

# Are You Ready for IFRS?\*

Five Questions CIOs Need to Consider Now

# IFRS is a fundamental change initiative affecting not only the numbers, but systems, processes and data supporting financial reporting.

On February 13, 2008, the Accounting Standards Board (AcSB) confirmed 2011 as the official changeover date from Canadian generally accepted accounting principles (Canadian GAAP) to International Financial Reporting Standards (IFRS) for all publicly accountable enterprises in Canada. Though the changeover is still years away, publicly traded companies will be required to disclose their transition plans in 2008 and the anticipated effects of their changeover in 2009. Some Canadian SEC registrants might even have the opportunity to consider adoption on January 1, 2009, if permitted by the Canadian Securities Authorities.

Although it may be easy to dismiss this looming transition as an issue solely for the accountants, the implications and ramifications of IFRS will hit home for everyone within a company, including the IT function. To put this in context, since IT systems support and enable the financial process, this could represent small-, medium- or large-scale changes to not only the financial systems themselves, but also supporting interfaces and data.

The scope of the change will vary from organization to organization, and will depend on a number of factors including, but not limited to:

- Industry sector;
- Application architecture;
- Data/information architecture;
- Enterprise Resource Planning (ERP) system: design, version, modules deployed; and
- Enterprise Performance Management (EPM) systems: design, version, modules deployed, for example.

An IFRS conversion may be a CFO-led project but it will have a significant impact on the IT function and the business at large. As a result, it's important that IT is at the table early to avoid becoming part of the critical path later.

## Why is Canada adopting IFRS?

The globalization of business and finance has led to the need for a set of common, high-quality, and “simplified” accounting standards. IFRS, developed by the International Accounting Standards Board (IASB), offers such a solution and has already been adopted by more than 100 countries around the world—representing approximately 45% of the world's capital markets. In fact, once Canada makes the transition, the United States will be the only G8 country not to have done so.

IFRS offers adopters a number of potential benefits including:

- More efficient access to capital for global corporations;
- Improved comparability across borders and within global industries;
- Reduced cost of compliance;
- More efficient and effective financial reporting; and
- Streamlined M&A activities for global corporations.

# As CIO, what do I need to consider?

To determine your level of effort and to ensure you are part of the team, you need to consider the following five questions now:

## **1. Will we need to consider whether to add new data sources and/or change existing financial data, metadata and interfaces to ensure the organization has the underlying financial data required to support IFRS?**

Lessons learned from our European experience tell us that the impact of changes to financial data were the most underestimated IFRS conversion project activity by most organizations that were facing significant changes.

So what does this really mean? At a minimum your organization will need the financial data, appropriately restated, to support the opening balance sheet for the first year of IFRS reporting. This means that comparative or prior year data needs to be developed for internal and external reporting purposes.

If you have not done so already, you should begin to assess and understand the gaps between your current financial data and the data required to support IFRS reporting. With this information you can begin to work on a data conversion strategy which will ensure you will have the required resources available to meet the deadline.

## **2. Where will we make changes within the application architecture to support IFRS reporting?**

IFRS could affect various financial systems, such as your transactions systems, data and metadata management layer, and reporting tools and applications. Broadly speaking, you will have three options to consider:

- Embed the change at the lowest level of detail, or the transaction layer;
- Reflect the changes at the consolidation and reporting layer; or
- A hybrid approach.

You should involve your CFO in evaluating each option since a key factor in the decision will be the statutory/regulatory requirements of each transaction system. In certain geographies, (e.g. many European jurisdictions), the CoA structure is mandated by law. Irrespective of where the changes are made, there will be a “ripple” effect of the change to interfaces, data and metadata.

PricewaterhouseCoopers has unparalleled experience helping companies around the world adopt IFRS. This experience tells us the average IFRS IT project may span as little as one to two months to as much as 18 to 24 months.

