Are you ready for IFRS?

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On 1 January 2018, Singapore-incorporated companies on SGX need to apply a new accounting framework identical to the International Financial Reporting Standards (IFRS). Alongside this, there is an overhaul of two major accounting standards on revenue recognition (IFRS 15) and financial instruments (IFRS 9).

How ready are companies for these new accounting standards?

According to a recent study by KPMG, as of 30 April 2017, only about 30 per cent and 35 per cent of 396 listed companies in Singapore have explained where they stand when it comes to the new accounting standard on revenue and financial instruments respectively in their 2016 Financial Statements.

That is not a good result, especially if you consider that ACRA reminded companies and their directors in 2016 through Practice Guidance No. 1 to disclose their status of preparedness, including reasonably estimable quantitative information on the expected impact in their 2016 accounts. And almost no company provided any numbers.

How much progress have listed companies made since 30 April 2016? Anecdotally, speaking to professionals who are helping companies with the implementation of such requirements, no one seems to be appropriately excited about going "live" on the new requirements in January 2018.

Urgent action needed

The reality is that massive changes in the accounting framework and standards are going to take time to be understood, interpreted, implemented and embraced. It cannot be treated as "business as usual".

To this end, the entire financial reporting ecosystem, from preparers, audit committees (ACs) and auditors to regulators and the stock exchange, all have to play their role well and work hand-in-hand to deal with the challenge. This includes creating awareness, educating stakeholders and allowing for the flexibility that is needed when it comes to interpreting how accounting standards should be applied in practice.

Most of all, it means that companies have to gear up and prepare for the new accounting standards.

Their most urgent task is to prepare for the disclosures in the 2017 Financial Statements on the readiness of applying the two new standards. As both standards are applicable from 1 January 2018 onwards, expectations are that some form of quantitative impact will be included in the 2017 disclosures.

Catching stakeholders by surprise with the first interim results announcement under the new standards during 2018 is certainly not advisable. The regulators have made it clear what their expectations are: meaningful and comprehensive explanation of the impact of the new standards.

Boards need to act

Boards, and especially ACs, need to ensure that they provide the necessary oversight in this undertaking. Directors could start by first asking the right questions of finance:

Immediate Action on the New Accounting Standards

- **Form a workgroup.** This working group should be sponsored by the board and the CFO for immediate mobilisation.
- **Organise a kickoff workshop.** The workshop should involve all internal stakeholders impacted by the new standards: finance, business heads, legal, sales, treasury, operations and any others that can help in compiling the information needed to assess the impact. Given the little time left, finance alone will not be able to get it all done in time.
- **Collect the information.** After the workshop, all stakeholders should collect the necessary information (for example, sales contract types) and provide them back to the workgroup. The information should then be analysed to identify clusters of similar data or contracts. The clusters should then be analysed to quantify the accounting impact.
- **Organise a second workshop.** This workshop discusses the results of the cluster analysis and quantification. Once agreed, the quantification can be used to inform the other stakeholders.
- **Extrapolate the data.** Considering materiality (which should involve the external auditors), the cluster information should be used to extrapolate the quantitative impact on the financial statements as a whole. This information may be of sufficient accuracy for disclosure purposes in the 2017 financial statements.
- **Refine the numbers.** A more refined computation of numbers should be planned on an ongoing basis for implementation in 2018. The next key deadline will be the first interim results announced in 2018, as those numbers will have to be under the new requirements, including the restated comparative information.
- **Prepare a longer-term project plan.** A proper plan is needed to transition from the plan B process to a more robust, fully integrated reporting process that is automated to the extent reasonable with the target of implementing it during 2018. The 2018 year end financial statements should be prepared using a robust, well-controlled environment.

- How far has the company progressed with the implementation of the new accounting standards on revenue and financial instruments?
- Is there a plan B if a full implementation including all systems and IT changes cannot be achieved by January 2018?
- What are the implications on the numbers?
- How robust are the estimates used for determining these numbers?
- How do the AC and the board get comfortable with the numbers?
- How and when do we communicate any changes to our stakeholders?

Where a company is indeed behind in its preparation for the new accounting standards, then urgent action is needed to mobilise a workgroup and bring all key stakeholders together to catch up on the implementation. The box, "Immediate Action on the New Accounting Standards" provides a set of suggestions for getting started.

With only a few months left to prepare, time is of the essence. Audit committees especially need to make sure that if preparation for the upcoming accounting change is not already well underway, urgent action is needed. ■