Public, Private or Nonprofit:
How IFRS can Add Value to your Information Systems

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The global rollout of International Financial Reporting Standards is gaining momentum, with more than 100 countries now using IFRS and all of the world's major countries anticipated to be on board within the next few years.

Along with providing a common worldwide financial reporting language, it's apparent that among the companies that have already adopted IFRS, there are numerous additional spin-off benefits. Many enterprises in the European Union, Australia and South Africa that have converted to IFRS since 2005, this has not only clarified and simplified financial reporting, but has also expanded their access to capital through the enhanced financial performance comparability that IFRS offers potential lenders and investors. To understand how a reporting language can achieve such a feat, one must understand that IFRS is principles based and forces transparency in reporting through disclosures. Consequently, an investor in any country should be able to compare two entities on a more even playing field. Ultimately, adopting IFRS has already contributed to strengthening the competitiveness of thousands of companies by providing access to capital markets too costly to enter prior to conversion.

For Canadian organizations, converting to IFRS, while costly in the short-term due to initial planning and conversion costs, will ultimately be more cost-effective than following Canadian GAAP by precluding the need for expensive reconciliations when dealing with foreign markets and by encouraging entities to streamline processes to exact cost efficiencies. In fact, based on experiences overseas, the longer term benefits tend to quickly outpace the initial costs of IFRS conversion.

It's also become apparent that while IFRS implementation will be mandatory for publicly accountable enterprises in Canada by January 1, 2011, many private and nonprofit organizations could also benefit from the value IFRS contributes to operations.
The experiences of thousands of companies over the past four years present valuable insights regarding how to optimize results and minimize problems related to IFRS integration. Among the discoveries – as global markets continue to promote financial accountability and transparency, information systems are proving to be both the fulcrum for effective IFRS implementation – as well as the conduit to future growth and success.

Information systems are foundation of IFRS conversion success

Converting to new accounting standards and disclosure requirements impacts the information technology infrastructure of an organization, particularly source systems, general ledgers, sub-ledgers and reporting mechanisms. Many entities currently subsist by capturing data through various independent systems forcing lengthy convoluted topside entries and reconciliations to attempt accurate financial reporting. The transition to consistent standards presents an opportunity to strengthen these information technology processes and applications since in some instances IFRS requires information to be reported in specific ways, forcing the entity to adapt. For example, a much discussed requirement is the need to divide Property Plant and Equipment into components to calculate amortization and for disclosure purposes. Taken in the context of a shipment company, this would mean every boat will need to be analyzed to derive separately depreciable components such as engines, hulls, etc.

As well, with IFRS financial reporting will be more reliable and less complex. That is, having uniform reporting standards among subsidiaries and branches in different countries enables organizations to eliminate the need for multiple reporting formats and reduces the risk of discrepancies in reconciliation and interpretation. This fortifies management information for decision making.

Since accounting under IFRS is substantially different than Canadian GAAP, significant data, calculation and reporting adjustments will be required. This presents opportunities to enhance functionality and compatibility while reconfiguring information systems.

Is IFRS conversion right for your organization?

While there are numerous advantages to IFRS, there are also substantial costs because conversion involves much more than accounting compliance. IFRS can impact policies, systems, processes, technology, people, controls, performance indicators, treasury management and governance across an entire organization. As well, enterprises with branches or subsidiaries in numerous countries must adapt their systems and processes for varying regulatory environments.

Every organization should therefore conduct a thorough cost-benefit assessment as a first step to determine whether IFRS conversion will return its investment. To begin, it's important to identify organizations in your industry sector that are, or intend to, report under IFRS. Then, consider whether the financial performance of your organization would benefit from comparisons with these organizations. Experienced financial advisory professionals can provide objective insights and counsel with these evaluations.

What are the potential impacts of IFRS conversion?

Should this preliminary assessment suggest there are significant conversion advantages for your organization; the next step is to determine what key organizational changes would be required to adopt IFRS.

