IFRS and Internal Audit’s role in the conversion to IFRS

Dallas IIA Luncheon
September 3, 2009
Kevin Corbett, Partner—Ernst & Young
Discussion topics for today

- Update of current regulatory landscape
- Marketplace activity
- Suggested role of Internal Audit
- Q&A
Roadmap for IFRS adoption

  - Proposed Roadmap to IFRS reporting by US issuers.
  - Proposal for the limited early use of IFRS where this would enhance comparability for US investors.
  - Proposal for regulatory text amendments to accommodate the use of IFRS by US issuers.

- SEC will consider progress toward several **milestones** regarding IFRS reporting and the results of an **internal study** expecting to decide in 2011 whether to proceed with mandatory adoption of IFRS. Milestones include:
  - Improvements in accounting standards: convergence activities by FASB and IASB.
  - Accountability and funding of IASC Foundation.
  - Improvement in use of interactive data (XBRL) for IFRS reporting.
  - Progress on IFRS education and training in US (Ernst & Young Academic Resource Center).

- Maintain three year income statement comparison.
- Comment period for the Roadmap ended April 2009.
Commentary on IFRS

► Mary Schapiro:
  ► "I think we all can agree that a single set of accounting standards used around the world would be a very beneficial thing, allow investors to compare companies around the world."

► Concerned about the conversion cost burden on US companies

► Milestone concerns:
  ► IFRS standard application consistency, implementation and enforcement
  ► Lack of IASB independence and oversight ability
  ► Not bound by existing proposed SEC Roadmap
  ► More pressing SEC concerns than IFRS
Commentary on IFRS (cont’d)

► James Kroeker (SEC Chief Accountant) on Schapiro’s comments:
  ► No commissioner has officially supported the roadmap
  ► Schapiro has commented to the effect that the current economic crisis points for the need for a single set of financial reporting standards
  ► SEC still working on milestones:
    ► Potential funding of an international body
    ► Improvements to standards
    ► Improvements to interactive data

► Political pressures on SEC, FASB and IASB
  ► Critics state MOU between FASB and IASB give the US a role in setting the IASB agenda that current IFRS users lack
  ► Call for US to set a date certain
    ► Another convergence plan (i.e., MOU 2) is unlikely
    ► Goal of single set of financial statements will be very difficult if US delays or does not decide by 2011
## Comment letters to date

<table>
<thead>
<tr>
<th></th>
<th>Single set of High Quality Standards</th>
<th>Set a date certain</th>
<th>Shorten US GAAP/IFRS comparative period</th>
<th>Expand convergence</th>
<th>IASB independence concerns</th>
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- ✓ General sentiment in stakeholder’s comment letters to the Proposed SEC IFRS Roadmap.
## Comment letters to date (cont’d)

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<tr>
<th></th>
<th>Economic crisis/cost</th>
<th>One time reconciliation</th>
<th>Current timing unrealistic</th>
<th>Increase concentration in Big 4</th>
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● General sentiment in stakeholder’s comment letters to the Proposed SEC IFRS Roadmap.
IASB and FASB convergence efforts

**Current convergence projects**
- Consolidation
- Derecognition
- Fair value measurement
- Financial instruments
- Financial statement presentation
- Income taxes
- Insurance contacts
- Leases
- Revenue recognition
- Liabilities and equity

**Completed convergence projects**
- Borrowing costs: IAS 23 vs. FAS 34
- Share-based payments: IFRS 2 vs. FAS 123R
- Foreign currency: IAS 21 vs. FAS 52
- Related parties: IAS 24 vs. FAS 57
- Long-lived assets: Various
- Inventory: IAS 2 vs. ARB 43/FAS 151
- Segment reporting: IFRS 8 vs. FAS 131
- Business combinations: IFRS 3R vs. FAS 141R
- Noncontrolling interests: IAS 27 vs. FAS 160
- Fair-value option: IAS 39 vs. FAS 159

**Other current convergence projects**
- Conceptual framework
- Discontinued operations
- Earnings per share
- Emission trading schemes
- Joint Ventures
- Post-employment benefits
Conversion or Convergence – New accounting standards continue to be issued and pace may accelerate
► Significant activity in the next 12-24 months is expected
► Either choice creates issues with Systems, Tax, HR

Economy will challenge companies with down-sized organizations – limited staffing to address numerous accounting changes
► Finance departments will need guidance and support
► Changes impact People, Process, Technology
What is driving the current IFRS interest?

