

# IFRS for IT Auditors

*Practical considerations on the IFRS journey*



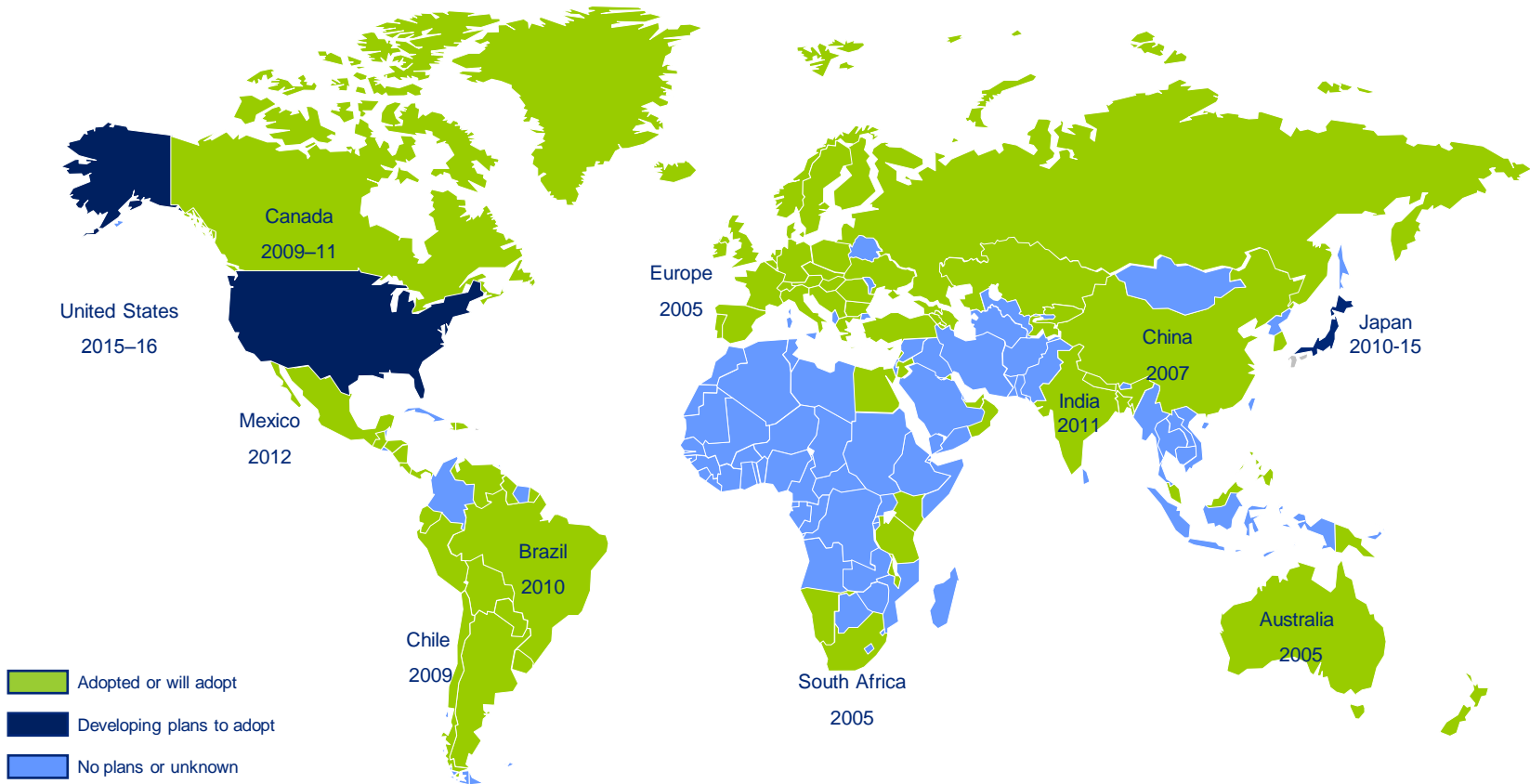
**May 2010**

# Agenda

- Overview of the Current Regulatory Environment
- Conversion and Systems Considerations
- Key Focus Areas for IT Auditors
- Lessons Learned and Recap
- Questions & Answers

