
Keane White Paper

Beyond Compliance

How IFRS is a Catalyst for a
Faster Financial Close

SAP customers have a prime opportunity to ensure legal compliance while improving their entire financial reporting and close process. Here's how...

EXECUTIVE SUMMARY

For publicly held US-based companies, the proposed move from Generally Accepted Accounting Principles (GAAP) to International Financial Reporting Standards (IFRS) will be a huge undertaking – from a regulatory, process, organizational, and technology perspective. Despite the challenges, conversion to IFRS also brings a one-time opportunity for companies to comprehensively reassess financial reporting, taking a clean-slate approach to financial policies and processes and the technology that supports them. With this approach, companies can kill two birds with one stone: ensuring legal compliance while improving their entire financial reporting and close process. As a result, they will be able to achieve a faster financial close to enhance decision making, save costs, achieve competitive advantage, and improve shareholder and stakeholder confidence.

The time to act is now. Although the SEC has not yet leveled compliance deadlines for US companies, Keane predicts that savvy market leaders will recognize the strategic value of the IFRS transition, will begin to form a comprehensive plan for conversion, and will move quickly to reap the associated benefits.

This paper provides an overview of the challenges and opportunities associated with the move to IFRS. It also outlines a best-practice approach for using IFRS adoption as a chance to improve financial consolidation and reporting systems, ultimately leading to a faster financial close.

About Keane

Keane partners with businesses and government agencies to *optimize* IT. In business since 1965, Keane is a global Applications and Infrastructure Solutions firm headquartered in the United States with approximately 11,000 employees globally. For more information about Keane's services, solutions, products, and locations, please visit www.keane.com.

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IFRS: Mandate or Opportunity?

Companies based in the US are facing challenges on two fronts: IFRS compliance and overall financial performance.

On the compliance front, US companies are grappling with an SEC-proposed move to IFRS. Currently, more than 100 countries worldwide, including all of Europe, require or permit IFRS reporting. For their 2005 consolidated financials, all 7,000 of the European Union's (EU's) listed corporations switched from their home country's GAAP to IFRS. The majority of the Group of Seven (G7) countries (the world's leading industrial nations) have adopted IFRS. Canada and Japan have mandated IFRS compliance beginning in 2011. The United States is the final holdout. (Source: Gartner, Inc. "2009 Gartner FEI Technology Study: IFRS Adoption in the U.S.", John E. Van Decker, 23 July 2009).

In 2011, the Securities and Exchange Commission (SEC) will evaluate progress against its IFRS Roadmap. At that time, it will decide whether to require mandatory use by US companies beginning in 2015, and whether to expand the group of companies permitted to adopt IFRS early. This is seen as a major step toward adopting a single global standard, as well as a way to transition from GAAP's more complex accounting rules in favor of a simpler set of international principles. The transition from rules-based GAAP to principles-based IFRS accounting presents a massive challenge that requires careful planning. However, establishing a single set of high quality accounting standards would promote investor protection and the efficiency and

effectiveness of capital formation and allocation of assets. With the globalization of companies and the complicated organizational structures that many of them employ, consolidating financial accounts has been extremely complex, labor intensive, and fraught with inconsistencies and errors. Now, with countries around the world adopting IFRS as their accounting standard, multi-national companies can start to eliminate the need for the overly complex and error-prone processes that were necessary to create a consolidated set of books.

Yet long before IFRS came on the horizon, companies were struggling with financial close challenges – manual and time consuming processes, dependency on spreadsheets, multiple versions of the truth, and lack of controls. As a result, many companies have left themselves open to risk in the form of impaired decision making and reporting errors – as well as competitive threats. With a potential mandate to move to IFRS in the works, many finance executives see this as an opportunity to reexamine their core financial processes, and the technologies surrounding those processes, to achieve better efficiency and results.

Did you know?

Most firms (50.3%) do not know the impact that IFRS will have on the enterprise.

(Source: Gartner, Inc. "2009 Gartner FEI Technology Study: IFRS Adoption in the U.S.", John E. Van Decker, 23 July 2009)

The good news is that companies can achieve compliance as well as performance by optimizing their business planning and consolidation systems to ensure a fully documented audit trail and compliance in accordance with IFRS. With an optimized solution in

place, companies will gain quicker access to financial information, enabling them to make faster and better strategic decisions. With a faster close, they will also be able to contain or reduce costs (via time savings and reductions in temporary staff) and improve investor relations. In addition, with a faster close, companies will gain more time for analysis and future forecasting in advance of the quarterly earnings call.

Moving to IFRS: Challenges

Despite the benefits that IFRS promises, moving from GAAP to IFRS will be a challenging endeavor, for several reasons:

» **Regulatory differences**

In the simplest terms, GAAP describes what companies cannot do as they prepare their financial statements and IFRS describes what companies should do. As such, GAAP is a rules-based standard and IFRS is a principles-based standard. By way of example, consider the difference between telling your child that he can have some dessert if he eats a healthy dinner (principles-based) and telling him he can have one cookie if he eats all of his peas (rules-based).