- Inversions/change of domicile
- Cross border M&A transactions
- Large system implementations, need to plan for IFRS now
- Subsidiaries in South America, Asia or other locations have already or will be converting in the near future ... IFRS1 implications ... Need corporate input
- Foreign parent, in bound accounting conversions
- Audit Committee interested in potential implications/impact
- Prudent planning (tax and IT runway needed)
### Key questions companies are asking themselves

<table>
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<th>Key Questions</th>
<th>Key Considerations</th>
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| 1. Will conversion to IFRS really happen? Will the timeline identified in the | - G20 defined initiative, US supported calls for one quality single set of accounting standards  
| current roadmap remain as is?                                                | - President Obama’s Financial Reform calls for substantial progress by year end 2009  
|                                                                              | - Convergence rather than conversion could take 10+ years  
| 2. Are there tough implementation challenges or efficiency opportunities that we | - Manually intensive accounting, consolidation, and financial reporting processes  
| should identify and address now before there is a time constraint?           | - Multiple cross-GAAP reconciliation procedures  
|                                                                              | - Inconsistent global chart of accounts  
|                                                                              | - Consistency of global accounting policies and procedures  
| 3. Are there existing or planned initiatives/projects that may be significantly | - Shared service center deployment  
| affected by IFRS?                                                           | - Global ERP implementations  
|                                                                              | - Trial balance/chart of account redesign  
|                                                                              | - Global finance transformation  
|                                                                              | - Process standardization  
|                                                                              | - Global policy and procedure development/deployment  
| 4. You may already be on IFRS in international subsidiaries                  | - First time application cannot be undone, so inefficiencies may already be built-in to subsidiaries’ IFRS accounts  
|                                                                              | - Possibility that IFRS has been interpreted differently in the same group by different subsidiaries; needs to be rectified in order to ultimately gain efficiencies  
|                                                                              | - Centralized control over subsidiary policy choices to “stop the bleeding”  

IFRS conversion – more than a change in accounting policy

- Not just Finance
- Front Office, research, credit
- Non-executives
- Access to knowledge and tools
- Impact of accounting on taxation considered irrelevant by IASB
- Impact on tax strategies
- Data collection
- Structured products
- Inland Revenue

- Finance function efficiency
- Finance and Operations transformation
- Policies and procedures
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- Impact of accounting on taxation considered irrelevant by IASB
- Impact on tax strategies
- Data collection
- Structured products
- Inland Revenue

- Business and franchise
- Training and knowledge
- Control environment
- Tax planning
- Financial instruments
- Oversight and project management
- Management information
- Employee benefits
- Investor relations

- Processes and systems
- Fragmented processes/systems resulting from IFRS tactical solutions
- Data capture
- Hedging
- Loan provisions
- Segmental reporting
- Financial Statements presentation

- Key performance indicators
- Management reporting
- Underlying infrastructure
- Reconciliation to reported results
- IFRS alignment

- Share based payments
- Pension arrangements and funding
- Retirement benefit costs
- Alignment of remuneration and bonuses

- Early education
- Volatility of earnings and equity
- Hedging strategies
- Re-benchmarking relative to global peer group

- Fair value
- Debt vs. equity
- Review of hedging strategies
- Hedging documentation
- Day One profit recognition
- Observability of market prices
- Embedded derivatives
- Reserving policies
- SPEs