# Overview of the Current Regulatory Environment

# Worldwide IFRS adoption map – global capital markets



Global use — Used in over 100 countries by more than 40% of the Global Fortune 500

- Current: European Union (EU) countries, Hong Kong, Australia, New Zealand, Chile and many Middle East and South American countries
  - Future: Brazil (2010); Argentina, Canada, India and South Korea (2011); Mexico (2012), Japan early adopters (2010)
    - Proposed: U.S. (2015–2016), Japan (2015) — Based on Regulatory Roadmaps

# Global Statutory Environment

Some countries are moving to IFRS for statutory reporting in the near future, or are converging local GAAP and IFRS. This includes:

- United Kingdom/Ireland – Proposal is pending that would replace UK GAAP with IFRS-based reporting in 2012
- Brazil – Brazilian GAAP is subject to accounting changes that will result in substantial convergence to IFRS in 2010
- Other countries are requiring IFRS for statutory reporting in selected industries

Tax analysis is central to determining the favorable or unfavorable implications of responding to these developments

# SEC Statement on Convergence and Global Standards

On February 24, 2010, the SEC issued a statement expressing its continued support for the development of a single set of high-quality globally accepted accounting standards and recognized IFRS as being best positioned to serve that role.

## Summary SEC Statement on Convergence and Global Standards

- **Overview of the SEC (“the Commission”) statement**
  - Provides an overview of the Commission’s IFRS activities to date
  - Summarizes some of the public feedback on the IFRS roadmap
  - Outlines an approach going forward
- **Directs the staff to carry out a “Work Plan” that sets forth specific areas and factors for consideration before potentially transitioning to IFRS**
  - Also directs the staff to provide public progress reports to the Commission beginning in October 2010 and to continue those reports until the work is completed
- **Withdraws the proposal on early use**
  - Does not rule out an ability to early adopt in the future (presumably once a decision is made next year)
- **Execution of the Work Plan, combined with the completion of the convergence efforts would position the Commission to make an informed decision on a mandate in 2011**
  - Consistent with the timing outlined in the IFRS roadmap
  - Future rulemaking would be required to implement an IFRS mandate
  - Any future mandate would likely become effective in approximately 2015 or 2016

# IFRS Work Plan

## Summary SEC Work Plan

- Does not address the timing of any IFRS mandate
  - Timing decision would be made in the context of the information received by the staff as part of carrying out the Work Plan
- Key areas of concern to be addressed by the staff
  - Investor understanding and education
  - Sufficient development and application of IFRS globally
  - Independence of standard-setting
  - Regulatory environment
  - Impact on issuers
  - Human capital readiness
- Staff will assess the degree to which each area interacts with overall policy consideration
- Staff will continually re-assess and adjust the Work Plan for new information
- Staff will use a variety of methods to gather information
- Further rulemaking will be necessary to implement any mandatory adoption of IFRS

# Convergence: Overview of IFRS and U.S. GAAP

## No Planned Convergence

#	Standard (IAS)
29	Financial reporting in hyperinflationary economies
36	Impairment of assets
38	Intangible assets
40	Investment in property
41	Agriculture

#	Standard (IFRS)
1	First Time Adoption

\* As indicated by the International Accounting Standards Board (IASB) on its Web site [www.iasb.org](http://www.iasb.org).

# Convergence: Overview of IFRS and U.S. GAAP

## Mostly Converged

#	Standard (IAS)	Year*
7	Cash flow statements	2011
8	Error corrections and policy changes	Current
21	Effects of changes in foreign exchange rate	Current
23	Borrowing costs	Current
33	Earnings per share	2010
#	Standard (IFRS)	Year*
2	Share-based payment	Current
3	Business combinations	Current

\* As indicated by the International Accounting Standards Board (IASB) on its Web site [www.iasb.org](http://www.iasb.org).

