

IFRS and the Effect on IT Systems

April 9th, 2009

Assurance | Accounting | Taxation | Advisory Services

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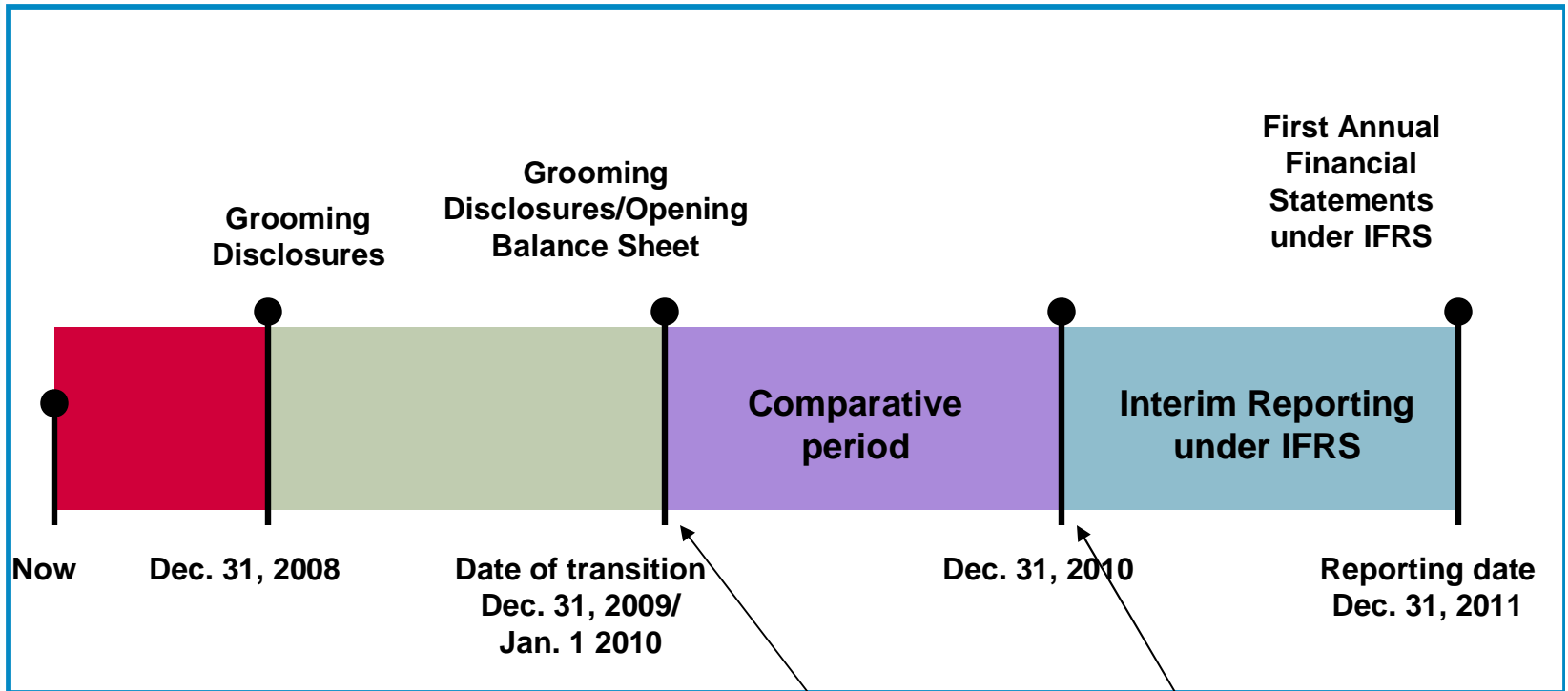
Presenter

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- Leads Western Canadian Risk Advisory Services
- BDO IFRS Experts Committee
- Areas of focus
 - IT internal controls
 - IT Audit
 - CEO/CFO Certification
 - Internal Audit
 - Enterprise Risk Management
 - Business Continuity / Disaster Recovery
 - Specialized Audits