- Covenant renegotiation
- Valuation of earn outs
- Demand for valuations
- Impact of consolidation of SPEs
- Clients’ appetite for existing structured financial products
- Viability of transactions due to treatment on own balance sheet
- Ability to assess client suitability and credit

- Complex project management
- Audit Committee involvement
- Non-executive understanding and oversight
- Resources and budgets

- Access to knowledge and tools

- Financial instruments
- Business and franchise
- Training and knowledge
- Control environment
- Tax planning
- Oversight and project management
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- Early education
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- Audit Committee involvement
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- Resources and budgets

- Access to knowledge and tools
Key observations

Insights
► Not just a technical accounting exercise
► Accounting and reporting represent approximately only 20% of conversion efforts
► Significant impact on all aspects of the tax cycle
► Changes to internal audit planning and strategy
► More than a corporate level exercise
► Subsidiary decisions regarding IFRS accounting policies on the parent
► Management buy-in is critical to the overall PMO of such a large scale transformation
► Need to limit ‘duplicate reporting’, where possible; first time adoption elections are key
► Changes the way performance is measured and the basis of incentive schemes
► Interaction with internal controls and systems is key (404)
► Important to align internal and external reporting
► Consider the impact on investor relations

Opportunities
► Improve controls over statutory reporting
► Opportunity for single set of accounting policies for global reporting to all statutory bodies
► But only if major economies change to conform to U.S. approach
► If considered/embedded early, you limit the effort and cost of having to re-do

Costs/Challenges
► Likely to be consistent with SEC study (0.13% of revenue), based on peer assessments and SOX experience
► Incremental headcount will be needed to resource effort
► Increased documentation & disclosure
Scope and complexity should not be underestimated...

- Training – learning IFRS
- Technical accounting changes – adoption and convergence to IFRS
- Updating accounting policy procedures and manuals
- Updating training for personnel
- Modifications to internal controls and impact on certifications
- Changes to internal audit plans
- System changes for capturing and reporting data
- Management reporting updates
- Communication to capital markets
Overriding concerns during period of change...

► Reporting integrity – avoiding restatements and surprises
► Maintained or heightened internal controls
► Manage the pain and effort
► Manage impacts on other areas of businesses
► Managing the finance routine
► Resources – sufficiency and appropriateness
Current IFRS experiences

► How many of you already have a strong understanding of IFRS?
► What types of IFRS related activities are your organizations pursuing today?
► Have any of your organizations already decided that IFRS conversion is a critical business imperative?
► Who is waiting until we have a date certain in the U.S.?
IFRS conversion – more than a change in accounting policy

- Impact of accounting on taxation considered irrelevant by IASB
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- Reserving policies
- SPEs
- Early education
- Underlying business performance
- Volatility of earnings and equity
- Hedging strategies
- Re-benchmarking relative to global peer group
- Complex project management
- Audit Committee involvement
- Non-executive understanding and oversight
- Resources and budgets
- Natural role for Internal Audit

Dallas IIA Luncheon
September 3, 2009
Roles and responsibilities

Audit Committee

Senior management

Steering committee

Implementation leadership team

Project management office

Technical Advisory Panel

Project management office

Technical lead
Business impact lead
System lead

Work stream leads

Internal Audit

Internal control group
Conversion phases – overview

- Year 1
  - Business impact quickscan
  - Diagnostic

- Year 2
  - Design and planning
  - Solution development
  - Implementation

- Years 2/3
  - Post implementation review

Program execution
- Getting started
- Change management, communication, and training
- Project management
- Accounting and reporting
- Tax
- Business processes and systems
- Regulatory compliance

Domains
## Roles and responsibilities

### Internal Audit
- Assess the overall project governance via a Risk Assessment of the IFRS Conversion
- Potentially conduct ongoing assurance reviews and/or drill down/testing reviews to evaluate aspects of the convergence implementation
- Remain objective vis-à-vis the IFRS project implementation team