Yet the differences between the two systems run deeper than philosophy. There are conceptual system differences that can have a major impact on a company's reported results – an impact that is not always easy to foresee. For example, although many CPAs predicted that adopting IFRS would inject volatility into the reported results of EU

financial institutions (due to fair value reporting requirements), this has not been the case to date.

Companies must do their homework and go through the time-consuming process of understanding the new code and how it affects each and every ledger, report, and account. In addition, IFRS requires dual reporting, which means that until 2015, US companies must have parallel ledgers and report their financials under both local GAAP as well as per IFRS (for a period of two years before complete IFRS adoption). That means two sets of accounts need to be maintained and closed – and the difference (due to differential valuation) has to be reconciled and adjusted in the retained earning account. This process must be conducted across global operations – and the more foreign subsidiaries a company has, the more complexity they face. Accordingly, companies must craft a comprehensive plan to not only convert their systems and processes, but also to maintain flexibility from a data and process perspective for this parallel accounting transition.

» **Organizational impact**

Moving from GAAP to IFRS is not just an accounting challenge – it is a people, process and technology challenge. On the people front, although finance is perceived as the owner of IFRS, the initiative has a much wider ripple effect. Because of its broad implications, IFRS implementation requires a cross-functional team – with representatives from financial accounting, management accounting, tax, IT, and auditors. Companies must also expect a natural resistance to change and should plan for significant change management and training. From a process perspective, it is not uncommon that an IFRS conversion project leads to a process reengineering

project. The transition necessitates new work flow requirements as well as changes in internal controls and processes. In preparation for this change, Keane believes that companies should begin to assess their current systems and control processes to determine if they can continue to support the business once migration to IFRS begins. Companies should also investigate implementing automated control processes that embed into the financial close process so they can ensure compliance, while lowering costs and increasing efficiency. Finally, on the technology front, companies may grapple with disparate systems, manual processes to meet the reporting and adjustment needs, and huge software and hardware upgrades. Yet perhaps the biggest organization challenge companies face is the need for reconciliation reporting between US GAAP and IFRS.

» **Time crunch**

Although 2015 may seem a long way off, companies should have a sense of urgency regarding the move to IFRS. While there are ways to take short cuts and “squeak by” when moving to IFRS, companies that want to improve their financial processes in addition to achieving compliance must start now. Companies should take care not to compress too many activities in a single year – nor should they underestimate the need to address all facets of the IFRS issue, including the parallel accounting requirement. Five years is a reasonable timeframe for this endeavor – anything more aggressive may be too tight to do it right.

Solution: A Best-Practices Approach

To tackle the challenges associated with IFRS – and reap the benefits – Keane recommends that companies implement a best-practices financial fast close initiative. For SAP customers, that means implementing products that assist in the IFRS transition and financial close processes – specifically SAP BusinessObjects Planning and Consolidation (BPC). Benefits of this approach include:

- » **A single database platform** – Enables companies to incorporate actual, plan, and forecast data within the same database, user interface, and business process.
- » **Integration with data sources, whether they are SAP sources or not** – Gives businesses the ability to incorporate data from the GL, sub-ledgers, or even other non-SAP data.
- » **Parallel accounting** – Delivers the ability to define multiple hierarchies within dimensions, providing alternate ways of viewing the business (i.e. GAAP versus IFRS account structures).
- » **Top-end adjustments** – Enables adjustments to ledger items that must be restated due to different accounting requirements.
- » **Journal entries** – Gives companies the ability to make adjustments, with the ability to maintain a full and detailed audit trail of these adjustments, providing flexibility and richness in reporting.
- » **Business rules** – Gives companies the ability to change consolidation percentages, ownership, and methods easily, providing flexibility in how the

data is consolidated. In addition, business users have the ability to apply the changes themselves, without having to involve IT at every step of the way. This gives businesses the ability to change from GAAP to IFRS, but then after adopting IFRS completely, they can maintain consolidation business rule flexibility, as it is the nature of accounting standards to be quite fluid over time.

- » **Data and administrative audit** – Provides companies with another level of audit trail, to keep track of any and all changes to the application, whether they are due to adjustments, data loads from external systems, input from spreadsheets, business rule or logic calculations, or journal entry updates.
- » **Intercompany reconciliation** – Allows the process to be pushed down to the local level to speed the financial close process.
- » **Business Process Flow (BPF) functionality** – Steps users through their standard and repeatable processes. This is important, as the transition from GAAP to IFRS will invariably affect not only the accounting systems and reports, but also the underlying processes that are part of the financial close and that users work with to manipulate the systems and reports.
- » **Spreadsheet incorporation** – Microsoft Excel, the undisputed choice of the business user community for data collection and analysis, is the primary front-end interface of BPC. This provides the ability to incorporate any localized spreadsheet solution or spreadsheet data within the application.