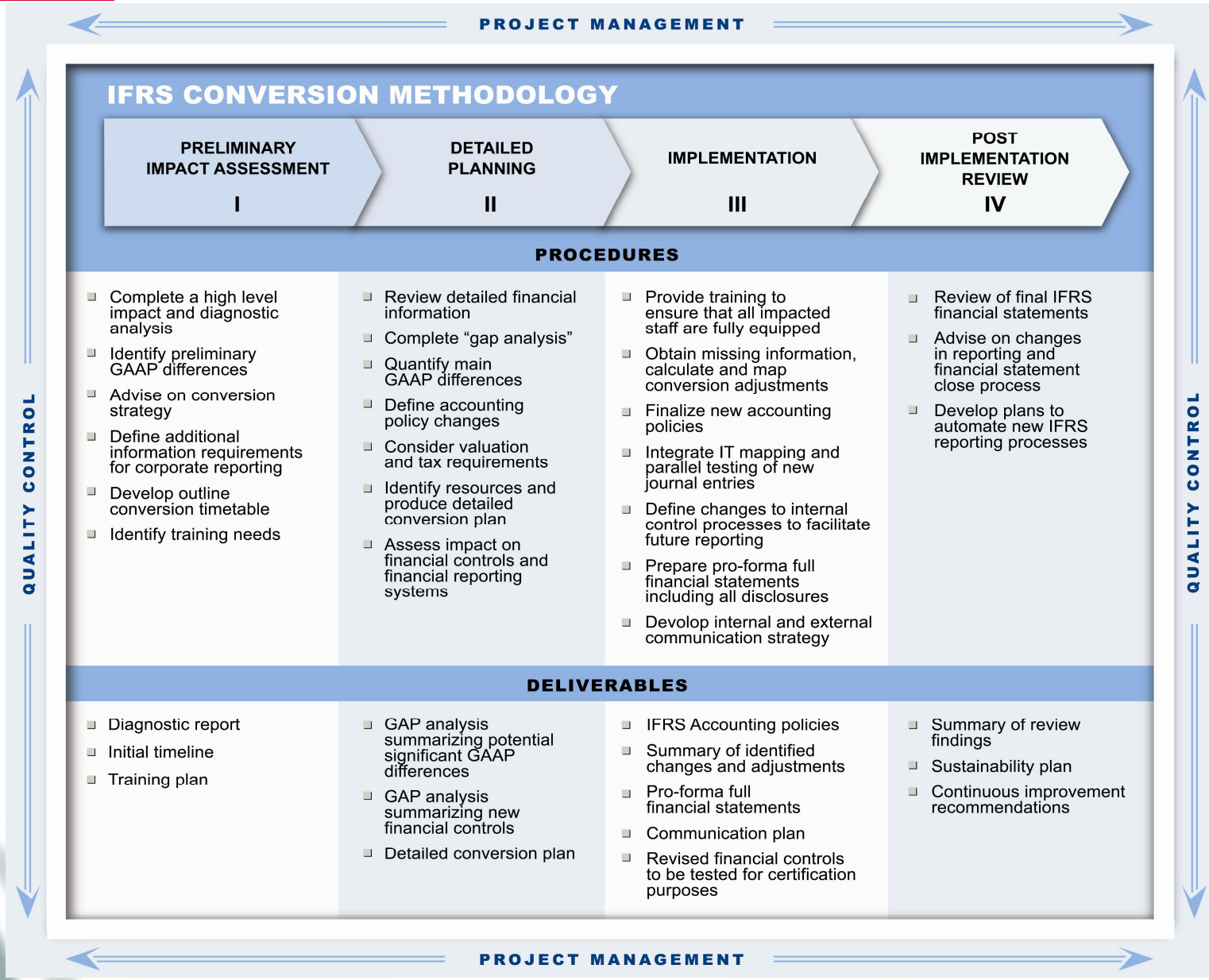
IFRS Timeline in Relation to IT

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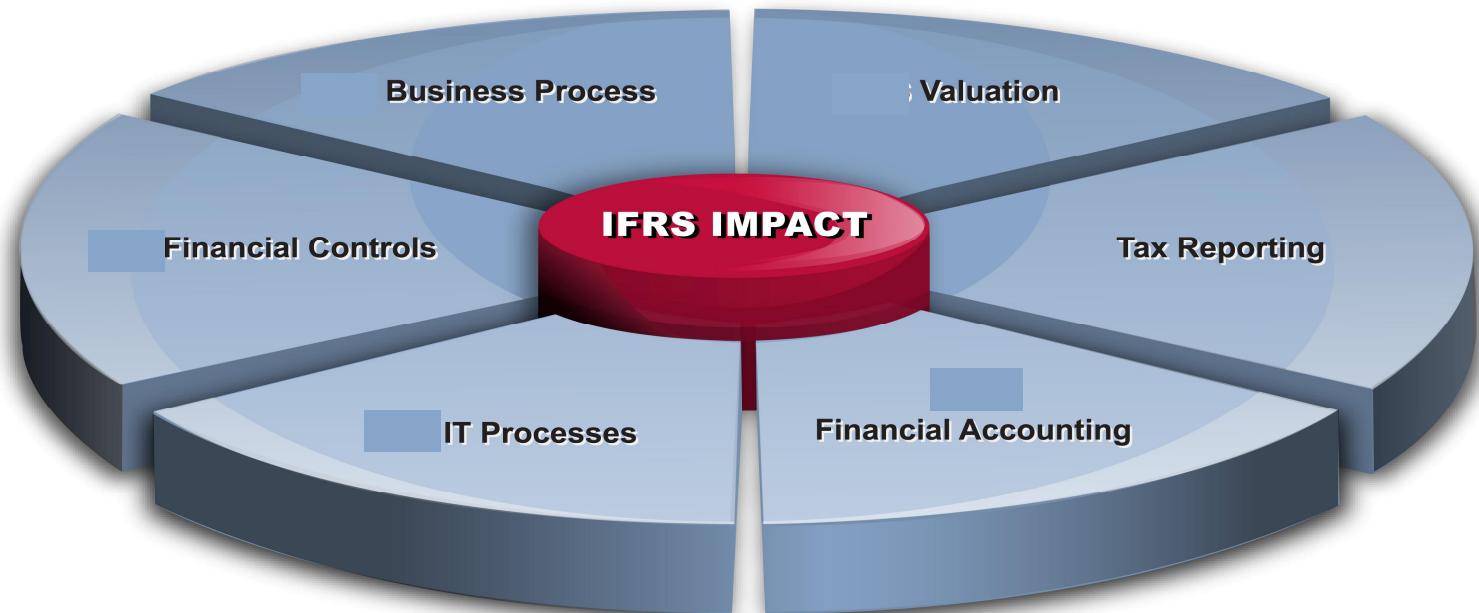
System Solution to Parallel Accounting

Direct Cutover Solution



IFRS Business Impact

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IT Involvement – Impact Assessment

- IT impact analysis
- Approach – parallel vs. direct cutover
- Discover solutions viable for current environment

IT Involvement – Detailed Planning

- Ensuring IFRS requirements are aligned with system requirements
- Customizing system
- Test plans / test scripts for conversion
- Training

IT Involvement – Implementation

- Ensure accounts are appropriately set up
- Conversion procedures

IT Involvement – Post-Implementation Review

- User acceptance testing is key. Ensure accounting staff review automated calculations and flow of data for accuracy
- Test changes and conversion

Potential Changes to Systems

- System modifications and configuration
 - Automated calculations
 - Changes to management reports, budgets, forecasting
 - Changes to external financial reports
- Upgrades / New Systems
 - Core system needs change to facilitate IFRS requirements
- Changes to data capture capability
 - New data required for disclosures, calculations, reports

Potential Changes to Systems

- Changes in mapping of data and interfaces
 - Disclosure requirements
 - Facilitate calculations
- Changes to chart of accounts
 - Reclassification, additional accounts
- Spreadsheets
 - Formulas, calculations
- Consolidation
 - Differences in process

Examples of Impacts to Systems

- **Fixed Assets – Ability to Collect Data**
 - Component Accounting
 - Fair Values
 - Impairment Assessments

Examples of Impacts to Systems

- **Consolidation – Automated Calculations, Mapping of Data**
 - Automated consolidation process and embedded system values / formulas
 - Adjusting / Eliminating Entries

Examples of Impacts to Systems

- **Disclosures – Automated Calculations, Changes in Mapping, Changes in Reporting**
 - Different templates and structure for note disclosures
 - Different method of calculating data for disclosures
 - Changes in mapping of core financial data to formulation of note disclosures