<table>
<thead>
<tr>
<th>IFRS project team</th>
<th>Management</th>
<th>Audit Committee</th>
<th>External auditors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appointed by management to:</td>
<td>Implement and manage the conversion process by active supervision and communication with the IFRS Project Team</td>
<td>Ensure that Management:</td>
<td>IFRS Advisor, the extent of which is dependant upon:</td>
</tr>
<tr>
<td>▶ Manage budget, resources and timelines</td>
<td>▶ Project Sponsorship</td>
<td>▶ Is sensitive to the issues/timelines and has the appropriate resources and skills to conduct an IFRS conversion</td>
<td>– Corporate governance environment</td>
</tr>
<tr>
<td>▶ Ensure compliance to IFRS standards</td>
<td></td>
<td>▶ Has considered reporting implications and impacts on all areas of the business</td>
<td>– Level of perceived independence by Board of Directors and management</td>
</tr>
<tr>
<td>▶ Coordinate all aspects of the conversion (people, process, technology) across business units</td>
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<td>▶ Has a conversion plan to meet the requirements, including appropriate controls required to manage through the period of change and maintain reporting integrity</td>
<td>– Availability of internal resources</td>
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<tr>
<td></td>
<td></td>
<td>▶ Ongoing monitoring</td>
<td>– Breadth and depth of conversion experience</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>▶ Measure success from a financial reporting perspective</td>
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</table>
IFRS conversion – Internal Audit considerations

► Impact on risk management effort
  - Risk profile may change
  - Revisit risk prioritization
  - IFRS project risks and controls

► Impact on internal audit plan
  - Mandate from Audit Committee
  - Attention to high risk areas

► Efficiency and effectiveness considerations
  - Impacts beyond financial reporting
  - Change in control environment

► Project governance
  - Objectives, activities, deliverables and timelines are met
  - Effective change management effort
IFRS conversion – Internal Audit considerations

► Sub-certification requirements
  – Due diligence on IFRS numbers

► Key processes impacted
  – Financial Statement Close Process
  – Manual Journal Entry Process (including spreadsheet controls)
  – Accounting Policy Change Process

► Other considerations
  – Extensive disclosures impact the disclosure committee process
  – Impact on control environment and entity-level controls
  – Shifting risk profile for some accounts, assertions and disclosures
  – Change to documentation, RCM’s, key controls and walkthroughs
  – Timing of implementing process, system and control changes
  – Combination of controls and evaluation methods and strategies
Possible areas of focus for Internal Audit

**Business process evaluation**
- Serve as a process risk and control advisor on key processes
- Measure control effectiveness in light of business process additions, deletions, changes
- Audit IT system changes and evaluate the ability to automate and control IT-dependent areas

**Conversion program monitoring**
- Identify and monitor IFRS conversion program risks (PMO, timelines, costs)
- Monitor conversion program efficiency and effectiveness (milestones, change control, cost)
- Evaluate IFRS leadership and implementation teams in terms of preparation, readiness, resources and training

**Risk management**
- Be the eyes and ears of the audit committee
- Monitor changes to the overall company risk profile
- Re-prioritize audit focus, as appropriate, given the demands of conversion
- Monitor IFRS conversion impact on internal controls (e.g., SOX) programs
- Monitor IFRS conversion program impact on ongoing major company programs and implementations

**Communication/education/training**
- Educate the audit committee on risk and control impact of IFRS conversion
- Educate internal audit practitioners on IFRS influenced process changes and audit implications including documentation, testing and reporting
Questions?
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Our commitment to IFRS

The global move to International Financial Reporting Standards (IFRS) is the single most important initiative in the financial reporting world. Ernst & Young supports a single set of high-quality globally accepted accounting standards, and the delivery of reliable, consistent and comparable information for all capital markets participants.

But IFRS conversion is much more than just an accounting exercise – it is a wide-ranging change management initiative. The effort affects virtually every function within an organization – tax, IT, human resources, internal audit, business processes, management reporting and legal.

