



# **CONVERGENCE ACCOUNTING: IMPACT ON INFORMATION TECHNOLOGY**

*PREPARING SYSTEMS TO MEET FINANCIAL CONSOLIDATION  
AND REPORTING REQUIREMENTS*

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# **CONVERGENCE ACCOUNTING: IMPACT ON INFORMATION TECHNOLOGY**

## ***PREPARING SYSTEMS TO MEET FINANCIAL CONSOLIDATION AND REPORTING REQUIREMENTS***

This session will address:

- Convergence Program
- Benefits to Convergence
- Key Challenges and Impact
- Risks
- Evaluating Existing Applications
- Managing the Transition Process
- Transition Issues to Consider
- Working with IT



## CONVERGENCE PROGRAM

- Joint effort by:
  - International Accounting Standards Board (IASB)
  - Financial Accounting Standards Board (FASB)
  
- Convergence of:
  - US generally accepted accounting principles
  - International Financial Reporting Standards (IFRS)
  
- More than a technical accounting change
  
- Set of accounting principles



## CONVERGENCE PROGRAM

- Will impact systems used to collect and report financial data:
  - Lease Accounting
  - Accounting for R&D
  - Fixed Assets
  - Revenue recognition
  - Financial instruments
  - Consolidations
  - Fair value measurement
  - Financial Statement Presentation
  - Dual Reporting



## CONVERGENCE ACCOUNTING – Benefits to Convergence

- Increased potential for process and cost efficiencies
  - Comprehensive reassessment of financial reporting process
  - Update financial policies and processes
- Improved quality of reporting
- Transparency and investor confidence
- Efficient use and availability of resources



## CONVERGENCE ACCOUNTING – Benefits to Convergence

- Reduced accounting complexity
- Improved communication among subsidiaries
- Improved control environment
- Process optimization
- Technology optimization
  - Opportunity for upgrade



# CONVERGENCE ACCOUNTING – Key Challenges

- Deadlines
- Parallel reporting
- Broad implications
- Transaction changes
- Costs



# CONVERGENCE ACCOUNTING – Impact

- Source Systems
  - Financial sub ledgers
  - Financial instrument/investment valuation systems
  - Product-specific systems
  - Interfaces that post financial transactions
  
- General Ledger
  
- Data Warehouses
  
- Reporting Solutions
  
- Infrastructure



## CONVERGENCE ACCOUNTING – Impact

- Adoption of convergence-specific consolidation rules and report layout
- Embedding requirements into General Ledger and subsystems
  - Removing the need for manual adjustments
  - Minimize compliance risks



## CONVERGENCE ACCOUNTING – Risks

- Underestimating challenges
- Implementation delays
- Introduction of unnecessary risk and compliance issues
- Increased number of errors; costs



## CONVERGENCE ACCOUNTING – Risks

- Outsourcing
- Weakened control environment
- Risk to the accuracy of current reporting environment
- Viewing IFRS as simply a reporting change



## CONVERGENCE ACCOUNTING – Evaluating Existing Applications

Is the current system ready?

- Where are existing US GAAP rules configured in the system?
- Are rules hard coded?
- Can they be changed?
- If so, are they easy to change?
- Is there scope to add new IFRS rules?



## CONVERGENCE ACCOUNTING – Evaluating Existing Applications

Other items to consider:

- Is the original implementation team still in place?
- Intellectual property
- Size and complexity of organization
- Characteristics of current infrastructure
- Capabilities and number of applications



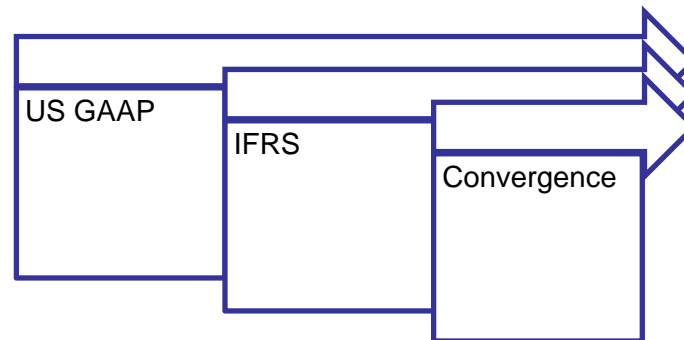
# CONVERGENCE ACCOUNTING – Evaluating Existing Applications

Issues with legacy applications:

- Customization
- Significant need for manual intervention
- Data enrichment
- Sub ledger reconciliation

## CONVERGENCE ACCOUNTING – Managing the Transition Process

- Multiple frameworks



- Tax and other reporting needs (e.g. Debt covenants)
- Statutory GAAP formats
- Opening balances; two years of comparative financial statements
- Need for reconciliation reports; explanation of differences
- Additional disclosures/commentary



## CONVERGENCE ACCOUNTING – Transition Issues to Consider

Examine systems to:

- Ensure transactions are analyzed to include base information necessary to support US GAAP and IFRS reporting
- Support increased volumes of data
- Identify/manage potential delays in closing and reporting cycles



## CONVERGENCE ACCOUNTING – Transition Issues to Consider

Financial consolidation and reporting system should:

- Hold data in US GAAP format
- Hold a number of sets of manual journal entries
- Automate calculation and storage of as many adjustments as possible
- Perform complex calculations
- Perform and store multiple consolidations
- Report in different formats
- Be amended to include necessary account lines
- Hold data in a single database



## CONVERGENCE ACCOUNTING – Transition Issues to Consider

- Source Systems
  - Identify and document internal and external data sources to be updated
  
- General Ledger
  - High-level changes to charts of accounts
  - Reconciliation processes
  - Journal entries
  - Expense allocation



## **CONVERGENCE ACCOUNTING – Transition Issues to Consider**

- Data Warehouses
- Reporting Solutions
- Infrastructure



## CONVERGENCE ACCOUNTING – Transition Issues to Consider

Be aware of new IFRS language:

- Legal, IT, HR, etc.
- Include descriptive information along with financial values

Avoid storing IFRS adjustments in Excel spreadsheets:

- Creates additional work
- Increases risk of errors
- Risk of inconsistencies in published financial statements



## CONVERGENCE ACCOUNTING – Transition Issues to Consider

- Need for additional internal controls
  - Manual adjustments
  - Compliance/control issues
- Knowledge Transfer



## **CONVERGENCE ACCOUNTING – Working with Information Technology**

- Key enabler in the transition
- Leads the phased, embedding process to conversion
- Coordinates upgrades and conversions with IFRS planning



## CONVERGENCE ACCOUNTING – Overall Objectives

- Evaluate potential impacts of IFRS
- Address implications
- Assess readiness
- Develop road maps
- Evaluate and document system changes
- Implement IFRS conversions



# QUESTIONS?