# Convergence: Overview of IFRS and U.S. GAAP

## Some Convergence Planned

Standard (IAS)		Year*	Standard (IAS)		Year*
1	Presentation of financial statements	2010/ 2011	28	Investment in Associates	
2	Inventories		31	Investment in joint ventures	2010
10	Events after the balance sheet		32	Financial Instruments — presentation	2011
11	Construction contracts	2011	34	Interim financial reporting	
12	Income Taxes	2011	37	Provision, contingent assets and contingent liabilities	2010
16	Property, plant & equipment		39	Financial Instruments — recognition & measurement	2010/ 2011
17	Leases	2011	#	Standard (IFRS)	Year*
18	Revenue	2011	5	Discontinuing operations	2010
19	Employee benefits	2011	7	Financial Instruments — disclosure	
24	Related party disclosures				
27	Consolidated financial statements	2010			

\* As indicated by the International Accounting Standards Board (IASB) on its Web site [www.iasb.org](http://www.iasb.org).

# Action steps in today's environment

## What are U.S. companies doing now?

**Based on our experience and knowledge, many companies are doing the following:**

- **Regulatory and competition** – Monitoring regulatory and competitive landscape closely and modulating their investment accordingly
- **Planning** – Planning in advance in an effort to achieve a future cost-effective implementation; emphasize planning to avoid prior SOX challenges
- **Assessments** – Undertaking a low-cost assessment, identifying areas of impact, and determining long lead-time items
- **Coordination of initiatives** – Considering impacts on current/planned technology, finance transformation or other initiatives
- **Tax** – Assessing potential tax planning opportunities
- **PMO** – Establishing a cross-functional PMO
- **Resources** – Developing resource estimates and initiating employee training

**The preparation of a concise IFRS assessment can help companies efficiently respond to IFRS developments**

# Conversion and Systems Considerations

# IFRS Framework

## Meet Compliance Requirements

- Plan to achieve conversion in a cost-effective manner
- Develop on-going processes based on key sub-ledger impacts
- Define and compile new disclosures
- Adhere to the necessary tax, IT and other requirements on a timely basis

## Manage Risk to Other Complementary Initiatives

- Identify planned system projects to ensure compatibility with IFRS before the systems are activated
- Evaluate other finance improvement initiatives (close, consolidation, reporting, etc.) to ensure IFRS is addressed
- Manage roadmap of multiple initiatives developed during early IFRS planning and consider embedding IFRS into other efforts

## Use IFRS to Enable Greater Accounting Simplification

- Evaluate plan to facilitate shared services for statutory reporting
- Use IFRS to improve global consistency of accounting policies
- Reduce need to reconcile between multiple statutory GAAPs

# Key IFRS implementation project workflow activities

PMO can help manage the transition effectively across all phases

**Accounting Policy  
Determination**

**Process and  
Systems Impacts**

**Conversion  
Execution**

## Illustrative Key Activities

- Understand options and consider changes to accounting policies
- Develop IFRS accounting policies and analyze IFRS 1 exceptions
- Evaluate accounting policy consistency across global statutory reporting
- Identify downstream tax implications
- Identify system and process gaps by major accounting difference
- Perform impact analysis of financial architecture
- Develop dual reporting strategy
- Develop communication and change plans
- Creation and global coordination of detailed project plans
- Implement change management strategy
- Implement system changes including consolidation functionality
- Quantify and convert financial balances as of transition date

# Beyond accounting policies – Other areas to consider

## Accounting and financial reporting

Potential IFRS impact to arrangements with current U.S. GAAP metrics such as:

- legal contracts
- revenue arrangements
- compensation and bonus plans
- debt covenants
- projections, forecasts and budgets

## Organization and people

- Training employees and educating investors, business partners, and analysts
- Potential IFRS impacts on other functional areas (e.g., treasury, HR, investor communications, legal, etc.)