Change is never easy, but we are committed to helping our clients make a difference as they recognize the benefits of IFRS conversion within their organization and across the financial markets. We invite you to learn more about IFRS and keep up with the latest developments. Please visit www.ey.com/ifrs.

Contents

Overview ..........................................1
Big changes ahead ...........................2
The first wave ..................................4
The impact on revenue recognition ...5
Ripple effect .....................................6
Where IA fits in ...............................7
Adding value ....................................8
But is IA ready? ...............................9
The proving ground ...........................9
Overview

Despite the approaching adoption date for International Financial Reporting Standards (IFRS) in the US, many companies seem unaware or unprepared for the complexities this change represents. IFRS conversion is a far-reaching effort that affects numerous areas throughout an enterprise — corporate business functions such as tax, accounting and finance; organizational structures; legal contracts, corporate and business unit responsibilities and executive compensation. The relative lack of awareness about IFRS conversion offers a tremendous opportunity for the internal audit (IA) function.

IA is well-positioned to add value to the conversion process and to help the organization realize many of the opportunities that this change presents. For IA to contribute effectively, however, the department will need to reassess and refine its capabilities, and partner with business units, the senior executive team and the audit committee.

The SEC has proposed a roadmap with an explicit timetable for IFRS conversion. With all the changes that need to be made to accounting policies and practices as well as to business strategies, systems and processes, significant work relating to IFRS conversion will need to commence as early as 2009 for large accelerated filers if the roadmap is adopted by the SEC in 2009 as expected. Immediately, organizations need to begin a realistic assessment to determine when they should begin preparations. In addition to determining a realistic conversion timeline, companies should also develop a clear understanding of the magnitude of the anticipated changes. For instance, IFRS and US GAAP treat revenue recognition very differently, and these variations spill over into virtually all aspects of their contracts with suppliers, customers and partners, as well as taxation.

As a first step, companies will need to assess the full scope and impact of the conversion, not only on the accounting and finance functions, but also on IT, human resources, tax, contracts, and performance metrics and dashboards. Given IA’s enterprise-wide purview of the organization and its business processes, it is uniquely qualified to assist business units with their assessment of conversion’s likely impact and to help develop plans for implementing the necessary changes. The principal roles for IA encompass evaluation of business processes, monitoring of the conversion program, risk management and communication/education/training. Ultimately, the business “owns” the conversion, but IA is a particularly strong partner.
Inside IFRS: The opportunity for internal audit

Big changes ahead

In the near future, the US will join more than 100 countries that have adopted International Financial Reporting Standards (IFRS). Many non-US companies have already discovered that IFRS conversion is far more than an accounting exercise. A conversion to IFRS touches many areas, including tax planning and compliance, business processes, corporate and business unit responsibilities, executive compensation and IT systems, to name a few. Such a monumental shift can take several years.

IFRS conversion can be extraordinarily demanding. Yet recent research conducted by Ernst & Young reveals a surprising lack of knowledge and preparation on the part of US-based accounting and finance professionals focused on financial reporting. For example, among respondents:

- 64% say they have only limited knowledge of IFRS
- 62% reveal they lack a preliminary understanding of the balance sheet impact of IFRS
- 56% report they have no target date for developing an IFRS diagnostic tool or designing a conversion implementation plan
- 51% say they expect IFRS conversion to be more difficult than SOX

While IFRS conversion can be a daunting prospect for many companies, internal audit is well-positioned to serve as an advisor and active participant. For internal audit (IA) to contribute effectively, however, the department will need to reassess and refine its capabilities.
It appears that many US companies are unprepared for an IFRS conversion, underestimate the degree and scope of the change and fail to fully appreciate the potential opportunities presented by the change in financial reporting. For the IA function, this relative lack of awareness presents a tremendous opportunity. IA is well-positioned to take a proactive, risk-focused, and value-added role in the conversion process. Organizations and individual business units will need to be educated about the scale and scope of the changes to come, as well as the timing and effort required to effect changes to business processes. The enterprise should develop a vision for what it needs to accomplish as part of the IFRS conversion, as well as an execution strategy. Finally, it will need mechanisms to ensure that all changes are completed on time and to specification. Throughout each of these important steps, IA can assume an active role.

