I Can See Clearly Now: Maintaining Required Levels of Transparency for IFRS Reporting

an eprentise white paper

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Are spreadsheets still a part of your IFRS (International Financial Reporting Standards) reporting process? For most companies, the answer is yes – thanks in large part to the complex requirements of IFRS, spreadsheets were often put in place to bridge the gap between the reporting differences in ERP systems and IFRS during the initial conversion to IFRS. This practice worked because making changes to the ERP system before going through an IFRS cycle could have led to obtuse and costly workarounds in the long run – but the *continued* use of spreadsheets causes even greater problems. Spreadsheets are prone to error, burdensome to maintain and less secure than dedicated applications with built-in controls.

Ideally, post-audit requirements have been established, and these requirements were mapped to specific changes in the ERP system. In many cases, these changes have not occurred, and some ERP areas to address moving forward include:

- Existing data may need to be aggregated in different ways. In some cases, more granular information is needed – for example, to prepare component depreciation calculations, as much as 10+ years of data may be required.
- The chart of accounts and cost center structures may need to be redesigned.
- All balance sheet validation should be reviewed and must include a multi-year valid audit trail.
- The IFRS standards require additional and changed information and disclosures for financial reporting purposes. Compiling these details will require multiple years' worth of drill-down information.

See also the [Pocket Guide to IFRS Standards: the global financial reporting language]

While taking all of these factors into consideration, changes made to an ERP system should be based on one controlling principle: transparency. For financial reporting purposes, **transparency** is defined as ensuring that full *drill-down* (vouching) and *push-up* (tracing) is maintained. **Drill-down**, or vouching, means that all reported IFRS balances, financial performance, and disclosure amounts can be easily vouched to underlying data within the ERP system and then to the source document – e.g., bill, check, shipping manifest, etc. Drill-down is essential for annual audits of assets and owner's equity. **Push-up**, or tracing, means that it is possible to trace any amount from the underlying ERP system into the reported IFRS balances, financial performance, and disclosure amounts. Push-up is essential for annual audits of liabilities and owner's equity. Failure to maintain transparency both ways is a costly mistake that will lead to a more burdensome and lengthier audit.

IFRS Compliance — the Requirement for Transparency

Since IFRS guidelines do not explicitly require transparency, the concept is an area of much confusion for both preparers and users of financial information. Because of the level of detail required for reporting – including presenting multi-period balances and performance, supporting financial statement disclosure, providing an adequate audit trail, and providing comprehensive information for external auditors – close to full transparency into at least ten years' worth of ERP financial information is needed.

Failure to maintain adequate transparency and drill-down at all levels of the financial reporting systems can result in increased risks to the organization, such as:

- Financial reporting and supporting processes being manual and more time-consuming.
- Misstated financial statements results due to missed adjustments or incorrectly calculated manual adjustments.
- Difficulty in tracking and maintaining topside adjustments over time.

Because it is a universal truth that accountants love their spreadsheets and that their standard operating procedure for financial reporting tends to be SALY (same as last year), it is very tempting to continue to use the ad-hoc solution from first-year IFRS conversion – that is, leaving the underlying ERP system(s) the same, following generally local GAAP, and then just continuing to use those first-year spreadsheets to bridge the gap. This temptation is understandable, because the initial IFRS conversion was exhausting! But, as a continued process, this solution compromises full transparency and is, in general, a poor idea.

GL Consolidation Doesn't Work

The simple litmus test for whether an IFRS reporting solution is fully transparent is to test each direction, drill-down and push-up. Ideally, all balances and reporting information is maintained in one ERP system. That said, organizational constraints may prevent this. As a result, when multiple ERP systems are used for entity wide IFRS reporting, it may be necessary to export the transaction and balance information, then import it into a larger, corporate reporting system. If all books and records are maintained within one ERP instance, full transparency is generally the result.

When a company uses a consolidating ledger set up a secondary ledger with subledger accounting. With a multi-instance reporting environment, the risk of not achieving bi-directional transparency is significant.

Two of the more common solutions used for multi-instance reporting environments are external reporting tools (such as Hyperion) or a data warehouse. If significant transformations are made to the data from multiple instances to make them suitable for IFRS reporting, or if additional transformations are made in the corporate reporting system, transparency may be lost because there is not a clear way to drill down to the detail. Additionally, loss of transparency will occur if charts of accounts and calendars in all reporting systems are not consistent and rationalized for IFRS compliance. This occurs because the transformation code that is required to rationalize disparate charts of accounts or calendars can be changed without providing an audit trail or enforcing data integrity from the transaction system (Oracle® E-Business Suite) and the reporting system.

Conclusion

IFRS can be a painful, but necessary process. But with careful planning and attention given to maintaining full transparency, the IFRS reporting process can become an efficient one for creating financial statements and, more importantly, completing the annual audit process.

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