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New standards

Coordinating group and local numbers

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Are central and local finance teams on the same page?

The new standards on financial instruments and revenue recognition are highly complex and will have far-reaching effects on companies' reported numbers. Central finance teams are working on impact analyses and creating models to calculate the consequences.

But the devil is in the detail: to get the accounting right, knowledge of the intricacies – such as the specific sales contract terms and the debtors' profile – is absolutely key. And it is the commercial teams who negotiated the contract terms at a local level who really understand that detail.

From what I'm hearing in the market, implementation is being driven largely by central finance teams. Of course, they are getting data and information from local offices to inform their judgements and implementation decisions – but do they fully understand it and can they interpret it in such a way that the model is fit for purpose?

Not like other standards

Other major new IFRSs that have come into effect have simply not had the scale of impact that these two standards will.

Business combinations, for example, or share-based payments – the effects of both of these could be determined by the group finance function with minimal input from divisions.

But the impact of IFRS 9 and IFRS 15 can be more pervasive, with core business processes being affected. In order to determine the impact, information about the nature of agreements with the local customer base is vital. And if the system and control impacts are found to be extensive, the consequential re-engineering of processes will also need input at a local business level.

Regional variations

The usual, centrally led approach to accounting change projects needs reworking to take account of regional variations, too.

Thinking about IFRS 9, the legal rules around mortgages vary around the world. In some states in the US, for example, a defaulting customer may be able to hand in the keys and be free of any further obligation towards the lender. But in other countries, the customer is still liable and can be pursued for repayments. So the central finance team must have enough information about the contracts held locally to build an expected credit loss (ECL) model that accurately reflects the realities on the ground.

Similarly, when the central finance team wants to calculate the impact of IFRS 15, it has to take into account the differences in sales contracts for different products, business lines and jurisdictions. Deciding how to apply IFRS 15 to a sales contract relies on local knowledge and analysis.

Action needed now

If the accounting change project is to take account of the specific situation in different regions and offices, group and local teams need to be talking to each other like never before. If they don't, the implementation may not be fit for purpose, which would mean difficult conversations with investors and analysts later.

In many cases, it seems that local CFOs may not, as yet, be fully connected to the central projects. This is really concerning. Local CFOs must ensure that the solutions deployed take account of the local situation. After all, it is the local CFOs who will have to sign off the local statutory accounts, as well as on reports to head office.

Time is of the essence

It's not long now until the impact disclosures for both standards will need to be finalised and published in the 2017 annual financial statements. My recommendation is that good two-way communication starts today, if it hasn't already, so that the responsibilities of central vs local finance teams are clear and understood, and that timelines are agreed.

Don't forget that in some cases, additional IT systems may need to be developed – which could take some time.

Auditors need to be involved, too

Once the models are ready, your auditors will need time to perform all their procedures to get evidence about how numbers have been prepared. So at both group and local level, CFOs should already be talking to their auditors.

Bear in mind that local auditors will also need to liaise with group auditors. They need to agree the work that needs to be performed locally; the audit work to be performed centrally; and the sign-off procedures needed to issue the group audit opinion, as well as the local audit opinion.

Needless to say, all parties will want this process to happen as smoothly as possible.

Co-ordinate now

Now is the time to ensure that all of this is under way. After all, no group will want to get its 2017 estimates wrong and have the embarrassment of correcting them in the 2018 financial statements. And neither will the local CFO!

About the author

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