As IA prepares to work alongside management in the IFRS conversion, IA executives should consider the following questions:

- Does the enterprise appreciate the degree and scope of the coming change?
- Does the organization fully appreciate not only the inherent risks but also the potential opportunities?
- Does the company have the proper skills, resources, metrics and governance mechanisms in place to ensure successful organization-wide conversion?

Ultimately, it is the responsibility of the business units and the senior executive team to take ownership of the IFRS conversion process. However, IA is ideally suited to several roles. For example, IA can not only aid the development of a post-conversion vision for the company and its business units, it can also provide assurance relating to the steps along the way.

But for IA to contribute effectively to the conversion process, the department will need to plan accordingly, reassessing and refining its capabilities relating to IFRS. And IA will need to partner with business units, the senior executive team and the audit committee. Throughout the process, IA must serve as both business advisor and as the eyes and ears of the audit committee. What follows is an overview of the potential roles IA should consider in an IFRS conversion program.

It appears that many US companies are unprepared for an IFRS conversion, underestimate the degree and scope of the change and fail to fully appreciate the potential opportunities presented by the change in financial reporting.
The first wave

Make no mistake: IFRS is coming, and sooner than most imagine. The US Securities and Exchange Commission (SEC) has proposed a deadline as early as 2014 for the first wave of required conversions of US companies. The SEC has said that all filers will have to submit three years of audited financial statements in the first year of IFRS reporting. Based on the 2014 milestone, large accelerated filers will have dual reporting requirements – IFRS and GAAP – beginning in January 2012. With all the changes that need to be made to accounting policies and practices as well as to business strategies, systems and processes, significant work relating to IFRS conversion will need to commence as early as 2009. Organizations should immediately begin a realistic discussion to determine when they should begin preparing for an eventual conversion.

As a first step, companies will need to assess the full scope and impact of the conversion – not only on the accounting and finance functions, but also on IT, human resources, tax, contracts, and performance metrics and dashboards. Given IA’s enterprise-wide purview of the organization and its business processes, it is uniquely qualified to assist business units with their assessment of the conversion’s likely impact and to help develop plans for implementing the necessary changes. Once the scope and impact have been assessed, leaders of the conversion project are better equipped to develop informed and realistic timelines around the conversion effort.

In addition to determining a realistic timeline for conversion, companies should also develop a clear understanding of the magnitude and reach these changes will have on interrelated processes, the resulting changes to accounting policies, and the underlying financial data.
Revenue recognition under both US GAAP and IFRS is tied to the completion of the earnings process and the realization of assets from such completion. Under both sets of standards, revenue is not recognized until it is both realized (or realizable) and earned. Ultimately, both sets of standards base revenue recognition on the transfer of risks and both attempt to determine when the earnings process is complete, and both sets of standards contain revenue recognition criteria that, while not identical, are similar.

However, despite the similarities, differences in revenue recognition may exist as a result of differing levels of specificity between the two sets of standards. US GAAP is comprised of a number of revenue recognition standards, which generally contain more application and interpretive guidance than IFRS. This guidance can be prescriptive and may be limited to specific industry transactions. Conversely, a limited number of standards exist under IFRS which contain general principles and illustrative examples of specific transactions.

The loss of US GAAP’s application and interpretive guidance may make the development of an entity’s IFRS revenue recognition policies particularly challenging, and will require the use of significant judgment. Entities likely will have to expand their current internal revenue recognition policies to ensure those policies contain enough specificity as to how they comply with IFRS and to address the items that are not specifically addressed in IFRS. Such policies also should be designed to reflect the business model of the entity, to appropriately measure the operational performance of the entity, and to produce information that has both confirmatory and predictive value.