- » **Supporting documentation** – Enhances companies' ability to collect commentary and supporting documentation as part of the financial close and consolidation process. This will become even more important with IFRS, as it is a principles-based standard and will require more explanation as part of the reporting process.
- » **Ability to report using XBRL (Extensible Business Reporting Language)** – Satisfies another requirement by the SEC for financial reporting which should be addressed as part of companies' IFRS initiatives.

In addition to BPC, companies can also use products within SAP's GRC suite, including Process Control and Access Control, to help realize the following benefits:

- » **Continuous visibility across compliance initiatives** – Provides an integrated view of multiple compliance initiatives via a single repository, enabling a greater understanding of control effectiveness and remediation of key issues.
- » **Increased compliance efficiency** – Optimizes compliance activities which helps companies lower operating costs and allows them to transform manual and disconnected control activities into automated and streamlined processes.
- » **Greater confidence** – Unified control management across the enterprise permits increased agility, ensures audit integrity, and accelerates the ability to respond to irregularities and changing business needs.

SAP's IFRS Starter Kit

SAP offers an IFRS Starter kit — a set of BPC applications and tools that have been designed to jump-start IFRS projects and implementations. For SAP customers, Keane believes that using the starter kit to deploy software is the best way to kick off an IFRS endeavor. With the kit, companies can:

- » Jump start their implementation with a collection of account structures, business rules, and reports that are designed specifically for the IFRS conversion process.
- » Reduce the time for the software implementation by incorporating predefined business process flows appropriate to their business processes.
- » Take advantage of all aspects of the BPC application functionality while designing the solution using an optimized and tested approach.

Next Steps

So what can companies do to set the stage for IFRS conversion? Step one – starting now – is to assemble a cross-functional team that comprises all the people who will “touch” IFRS. In addition to finance executives, this includes:

- » The audit partners who have an intimate knowledge of the regulations as they pertain to the business,
- » The IT managers and vendors who understand how the regulations will impact technology systems,

- » And the line of business managers who have internal knowledge of the company's people and processes.

Once this team is assembled, it is important that companies take the time to carefully craft a plan for their IFRS adoption and ensure that they have a full understanding of its impact on their organization and processes. With this team in place, companies can begin the thoughtful execution of their IFRS conversion – including implementing the software that will ensure compliance while accelerating financial processes.

The Final Word

IFRS adoption is imminent; the need for dual reporting is closer still, and the need to accelerate the financial close is an ongoing necessity. Some may argue that there is no need to move forward on IFRS until SEC mandates are firmly in place. Companies that wait, however, may find themselves playing catch-up – and may put themselves at risk of missed deadlines and penalties of non-compliance. Companies who do not adopt best-in-class systems and approaches may also be left behind by competitors who are able to reinvent their financial processes to drive strategic advantage.

The Keane Difference

The right partner can make all the difference. With Keane, you gain a partner whose primary objective is to optimize your SAP systems by improving performance and reducing operational costs, while managing your transition to IFRS. Here are some of the ways we get you there:

- » **Implementation accelerators:** KeaneIQ for Financial Fast Close (our financial fast close methodology), combined with our experience with SAP's IFRS starter kit, helps us speed clients toward compliance and a faster close.
- » **End-to-end solution:** Keane can do it all: ERP, EPM, and GRC. Our comprehensive solution spans the financial fast close cycle and covers all levels of the IFRS transition. Highly seasoned business process and technical consultants drive all our initiatives.
- » **Proven experience:** Keane has the most experienced SAP EPM consulting team anywhere in the world. Members of Keane's EPM team established the first center of excellence for SAP BPC. At Keane, our consultants have extensive experience with SAP BPC on the SAP NetWeaver® technology platform and the Microsoft platform as well as SAP ERP (ECC 6.0) expertise.
- » **Powerful partnerships:** We partner with a leading accounting firm to enhance our IFRS conversion expertise. Our SAP partnership keeps us on the cutting edge of SAP technology, bringing continuous improvement to your systems and guaranteeing system performance.
- » **Legacy of compliance expertise:** Keane has a long history of helping clients optimize their systems

to comply with new standards – including Y2K, HIPAA, and SOX. Our GAAP and IFRS expertise ensures that your organization meets and maintains globally accepted accounting standards.

- » **Agile, adaptive delivery:** Our ShoreWise Adaptive DeliverySM model emphasizes local accountability and global talent. With ShoreWise, we arm you with the smartest mix of resources and costs that adapt to changing business conditions.
- » **Post go-live support:** Our comprehensive post go-live support packages are tailored to meet your needs. For customers who can't support applications once implemented, we can run their solutions for them – onsite or remotely.
- » **EPM hosting services:** We offer full solution hosting with managed 24x7 support and administrative services.
- » **Ease of doing business:** We work differently than our competitors. We believe that optimizing your applications and outsourcing strategy can only come from working hands-on with your people, processes, and systems. The experience we gain from working onsite inside our clients' enterprise applications means we recognize and understand nuances and subtleties about your business that can't be seen from afar by typical firms.

Contact Us

How will IFRS impact your enterprise? How can Keane help you gain compliance while optimizing your performance?

Contact us at EPM.GRC@keane.com.