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Converting IFRS into IT

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*This article was originally published in Canadian Underwriter
in February 2009*





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I.T. staff and departments will play a pivotal role in any company's successful conversion to IFRS reporting standards, so get them involved early in the process.

Adopting International Financial Reporting Standards (IFRS)—as Canada's "publicly accountable enterprises" (a definition that includes insurers) are required to do by 2011—is much more than a financial or accounting exercise, as its name and acronym might suggest. Indeed, successful adoption of IFRS depends on a much deeper, holistic, organizational-wide commitment.

Information technology (IT) personnel are key stakeholders in the IFRS conversion process. They will undoubtedly be pivotal to its eventual outcome. We at KPMG estimate — based on our global experience helping businesses through this exercise — that IT involvement represents about

30-50% of the overall effort and cost associated with most IFRS conversions. Many Canadian property and casualty insurers expect that this IT component will be less, at least in 2011. But the first adopters of IFRS in Europe and Australia commonly underestimated them.

More IT implications will likely arise when the anticipated new global insurance accounting standard is introduced to IFRS in 2013 or 2014. This prospect will tempt many to put off developing final IT solutions until the second stage of IFRS changes, but at the risk and cost of maintaining temporary "band-aid" processes for two or three years.

IT proficiency is necessary to help ascertain whether a firm's existing information systems, data flows and business intelligence reporting packages are capable of accommodating accounting and reporting requirements under IFRS. IT personnel can determine what changes are required to any of those items, along with various other applications, technology and controls within the organization. Their professional judgment early on in the conversion process can help avoid unnecessary costs, duplication of effort and serious risk of failure at more critical stages later on as their project nears completion.

For example, existing systems might need to be modified and new interfaces and/or mapping table changes implemented to accommodate new IFRS accounting and reporting requirements.

Alternatively, it might be necessary to design or purchase new IT systems in order to ensure the correct accounting and financial information is captured at source and properly flowed into the firm's sub-ledgers and general ledger.

IT professionals should be used to assist with many functions during the IFRS conversion process. They could, for instance, be required to design new or existing information systems to accommodate changes to their firm's chart of accounts, perhaps involving the creation of new accounts or deactivation of those no longer required. Special modifications might also be required to account for specific items required under IFRS, including more complex and detailed depreciation requirements for components of property, plant and equipment; new impairment charges or a reversal of previous impairments; and revaluation increases or decreases associated with certain assets, among other tasks.

All of these processes could become more complex when the organization has subsidiaries and branches across Canada. If they have different systems, a separate IT assessment to determine unique design or implementation requirements for each of these systems could be a vital first step towards ensuring consistency in the new environment. A multi-national conversion would likely entail additional complexity, requiring an assessment of various

accounting systems and/or financial reporting requirements in each of those jurisdictions.

However, IT knowledge is required to assist with far more than ensuring information systems accurately record data for accounting or financial statement reporting purposes.

Senior management should also ensure that information systems take tax considerations into account, perhaps for several countries. They should also be mindful of regulatory initiatives such as The Sarbanes-Oxley Act of 2002 (SOX) for public firms listed on United States stock exchanges, and similar legislation affiliated with Canadian Securities Administrators (CSA)'s National Instrument (NI) 52109 for firms on Canadian exchanges.

As SOX and NI 52-109 emphasize, internal controls over financial reporting systems are of paramount concern today, since chief executive officers and chief financial officers of public companies need to sign off on the veracity of internal controls used to produce their financial results. Therefore, IT professionals should ensure that systems do not compromise vital security.

The degree of IT involvement can vary depending upon which approach a company takes to implement its IFRS reporting. A full conversion involving comprehensive system changes at

source to the firm's automated systems will likely require the greatest IT commitment.

A shadow reporting or workaround approach that employs tools such as spreadsheets to support IFRS reporting needs on a short-term basis might involve the least.

The key is to get IT personnel involved in the IFRS conversion process early and to the maximum extent necessary, so their knowledge and experience can help determine how the company's information systems, data flows and other relevant business intelligence processes might be affected. Experience has shown this can help the IFRS conversion run much more smoothly.

About 100 countries are currently undertaking or have already been through an IFRS conversion. Senior management in many of those firms — particularly in the European Union nations and in Australia prior to their 2005 deadline — discovered to their detriment that they underestimated the organization-wide impact of IFRS, including the level of IT involvement required to successfully implement the new standards.

It would be wise to learn from the experience of those first adopting IFRS in Europe, Australia and elsewhere. Common observations were that conversion projects started too late, had inadequate project planning and staff resources, treated IFRS narrowly as just another accounting policy change and often needed to apply temporary "band-aid" solutions rather than enduring IT and process solutions. In addition, knowledgeable new hires and consultants were in short supply.

We in Canada have the advantage of learning from both mistakes and best practice examples of what went well. We also have no excuses if we make the same mistakes the IFRS "pioneers" made.

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