Of course, shifts in the timing of revenue recognition will have a considerable impact on profitability and therefore taxation. But tax-related variations between US GAAP and IFRS go much farther than this. With disparities ranging from subtle to significant, virtually every aspect of a company’s business will need to be revisited to determine the potential tax impact. Subsequent tax-driven changes to capital structures, processes and perhaps even incentives or performance metrics will be felt throughout the organization.
Ripple effect

Certainly, conversion will be an enormous undertaking for the finance, tax and accounting functions. But changes will also be felt elsewhere in the organization. Human resources may need to review and adjust compensation and incentive policies and contracts in light of IFRS. The IT function will need to review or adjust everything from basic screens for data collection to computational logic. And the resulting implications for risk management and compliance are vast.

Not surprisingly, the switch to IFRS will also alter the composition or absolute level of core company or industry reporting indices, such as return on capital or earnings per share. Each company will need to be ready to explain these shifts to investors and other stakeholders. Such changes in basic indices will also flow through to the performance evaluation of managers and business units. This in turn will force a fundamental re-evaluation and recalibration of performance metrics, scorecards and management dashboards throughout the organization. In fact, instead of merely resetting their performance gauges, a number of leading companies are viewing IFRS conversion as an opportunity to completely reassess their entire performance measurement frameworks.

Finally, organizations must recognize the amount of training and facilitation that will be required to effect change. Beginning with the diagnostic phase, training will be required to help the organization understand what IFRS will mean and evaluate the challenges. Training will then need to become even more focused in support of the design, planning and solution development phases. Of particular value at this time will be any processes that promote cross-functional or cross-regional communication and workflow management. Finally, user training rises to the fore during implementation. Post-implementation, the organization will need to continuously evaluate requirements for additional training and communication.
Where IA fits in

The enterprise ‘IFRS to do’ list is extensive, critical and fraught with both risks and opportunities. In many cases, IA will be able to help corporate leaders identify, assess and monitor progress against items on the “to do” list, and identify opportunities for business performance improvements. In addition, IA has a unique and multi-leveled role in the conversion process. Typically, IA serves as the eyes and ears of the audit committee and a participative partner with business units. The IA function is also a source of support and assurance to the business in the area of risk management. IFRS conversion provides an opportunity for IA to play all three roles simultaneously.

A company’s reputation with investors can be harmed substantially if the enterprise fails to meet the conversion deadline, or is forced to restate earnings. IA can help by identifying when various projects are falling behind schedule or monitoring and testing new controls or processes as they are brought on line in preparation for the conversion. Companies can gain considerable advantage by executing their conversion more effectively than their competitors or by improving the effectiveness and efficiency of business processes and performance management models. With active involvement from the IA function, conversion effectiveness and efficiency can be monitored more closely, and supporting business processes put into place to support ongoing improvements and competitive advantage.

IA is also well-positioned should business units view conversion as an opportunity to improve overall effectiveness and efficiency. Ultimately, the business “owns” the conversion, but IA is a particularly strong partner, able to add value by evaluating business processes and prioritizing needed changes or desired improvements.

The IA function can act as an enabler of risk management as well as an extension of the audit committee. Once all of the needed changes across the organization have been identified, IA can execute a variety of important tasks. Given its intimate knowledge of both individual business units and functions as well as its enterprise view, IA can perform or contribute to an analysis of overall impact. Specifically, IA can comment on the risks and opportunities inherent in the overall conversion strategy and implementation plan.

In addition, IA can play a vital role in project assurance and governance. For example, IA can evaluate whether the plan takes into account possible lapses such as the failure to address critical interrelationships or controls. From there, IA can map the project’s benchmarks and deliverables, monitoring and assessing progress as well as ensuring all essential elements of the plan are properly implemented.
In a global company, IA is likely to have seen conversion take place at another company, perhaps a Europe- or Canada-based headquarters or subsidiary. As such, IA could be a deep source of insight not just for conversion but for business transformation as well. Considering the scope of IFRS conversion, it is apparent that IA can add considerable value across the range of implementation phases. Broadly speaking, the principal roles include assessment, monitoring and improving.

