that will have the smoothest transition will be those with a robust financial consolidation platform that supports evolving disclosure requirements and multiple representations of financial statements in a single system of record.

ABOUT THIS ANALYST

Kathleen Wilhide is a CPA and is the research director for the Compliance and Business Performance Management (BPM) solutions practice at IDC, a worldwide research firm with headquarters in Framingham, Massachusetts. Ms. Wilhide directs IDC's research on software solutions supporting compliance and risk management and related business assurance processes. Ms. Wilhide also directs research on BPM applications and participates in general enterprise applications research, with a focus on enabling finance and corporate governance through technology.

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