IFRS 15: Time’s up

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This is our second edition in a series of joint publications between EY and the University of Melbourne on IFRS 15 *Revenue from Contracts with Customers* that was founded on the University of Melbourne survey results which indicated that many entities considered they were falling behind in their implementation.

Our first publication considered the need for high quality data to meet the requirements of IFRS 15, including not only the challenges associated with capturing, storing and reporting data, but also the opportunities and insights that quality data brings to the commercial decision-making process.

This publication aims to assist entities in transitioning to IFRS 15 by providing **practical tips** for still meeting this deadline and mitigating the last minute rush.

Time for interim solutions

With IFRS 15 now effective for two months,[1] there’s a strong expectation from stakeholders that entities will have fully assessed and implemented the new Standard. However, experience shows that this is not the case for the vast majority of businesses.

The reality is it is now too late to contemplate a full implementation for most. System and process upgrades, new business rules, amended controls and procedures will not be ready before 1 July 2018. Instead, interim solutions will need to be developed and applied. However, this does not have to mean extra cost and effort. Designed the right way, provisional tools and processes can play a dual purpose of not only getting you to the finish line, but can be effectively leveraged when it comes to implementation.

Our top tips

- **Don’t delay** - set up a dedicated, experienced project team and engage with your executives and board
- **Let technology do the work** – document examination and OCR tools can assess the extent of commonalities / differences between contracts
- Use a **parallel** approach to assessing the impact on different business processes
- **Materiality can be your friend** – focus on key revenue streams (but ensure you document your materiality judgements)
- Use a **tactical approach** to transition, finalise a permanent solution later (e.g. updates to systems and processes) but in a way that minimises duplication.
- Involve **sales, legal, marketing and IT early**
- Reach and document your views and **engage your auditor early** – mitigate the risk of surprises later
- Connect with peer groups to **align treatment on industry-specific issues**

[1] For entities with 31 December year-ends.

Check in

Consistent with our recent experience, the University's survey results indicated that many entities considered that they were falling behind in their implementation of AASB 15 (the equivalent Australian Accounting Standard). Deploying insufficient resources to the project may expose management, boards and finance professionals to significant risks. Risks include not being compliant with their statutory reporting requirements, misstatements of disclosures in the first IFRS 15 financial statements and more. It's not too late for entities to start, but a streamlined approach is crucial and time is running out.

Perspectives on managing risk

Evidencing the risks facing entities, only 26.9% of respondents felt able to clearly define what it meant to be compliant with AASB 15. The majority of entities also expressed concerns over the potential reputational damage from failing to be fully compliant. With the uncertainty as to what compliance means and how to achieve it, entities will need to draw on both internal and external resources to address the implementation challenges.

Set up a 'Tiger Team'

- Appoint a team of senior, experienced, resources to execute the diagnostic. At the very least, supplement your team with specialists that have strong experience in practically executing IFRS 15 implementation projects.
- Entities who do not dedicate resources to implementation do not make progress – make it a day job, not something on top of a day job.
- Establish a decision-making process and focus governance matters on speed to approval, without compromising quality. The implementation team must check-in regularly with senior finance professionals because if incorrect conclusions are reached early on, fundamental issues with the timing and amount of revenue recognition will follow.
- Ensure the diagnostic gets the issues on the table – supplement interviews / workshops with your commercial and customer teams with a sample of contract reviews covering all key revenue streams.
- Scan all customer contracts and use document examination software and optical character recognition ("OCR") technology to achieve massive coverage in a short space of time. Designed properly, this has the potential to identify and assess risk, carve out inefficiencies and focus work effort.

Speed to point of view

IFRS 15 can be a complex standard, but our experience has shown that the quicker you can come to a preliminary point of view on the likely accounting change for each issue, the better. By definition, this will be a qualified conclusion, but this approach allows you to better focus next steps by clearly defining the activities required to close out the conclusion. This will help minimise the risk of over-engineering the work effort and avoid endless technical debates and move the project forward. Conduct high-level modelling and involve stakeholders at key points in the process, including auditors.

Make sure you use all shortcuts available to you

- Apply a risk-based lens to implementation, but only after you have gained an understanding of the contract population, separating your revenue streams and getting insights on key issues.
- Quick wins are available if appropriate application shortcuts are found that do not materially affect the amount, timing or disclosure of revenue.
- Depending on facts and circumstances, you may be able to account for a portfolio of contracts or to identify and group together performance obligations that are satisfied at the same time or over the same periods of time.
- Finally, apply materiality where possible, but watch the dangers of shouting "immaterial" too early in your analysis.

"For many of our clients, getting started has been the biggest challenge. To accelerate progress we have seen the value of initial diagnostics which inform risk assessment and targeted preliminary contract reviews to validate expectations. This diagnostic provides the foundations for project planning, resource management and stakeholder engagement."

Michael Collins, Assurance Partner, Ernst & Young Australia (Logistics, Mining and Professional Services)

Parallel workstreams

A waterfall approach to implementation is no longer possible. You will need to simultaneously assess and account for the impact of IFRS 15 across your relevant business processes. Impacts include:

Budgeting and forecasting – do these factor in IFRS 15?

- If you don't have time to amend your budget, an interim approach may be required to amend your current budget to account for IFRS 15 then recast the budget.

Employee incentives – How are your employees' KPIs affected?

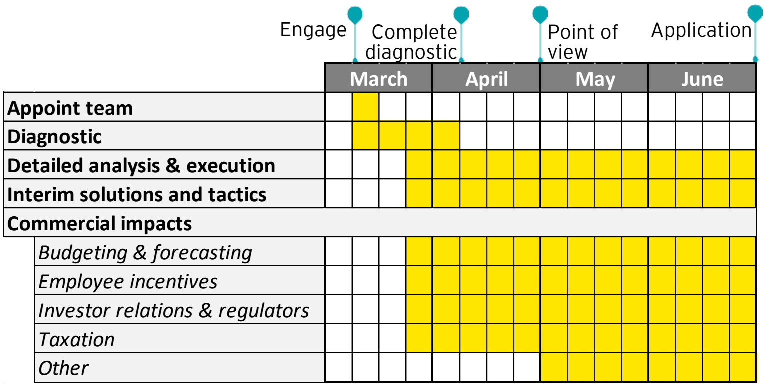
- Perform a diagnostic to understand how many employment contracts/employee incentives have KPIs that are tied to revenue
- If there is an impact, establish how you are going to communicate this to employees, including how you plan to manage the impact of new accounting standards during this period
- Educate employees on the potential impact (i.e. targets may or may not be met if they are linked to profit & loss calculated under IFRS 15)
- Consider potentially differing treatment between current and future incentives
- Consider changing the metrics that incentives are aligned to.

Communication – Your revenue, profit and key financial metrics which are linked to IFRS and are reported may give your stakeholders more information about your business.

- Consider and respond to the commercial risks and opportunities from increased and new disclosures
- Develop your communication narrative. Effective communication during the transition period will be paramount. We will cover this topic more in our next publication coming soon.

Streamlined implementation plan

If you haven't already done so, engaging your stakeholders and creating a detailed plan for implementation are key first steps. Use month-end, budgeting and audit committee meetings to engage and plan. A timeline focusing on parallel workstreams for 30 June year-ends could be:



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