In practical terms, here are two examples:

- Transaction Layer – Organizations with SAP ERP 6.0 could consider leveraging the New General Ledger (NewG/L) functionality to support parallel accounting<sup>1</sup>. It is important to note, however, that the implementation of NewG/L requires a data migration, because the new functionality involves a new table.
- Consolidation and Reporting Layer – In organizations with consolidation and reporting applications like Oracle's Hyperion Financial Management (HFM) or SAP's OutlookSoft, IFRS reporting changes could be dealt with by adding dimensions to existing applications. For example, this could involve the addition of an alternative IFRS hierarchy (consolidation rollup), in conjunction with CoA changes. This type of application change is typically undertaken by the System Administrator, usually found within the finance team.

Try to understand any regulatory constraints related to the financial system where you intend to make changes as soon as possible since these constraints will have a significant impact on the scope of your conversion project.

### **3. What impact will IFRS changes have on our IT projects already planned or "in flight"?**

Once the scope and approach to the IFRS conversion project is understood and defined, the effect of the IFRS project on the IT projects currently underway, and planned, needs to be evaluated. For example, you may find that more than one project involves making changes to finance systems or the systems that feed finance systems and can afford an opportunity for efficiency. You may also find more than one project requires resources with the same skills and/or knowledge of finance systems and data. In both cases, the overlap between projects will create dependencies that need to be worked into your project planning.

To identify these potential conflicts, we recommend you take the following approach<sup>2</sup>:

- Create/update the list of all IT projects, identifying the other "must-do" projects.
- Prioritize the current portfolio. Typically this is achieved by a scoring or rating mechanism.
- Review best practices and benchmarks for financial process change<sup>3</sup>.
- Develop the optimal "sequencing" for the changes required to support the conversion to IFRS reporting. For example, IT system changes could range from an ERP upgrade or infrastructure changes on the one end, to CoA changes on the other.
- Create or update budget and resource estimates to support the IFRS conversion project.
- Reprioritize the portfolio, factoring in your organizations strategy for achieving compliance by 2011.

---

1. IFRS and parallel accounting in the New General Ledger within SAP ERP 6.0, PwC Germany, May 2008.

2. Based on PwC's Approach to IT Portfolio Management – 2005

3. Consider leveraging PwC's Global Best Practices®.

#### **4. What impact will IFRS have on our ongoing operational processes such as current financial certification requirements like SOX 404 or Multilateral Instrument (MI) 52-109?**

The conversion to IFRS and the resulting impact on, not only financial systems and data, but also finance processes, accounting policies and financial controls, will affect an organization's ability to certify the effectiveness of disclosure controls. Put another way, changes to the design and operation of key controls, around the financial reporting process, could impact an organization's reporting "risk" profile in SOX/NI 52-109 terms. In conjunction with Internal Audit, it is important for IT to assess and understand:

- The impact of IFRS changes on the organization's portfolio of key controls (e.g. security and controls testing); and
- How to maintain strong systems change control over any changes triggered by the IFRS conversion process.

It is important to align your IFRS conversion project with your ongoing certification processes to ensure any impact of IFRS changes is assessed, documented and tested, and is consistent with the existing IT control environment.

#### **5. What are the organization's objectives for the project and appetite for change?**

When European companies converted to IFRS between 2003 and 2005, IFRS standards continued to evolve which added to the complexity of the project and made the deadline a moving target. As a result, when it came to actually implementing IFRS changes, many companies had really only one viable option: get it done....fast.

Canadian publicly accountable enterprises have the luxury of considering broader options. Some organizations may approach IFRS simply as a project they need to complete by the deadline, while others will look for opportunities to benefit from conversion by embedding change throughout the organization. Understanding the approach your organization is planning to take will help you assess the scope of the project and your level of effort to complete conversion. In fact, those companies in Europe that were most successful with conversions, had IT at the table from the beginning as a key influencer.

Canadian companies that intend to just meet the deadlines should be aware they will need to use IFRS to prepare interim and annual financial statements for financial years beginning on or after January 1, 2011. These statements must include comparative information prepared in accordance with IFRS for at least one year (i.e. for 2010).

Other forward-looking Canadian companies may view IFRS as a fundamental change initiative that can help them assess the efficiency and effectiveness of their finance organization, processes and supporting technologies.

While we're not suggesting a "boil the oceans" approach, we recommend that you conduct a holistic IFRS diagnostic to determine the approach best suited to your organization's objectives. This may include revisiting legacy systems and interfaces and considering the implementation of new financial reporting tools and data governance.