This involves looking first at accounting data, and then projecting how this new data will impact other areas of the organization: reports, processes, controls, compliance, technology, people and the information systems supporting these. Determining the specific changes that may be necessary requires identifying the differences in accounting policies and procedures between Canadian GAAP and IFRS as well as information system impacts and risks. Management needs to specifically identify the information gaps between current accounting practices and those of IFRS and the required changes to financial reporting and controls. The potential business impacts also need to be assessed, such as how contracts might be affected. The resources required for implementation must also be considered.

What information system changes may be needed?

Since information systems must support strategic business objectives, it's necessary to look at the big picture in order to determine the ways in which information systems currently contribute to or detract from achieving organizational goals. Conversion to IFRS could be an added incentive to modify or replace existing systems that are not delivering adequate or timely information. This is especially important for organizations involved in transformational initiatives such as enterprise resource planning, which rely on comprehensive financial reporting.

As a next step, mapping the flow of data between source systems and general ledger, including sub-ledgers and data warehouses, will identify where changes are required. IFRS conversion calls for creating new accounts in the general ledger and thereby may impel system modifications or reconfigurations such as the following.

- Capture new or amended data
- Change chart of accounts
- Adjust mappings and interfaces for general ledger
- Develop new models, calculations and reports
- Reconfigure/upgrade software
- Revise consolidation systems and models
- Amend reporting formats and tools
- Modify accounting systems of subsidiaries/ branches

What will have to be modified or reconfigured?

The transformation to IFRS is a multi-dimensional, long-range process that usually involves both short-term and long-term initiatives. Since information technology typically represents the most significant costs of IFRS conversion, some organizations may choose to adapt existing information systems in the short term, especially smaller organizations and those embarking on cost-saving measures in today's challenging global economy. These organizations may therefore decide to reconcile their current general ledger systems with IFRS requirements rather than to reconfigure the entire information technology infrastructure.

For many organizations that have converted to IFRS, the short-term costs and challenges have already paid off with long-term dividends. One large UK distribution company, for example, which comprises 18 legal entities, had inconsistent general ledger systems for more than 150 accounts. The company adopted a reconciliation model to track over 2,000 accounting adjustments posted on a monthly basis on numerous spreadsheets. The external auditors estimated that audit fees for the first year of IFRS reporting would increase by over 50%. This was attributed to the investment required to map a new IFRS-compliant flow of transactions and to test the validity and completeness of transition adjustments to the general ledger.

As the company rolled out a common general ledger platform over the next two years, the number of adjustments required decreased to 15 and audit fees returned to normal levels. By that time, the company was also beginning to realize the advantages of IFRS conversion: operational cost efficiencies, lower audit fees, and enhanced financial reporting.

It is important to keep in mind, however, the need to align conversion with an organization's long-term business strategies to minimize costs associated with later-stage changes.

For complex enterprises with multiple locations and systems, sustaining a reconciliation process for the long term is simply too complicated and costly. The better option is to change the source systems. For organizations using enterprise resource planning systems, most ERP software integrates modules providing accounting functionality that supports both IFRS as well as local regulations

Allow sufficient time for conversion

Canadian enterprises have the benefit of learning from the IFRS conversion experiences of their international peers. Among the lessons learned over the past four years: minimize the costs and challenges involved in IFRS conversion by starting the process early. Implementation may require two years or more. Early adoption, as well as the guidance of an experienced advisor, reduces the risk of material errors, inadequate or late disclosures and strains on internal resources.

Many of Canada's publicly accountable organizations are beginning IFRS conversion from Canadian GAAP to meet the Canadian Accounting Standards Board deadline of January 1, 2011. Any organization competing in the global marketplace, however, should assess the advantages of IFRS conversion. For many, IFRS can offer consistent, high quality financial information, simplified reporting, greater access to capital and a competitive edge – all vital advantages in the world arena.

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