One way to translate all of this into specific actions is to think in terms of four primary focus areas. The list below describes only a fraction of the many activities where IA can add value. However, it should serve as a sound summary and the basis for evaluating alternative or additional roles.

### Business process evaluation
- Serve as a process risk and control advisor on key processes
- Measure inherent risk (likelihood, impact) of business process changes
- Measure control effectiveness in light of business process additions, deletions, changes
- Audit IT system changes and evaluate the ability to automate and control IT-dependent areas
- Assist with due diligence around IFRS financial numbers and data conversion
- Apply a cross-functional and cross-geographic view to identify and share best practices as they are discovered during the conversion process

### Conversion program monitoring
- Identify and monitor IFRS conversion program risks (PMO, timelines, costs)
- Monitor conversion program efficiency and effectiveness (milestones, change control, cost)
- Evaluate IFRS leadership and implementation teams in terms of preparation, readiness, resources and training

### Risk management
- Be the eyes and ears of the audit committee
- Evaluate the risks inherent in the conversion process
- Monitor changes to the overall company risk profile
- Re-prioritize audit focus, as appropriate, given the demands of conversion
- Communicate audit plan focus and changes to the audit committee
- Collaborate and coordinate with other risk management functions
- Monitor IFRS conversion impact on internal controls (e.g., SOX) programs
- Monitor IFRS conversion program impact on ongoing major company programs and implementations

### Communication/education/training
- Educate the audit committee on risk and control impact of IFRS conversion
- Collaborate with business unit management and process owners on risk and control activities pre- and post-conversion
- Educate internal audit practitioners on IFRS influenced process changes and audit implications including documentation, testing and reporting
But is IA ready?

Firms must ensure that their IA functions are adequately positioned and resourced to accomplish all that is necessary relating to an IFRS conversion. Generally, IA is evolving into a more proactive and value-focused function. In particular, it is working with business units to focus audit resources on those areas that return the most benefit to business owners and the company overall. IA is also migrating towards an enterprise view of risk and works with business managers to help them determine the areas of emphasis for risk measurement, monitoring and management. Essentially, IA is helping the business units identify and then manage the most critical risks. This is in addition to IA’s traditional roles as well as expanded responsibilities relating to SOX.

Given everything that needs to be done, does IA have what it needs to take on the demands of IFRS? The following criteria address the issue of IA readiness:

- Does the IA function have adequate resources to fulfill all of the missions necessary to an IFRS conversion?
- What projects already scheduled in the internal audit plan might need to be scaled back or curtailed in order to properly assist/test IFRS-related processes and controls?
- What risks are inherent in an IFRS conversion, and what risks might any IFRS-driven changes to the existing audit plan introduce/pose for the organization?
- What specific additional resources might be needed by the IA function and how best can they be obtained?
- What training or refocusing of existing resources might be prudent given the demands of an IFRS conversion, both pre- and post-conversion?

This is just a partial list of the questions requiring answers about IA’s capabilities. But given all that’s at stake, every organization needs credible responses as well as an action plan to address any gaps. IA’s role in IFRS is critical and the function needs to orient itself towards fulfilling this mission.

The proving ground

The overriding goal of today’s IA executive is to partner with business units to create real value. In addition to their traditional audit and assurance roles, IA executives similarly want to demonstrate their utility in helping their organizations better assess and manage risk. Now, along come the vast risks and opportunities inherent in the enterprise imperative known as IFRS conversion. Do IA executives truly believe in the new, expanded and value-added mission of their function? Do they believe they have all of the appropriate resources necessary to fulfill their vision? If so, they could not ask for a more custom-tailored proving ground to demonstrate the value of their role.
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For more information, contact:

Neil D. Aaron
+1 212 773 8101
neil.aaron@ey.com

Steven H. Singer
+1 513 612 1856
steven.singer@ey.com