## Tax

Potential IFRS impact to:

- tax planning structures
- effective tax rate
- timing of cash costs and timing of expense recognition

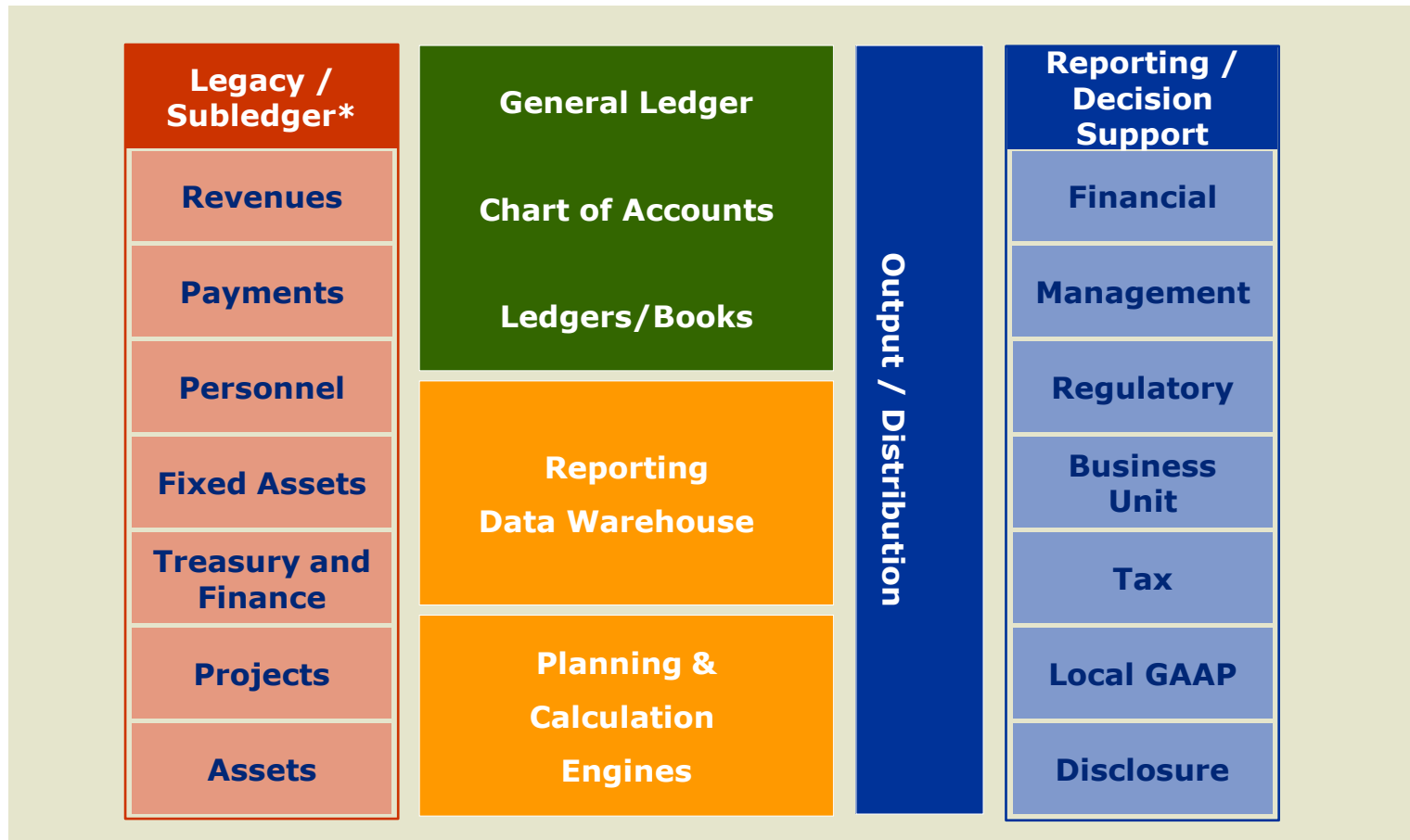
## Systems, processes and controls

- Potential IFRS impacts to internal control structure
- Current or near-term system modifications that should consider IFRS requirements
- System's ability to capture correct data attributes required under IFRS
- System's ability to handle dual reporting

**IFRS assessment and conversion plans should consider impacts beyond just technical accounting policy changes**

# IFRS impacts typically four key levels of an information system

IFRS typically impacts the four common components of an information system. The diagram represents a generic or conceptual framework only.



\* This document only considers core ERP vendors and the diagram is meant to represent areas of information rather than system subledgers or modules.