Examples of Impacts to Systems

- **Inventory - LIFO – Automated Calculations**
 - Many systems automatically post entries based on a sale or transaction occurring, such as inventory
 - IFRS not allow use of LIFO. Need to adjust how system allocates cost of goods sold

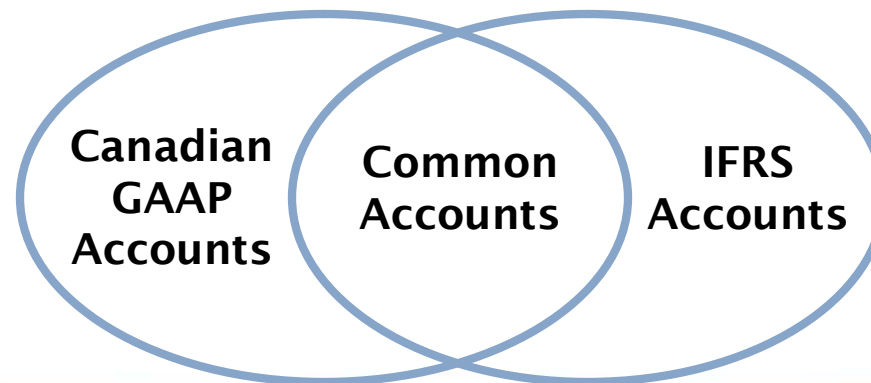
Examples of Impacts to Systems

- **IAS 39 – Financial Instruments**
 - Many differences in accounting for financial instruments
 - Requires complex impairment calculations, defined segregated types of instruments, ability to reclassify instruments
 - Interface, mapping, chart of accounts, reporting packs, financial reporting tools

Approaches to IFRS Conversion - IT

1. Common Account Approach

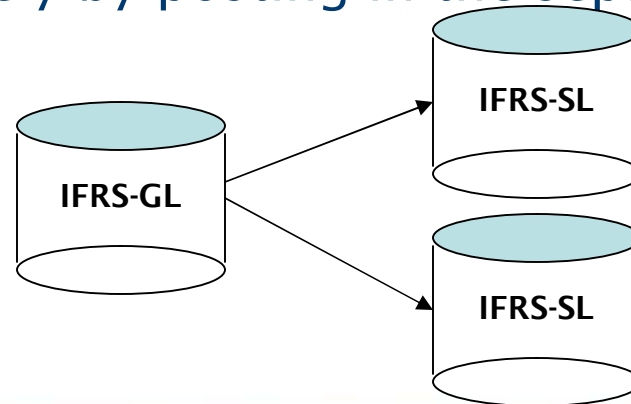
- Identify accounts that are treated the same
- Identify accounts unique for Canadian GAAP
- Identify accounts unique for IFRS
- Post transactions according to which GAAP it applies to, or common account is applies to both



Approaches to IFRS Conversion - IT

2. Duplicate Ledger

- All accounts in same GL
- Create separate ledgers for IFRS and Canadian GAAP
- Postings are tracked in separate ledgers depending on which standards they relate to
- Posting is merged in the main GL, but tracked separately by posting in the separate ledgers