## Next Steps

Leading IT organizations strive to anticipate what the organization will require of them in the future.

IFRS presents an opportunity for CIOs to look ahead to the requirements of the business, and design a conversion plan that takes advantage of project synergies, embeds change throughout the organization and creates a more efficient business structure going forward.

While the volume and complexity of the work required to transition to IFRS may vary substantially for different companies, recent IT frustrations dealing with SOX are a good reminder of the need for IT to get involved in the planning process early in any enterprise-wide initiative.

# Contacts

To learn more about how we can help, contact any of our IFRS professionals listed below. Further information about IFRS and PricewaterhouseCoopers' IFRS services is also available at [www.pwcifrs.ca](http://www.pwcifrs.ca).

## Advisory

Margaret Neary  
416 815 5088  
[margaret.o.neary@ca.pwc.com](mailto:margaret.o.neary@ca.pwc.com)

Robert Scott  
416 815 5221  
[robert.w.scott@ca.pwc.com](mailto:robert.w.scott@ca.pwc.com)

Richard Jhang  
416 814 5805  
[richard.jhang@ca.pwc.com](mailto:richard.jhang@ca.pwc.com)

## IFRS National Leader

Diane Kazarian  
416 365 8228  
[diane.a.kazarian@ca.pwc.com](mailto:diane.a.kazarian@ca.pwc.com)

## Capital Markets Group Leader

Geoff Leverton  
416 815 5053  
[geoff.m.leverton@ca.pwc.com](mailto:geoff.m.leverton@ca.pwc.com)

## Professional, Technical, Risk and Quality

Jim Saloman  
416 941 8249  
[james.s.saloman@ca.pwc.com](mailto:james.s.saloman@ca.pwc.com)

## Industry Specialists

### Banking and Capital Markets

Sandra Mundy  
416 947 8951  
[sandra.d.mundy@ca.pwc.com](mailto:sandra.d.mundy@ca.pwc.com)

### Insurance

Alodie Brew  
416 947 8957  
[alodie.brew@ca.pwc.com](mailto:alodie.brew@ca.pwc.com)

### Investment Management

Raj Kothari  
416 869 8678  
[rajendra.k.kothari@ca.pwc.com](mailto:rajendra.k.kothari@ca.pwc.com)

### Real Estate

Frank Magliocco  
416 228 4228  
[frank.magliocco@ca.pwc.com](mailto:frank.magliocco@ca.pwc.com)

### Forest and Paper

Kevin Bromley  
604 806 7515  
[kevin.bromley@ca.pwc.com](mailto:kevin.bromley@ca.pwc.com)

### Mining

Dean Braunsteiner  
416 869 8713  
[dean.braunsteiner@ca.pwc.com](mailto:dean.braunsteiner@ca.pwc.com)

### Oil and Gas

Rob Hawley  
403 509 7546  
[robert.j.hawley@ca.pwc.com](mailto:robert.j.hawley@ca.pwc.com)

## Utilities

Alistair Bryden  
403 509 7354  
[alistair.e.bryden@ca.pwc.com](mailto:alistair.e.bryden@ca.pwc.com)

Eric Clarke  
416 218 1414  
[eric.clarke@ca.pwc.com](mailto:eric.clarke@ca.pwc.com)

## Retail and Consumer

Rodney Hill  
416 228 1042  
[rodney.g.hill@ca.pwc.com](mailto:rodney.g.hill@ca.pwc.com)

## Technology, InfoComm, Entertainment and Media

Lisa Coulman  
416 869 8685  
[lisa.j.coulman@ca.pwc.com](mailto:lisa.j.coulman@ca.pwc.com)

Paul Feetham  
416 365 8161  
[paul.feetham@ca.pwc.com](mailto:paul.feetham@ca.pwc.com)

## Government and Public Sector

Kenneth Jones  
416 941 8202  
[kenneth.a.jones@ca.pwc.com](mailto:kenneth.a.jones@ca.pwc.com)

[www.pwcifrs.ca](http://www.pwcifrs.ca)

© 2008 PricewaterhouseCoopers LLP. All rights reserved. "PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

4732-0608