# Key System Considerations for IFRS Conversion

Key System Considerations	Summary of Considerations
<i>How will organizations handle multiple reporting requirements?</i>	Choose a system that has proven it has the capacity to generate multiple reporting to reduce ongoing compliance efforts and minimize control risks/issues.
<i>At what organizational level should system changes be made?</i>	Conversion at the Company or Source level should be considered depending on the complexity and scale of an organization's environment.
<i>Should organizations undertake a short or a long term conversion solution?</i>	View conversion as an opportunity to consider the long-term vision/plan for an information platform.
<i>How does the date for go-live affect system decisions?</i>	Go-live at the beginning of the conversion year is preferable. However for more complex organizations, a phased approach may be more feasible.

# Key System Considerations for IFRS Conversion

Key System Considerations	Summary of Considerations
<i>What areas of internal and external reporting will be affected by IFRS?</i>	Opportunity to implement or synchronize performance management rather than just a compliance exercise.
<i>How do organizations align IFRS with regulatory requirements?</i>	Maximize synergies by looking for overlap between IFRS and other legislated regulatory requirements.
<i>What are the risks of implementing IFRS?</i>	Risks can be high, however seeking the support of IFRS and systems-experienced personnel can help to mitigate implementation risks and ensure deployment of a properly scaled and configured system.
<i>How do organizations view data management in light of an IFRS conversion?</i>	For an appropriate conversion, companies should understand and mitigate the risks associated with critical data and companies should manage appropriately historical and current data.

# Key Focus Areas for IT Auditors

# Key Focus Areas for IT Governance

Transitioning to IFRS will require managing multiple interrelated areas

## Strategic Alignment

- How would IT and the IT audit function be impacted by an IFRS conversion?
- What is the optimum IT governance model during an IFRS implementation?

## Resource Management

- What is the training needed for IT auditors to properly support an IFRS conversion?
- What additional resources (e.g. applications, infrastructure, etc) would be required for an efficient implementation?

## Value Delivery

- What are the opportunities/challenges for IT auditors to deliver value during an IFRS conversion?

## Risk Management

- How will the understanding and mitigation of organizational risks be impacted by an IFRS conversion?

## Performance Measurement

- How would IFRS affect the performance metrics of the IT function or of the whole organization?

# Potential Roles for IT Auditors

- **IFRS Steering Committee** – Participating in meetings and as part of the IFRS Steering Committee
- **Data and System Conversion** – Providing assurance during an IFRS conversion
- **Project and Change Management** – Participating in cross-functional PMO or during a change management assessment
- **Data Retention and Management**– Leading efforts around how the data is gathered, retained and properly managed during and after an IFRS conversion
- **IT / Process Policies and Procedures** – Advising process/control owners and updating IT General Controls and Application Controls as they are impacted by the IFRS conversion

# Lessons Learned and Recap

# Lessons Learned from IFRS Experience

- **Issue Prioritization is Critical** – Frequently, a handful of issues will drive the vast majority of the work
- **Clearly Defined and Communicated System Requirements** - Gaps may exist between accounting conclusions and information technology needs
- **Effective Communication, Training and Change Management** - Ineffective communication and training which may lead to ad-hoc questions/concerns and under scope change management could have significant impact in the overall quality and effectiveness of the conversion.
- **Granular Implementation Planning** - Implementation roadmaps often are not sufficiently detailed to be actionable in identifying key resource requirements and interdependencies
- **Disciplined Project Management Coordinated with Other Functional Initiatives** - Downstream process and system analyses are frequently dependent on accounting policy selection, which, if not chosen early in the process, can cause delays
- **Consider U.S. GAAP Convergence as Well as IFRS** - IFRS is driving changes to U.S. GAAP, in some cases on an accelerated timeline

# Questions and Answers

# Contact information

## **Andy Fike**

Partner, Deloitte and Touche LLP

+1 713 982 2918

[afike@deloitte.com](mailto:afike@deloitte.com)



This presentation contains general information only and Deloitte is not, by means of this presentation, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This presentation is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor.

Deloitte, its affiliates, and related entities shall not be responsible for any loss sustained by any person who relies on this presentation.