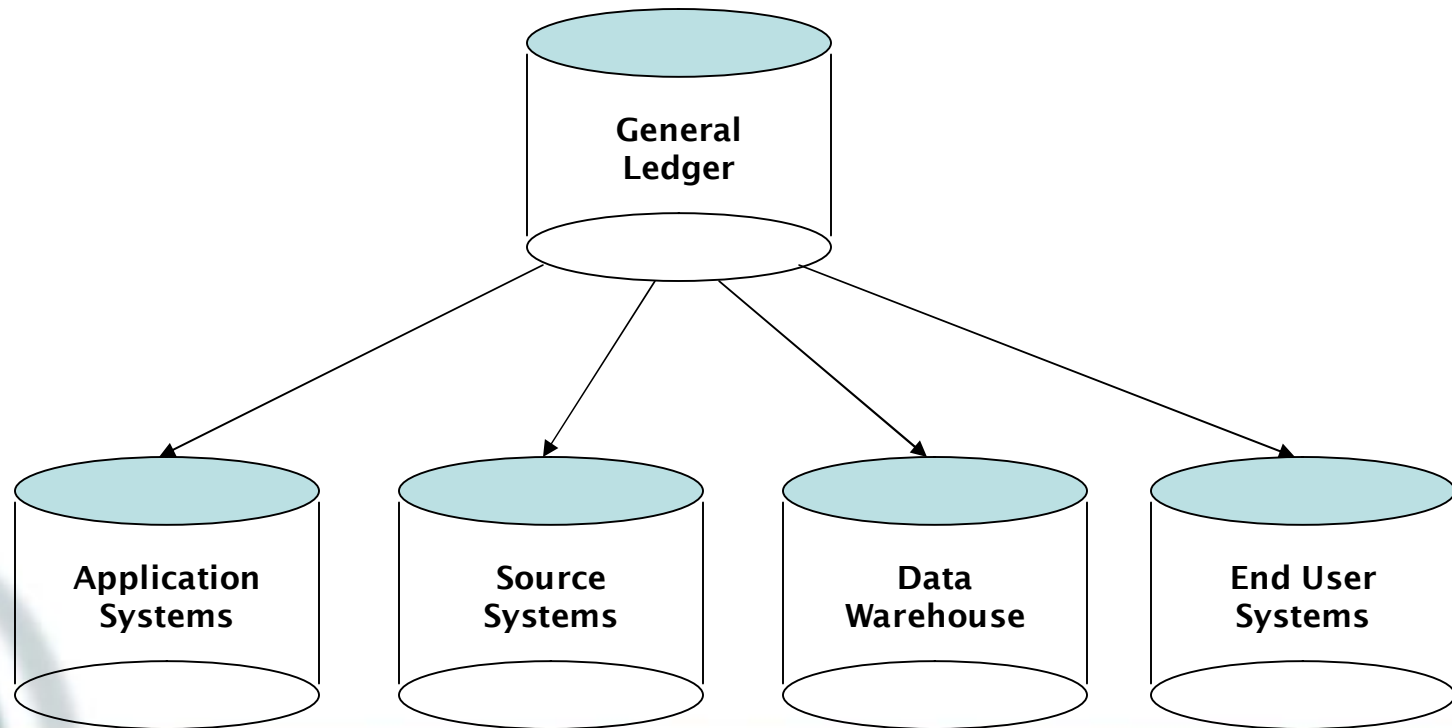
Approaches to IFRS Conversion - IT

3. Manual Tracking

- Post accounts as Canadian GAAP
- Start converting numbers to IFRS manually
- Input IFRS numbers into system
- Continuously convert numbers to Canadian GAAP during transition period

IT Impact Analysis

- Identify GL accounts impacted through financial statement analysis
- Identify all inputs into GL accounts
- Trace to source



Identify Level of Change to IT

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Head Office Consolidation process



Head office transactions



Location consolidation



Departmental transactions

Greater IT Integration



Assessing System Strategy

- Gap Analysis – determine what limitations current system has
- Determine if existing system can be adjusted to rectify gaps

Assessing System Strategy – Existing System

- If existing system can be used, develop design changes required and process to change systems
- Develop conversion plan for changes
- Align business requirements with planned changes

Assessing System Strategy – Change Required

- If system can not meet IFRS requirements determine if manual processes will be used to avoid a system change, or if a new system will be implemented
- If manual processes are to be implemented, align planned manual processes against gaps to ensure they are covered
- If new system is to be implemented, carry out a system selection process

Assessing System Strategy - Implement

- Build new system, changes to existing system, or manual processes
- Test new process / system including user acceptance testing

Observations and Lessons Learned

	IFRS adoption lessons learned from Europe
1.	Companies defaulted to work arounds and manual processes which resulted in continuous rework required as well as inefficiencies relating to manual processes which were later integrated with IT. Do it right the first time.
2.	Carry out a proper IT impact assessment in coordination with the overall IFRS impact assessment
3.	Ensure senior IFRS project personnel understand the importance of IT and need to integrate approach with IT
4.	Ensure appropriate change management procedures are employed to ensure accuracy of changes. It is difficult to find errors by reviewing financials.
5.	Ensure knowledge transfer between consultants and internal staff, especially in the area of IT where there is greater disconnect between IT personnel and accounting
6.	Ensure you integrate with external auditors including on the IT side as they will need to understand the changes to the supporting accounting systems in order to complete the external audit

Questions



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