

IFRS 15: The data challenge

IFRS 15: What is your data strategy?

With IFRS 15 *Revenue from Contracts with Customers* now applicable, our practical experience and feedback from a joint EY / University of Melbourne survey pinpoints high impact areas and the need to update systems and processes where gaps in current data capture may exist.

With uncertainty regarding the type and level of data that entities need to be capture, this publication highlights key considerations for management and project teams transitioning to IFRS 15, including challenges, opportunities and next steps required to implement the new Standard.

The survey

EY and the University of Melbourne (UoM) conducted a survey of 143 finance professionals during mid-2017 in relation to the implementation of AASB 15 (the equivalent Australian Accounting Standard). The results of the survey highlight areas of concern with regards to implementation, and as discussed below, provide evidence that the level of data required to meet the requirements of IFRS 15 remains uncertain. A key theme from the survey results is that there is a lot of work still to be done by entities in the journey to transitioning to IFRS 15.

Data uncertainty

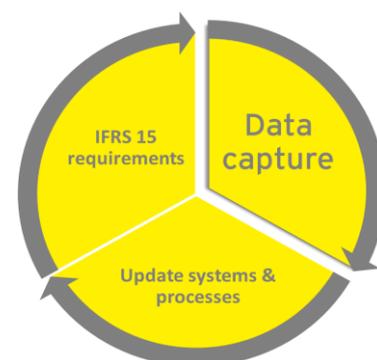
Considering the potentially far reaching impacts of IFRS 15 and the fact it is now effective, one might expect that entities would have finalised their modifications to systems and processes. However, this appears to be the exception, with 28.7% of survey respondents indicating that they had not begun planning how they will be impacted by the requirements of the new Standard.

This result is concerning, as to effectively and efficiently implement the new Standard, an entity must first determine how they will be impacted by the new requirements and determine:

- ▶ what data is needed
- ▶ where the data is located
- ▶ how the data can best be captured, analysed and stored.

More than half (56%) of surveyed respondents are uncertain as to how much data they will need to capture, compile and integrate, making it clear that for some entities a great deal of effort remains to enable entities to adequately identify and capture the data needed to comply with the new requirements.

While 78% of respondents acknowledged the impact of IFRS 15 on finance and accounting, 65% were concerned with the impact on the IT function - indicative of the need for a cross-disciplinary implementation effort to identify the data needs and implement effective systems to capture the data.



Why data capture is critical

The five-step model in IFRS 15 employs a *contract* focus, where the amount and timing of revenue recognised is driven by the identification and satisfaction of *performance obligations* ("PO") within the contract. The requirement to identify and separately account for POs requires an analysis of data at a level that is not required under existing standards. Much of this data capture will be an ongoing requirement, affecting recognition, measurement and disclosure processes. Accordingly, systemising this data is essential to minimise the associated costs and to enable the CFO and the finance team to direct their time towards providing decision support and insights to the business, rather than simply running processes and generating information.

Challenges

It is evident that the need to capture more data throughout the customer lifecycle is challenging. For example:

- ▶ More data will need to be captured, stored and reported on (e.g., at the PO level)
- ▶ Existing IT infrastructure may not accommodate increased data requirements
- ▶ Data that was previously purged may need to be captured and stored
- ▶ Large amounts of data often need to be extracted from manual documents and digitised
- ▶ Potential need to consider interim data solutions with appropriate controls during the transition period
- ▶ Multiple data sources and systems to be considered across multiple functions including commercial, finance and legal

The impact of these challenges can be managed by having a clear implementation plan (that includes a data strategy), engaging a cross-functional team and smart use of technology such as Optical Character Recognition, automating extraction and robust analytics.

Opportunities

Fortunately, it's not all doom and gloom. IFRS 15 can present significant opportunities to enhance business performance and create new commercial outcomes, including:

- ▶ New data insights on both customers and your commercial teams and processes
- ▶ Efficiency gains by removing manual accounting processes
- ▶ Chance to standardise, rationalise or renegotiate contracts, reducing commercial risk, complexity and cost of doing business
- ▶ Cross-disciplinary alignment and better integration of finance, commercial and legal teams
- ▶ An opportunity to revisit KPIs and performance-based remuneration

Leading businesses will establish a value capture workstream as a discrete component of their IFRS 15 implementation project, with a specific objective of identifying and operationalising such opportunities.

What next?

Challenge your current implementation plan:

- ▶ Does it have a data strategy and workplan as part of the implementation project?
- ▶ Does it cover all the risks and challenges that it needs to?
- ▶ Do you have the right interim data solutions and the right controls during transition?
- ▶ Are you using technology effectively to get the required coverage and extract data in the most efficient way?
- ▶ Do you have a value-capture workstream to identify and capitalise on the data opportunities for our business?

This is the first of a series of publications to be issued during the first half of 2018. Look out for our next publication, which will further explore the opportunities and challenges for entities transitioning to IFRS 15.

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