IFRS Implementation on a Utility Company

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Abstract

The acceptance of the International Financial Reporting Standards by Greece as a member of the EU, has created a major need to many large companies in the Greek market. In conjunction with the latest developments in Information System Technologies, these companies take advantage of this need and turn it into an opportunity to invest in international ERP (Enterprise Resource Planning) systems for the support of their full business cycle.

The objective of this study (case study) is to cover the implementation of an international ERP on a Greek Public Utility Company, analyzing the difficulties that appear due to the unique company culture and the lack of a former unified system for the company's information system applications.

Emphasis will be given on the IFRS implementation and the final solution that was formulated with the support and the interventions of the company's financial staff.

A decision was taken that the IFRS was affecting the company's economic position mainly on the Fixed Assets and General Ledger areas and thus these where the two areas where the implementation took effect.

The specific implementation has been developed, with great success, into a pilot solution for the coverage of the IFRS presentational and operational needs of similar companies with large volumes of transactional and financial data. The experience gained has enabled the financial staff of the company to look further into the future and take advantage of additional operational abilities provided by their new software for an horizontal spread of their MIS tools, enabling all the stakeholders to be able to get a clearer picture of the true financial position of the company, for the present and the future.

Keywords: International accounting standards, case study, Greek market.

Introduction

The Globalization of the world's money markets has created a need for homogeneous reporting standards for all the companies whose stocks are being traded in various stock exchanges. Thus motivated, the European Union decided to implement the International Accounting Standards across the member-states of the Union, starting on January 1st, 2005.

The International Accounting Standards were established by the International Accounting Standards Board and are in fact a part of an on-going process to put worldwide accepted regulations in the way companies report their economic figures. Except from the European Union member countries China, Australia and Japan have also declared their interest in abiding by the rules of the International Accounting Standards (IAS).

There have been a few studies considering the impact of IAS adoption in the companies of various developing and developed countries. some studies like Choi et al. (1999) analysed the reasons for the acceptance of IAS. Specifically, they distinguished four basic reasons: 1) the IAS constitute the basis for national accounting requirements 2) they can be used as an international benchmark for multiple comparisons 3) the various international organisations value them highly 4) many stock exchange markets such as London, Frankfurt, Hong Kong, and Rome and many regulators accept financial statements that have been prepared in accordance to the IAS.

El-Gazzar et al. (1999) have investigated multinational corporations and how good is their compliance with the IAS. Street and Gray (2001) investigated also the companies' compliance with the IAS based on the examination of financial statements and footnotes of companies in different international markets. Their results indicated that there were a significant number of cases of non-compliance with IAS. For example, the companies in France and Germany, had a high degree of non-compliance. This lack of compliance could be due to the different accounting systems between the European continental and the Anglo-American systems, since the IAS are based on the latter. This could be viewed as a 'lack of familiarity' problem at the IAS adoption.

Ortiz et al. (2003) determined and classified the obstacles for international financial analysing. These obstacles were classified in four general factors or groups: country factor, industry factor, size factor and accounting diversity factor.

Abd-Elsalam and Weetman (2003) investigated the effects of the IAS ' introduction in the case of an emerging market such as Egypt. Their results showed that the 'lack of familiarity' was a major problem and there was a great need for training courses and technical support. Finally, Jermakowicz (2004) examined the adoption of IAS in a developed market such as Belgium. His sample was consisted by 20 companies. He found that there were significant differences between IAS and Belgian GAAP since the former are more investor-oriented, while the latter are characterised by the principle of creditor protection. According to the results, the main differences involved the taxation system, pensions, provisions, dividends and impairment of assets.

In Greece, since the country is a member state of the European Union, the publicly held companies along with their subsidiaries, were forced to abide by the rules of the IAS, from January 1st, 2005. However, most of the country's accountants had no idea of how to implement the standards and by the end of 2005, very few companies had realistically prepared their economic reports keeping in mind the rules defined by the IAS. In most cases, the companies continued working based on the rules of the Local Tax Standards and every quarter they pulled their financial information in an Excel spreadsheet, where they manipulated the data in order to provide the company's reportable financial position based on what they believed were the IAS rules).

Although this practise continues to be the main solution for many medium sized companies, the accounting departments of most large companies have come to understand that they have to incorporate IAS into their functional operating systems.

The objective of this study (case study) is to cover the implementation of an international ERP on a Greek Public Utility Company, analyzing the difficulties that appear due to the unique company culture and the lack of a former unified system for the company's information system applications. Emphasis will be given on the IAS implementation and the final solution that was formulated with the support and the interventions of the company's financial staff.

The particular Public Utility Company let us call it "Company A" for the whole case analysis. Their economic department had created an elaborate system based on multiple interconnecting Excel spreadsheets that would collect the running data from the main operating system and then manipulate them in order to create the economic reports under IAS. After working with these "tools" for three years, it became obvious to management that they had to incorporate the IAS into their main operating system and thus they requested the help of the information technology partners that supported their various subsystems, for any help they could provide. The challenge was answered among others, by Oracle Hellas, and the solution that was finally accepted and implemented is the main subject of this presentation.

Since this is a case study, the research methodology is restricted in describing analytically the various steps (or stages) of the IAS implementation process. There is no statistical analysis since it is not appropriate for the purpose of the present study.

Case Plan Development

In general, when dealing with customers that already have an existing Information Technology (IT) infrastructure in place, the first step in any IT project is to define the existing operational system along with the user defined procedures that are being used in daily business. The relevant information is being collected by certified consultants, using personal interviews with the IT personnel of the customer, as well as with the end-users of the existing systems. These consultants must have full knowledge of the proposed software packages in order to detect and clarify through their interviews the relevant information necessary for the implementation of the new solution and not cluster the project with needless information that will waste extra team effort to filter out the irrelevant ones.

Regarding Company A, through these meetings the solution – design team was able to establish the existing operational status of the company. The most positive feature was the fact that the customer had already set a basic ERP implementation for the basic General ledger and Fixed Assets needs. This meant that the end-users were familiar with the general interface and the consulting team would not have to include excessive training for simple tasks like, record search, update or insert. The second issue derived from the existing infrastructure, was that the existing reporting for the two modules (General Ledger and Assets) was already in place, operational and sufficient enough for the requested needs of the IFRS.

The general plan for Company A was to use two different general ledger books and two different asset books to cover the tax needs and the IFRS needs respectively. The key to a successful solution is to eliminate, or in the worst case, minimize the need for double entry of the transactions and the other primary data by the end-users. Since

the largest and most detailed amount of the information entered into the system is necessary for the detailed transactions of the Local Accounting Principles, the logical solution would be to use these entry points as the single entry points of the necessary information. This is contrary to the IFRS logic of having the IFRS book as the main accounting book for the corporation and having the local principles' book as a secondary tax book. In Greece, however, the local principles are far more detailed than the IFRS and thus the Local books need to be the primary ones in all cases).

This leads to a solution plan that would have the flow of information going from the Asset system under local principles to the Local General Ledger and the Asset book under IFRS principles. Then from the IFRS Asset book the relative information would flow into the IFRS General Ledger book. The rest of the general ledger information (Debit and credit balances of all other accounts but the Asset depreciation expenses and reserves), would flow from the Local principles' book to the IFRS one. the whole process is depicted in brief in Figure 1 and is analysed in the following paragraphs.

The steps for the implementation of the new system according to the IFRS are the following:

First, to set the general architecture plan. Once the general architecture was set, the next task was to establish the proper way to create the necessary "components" along with the interconnecting links.
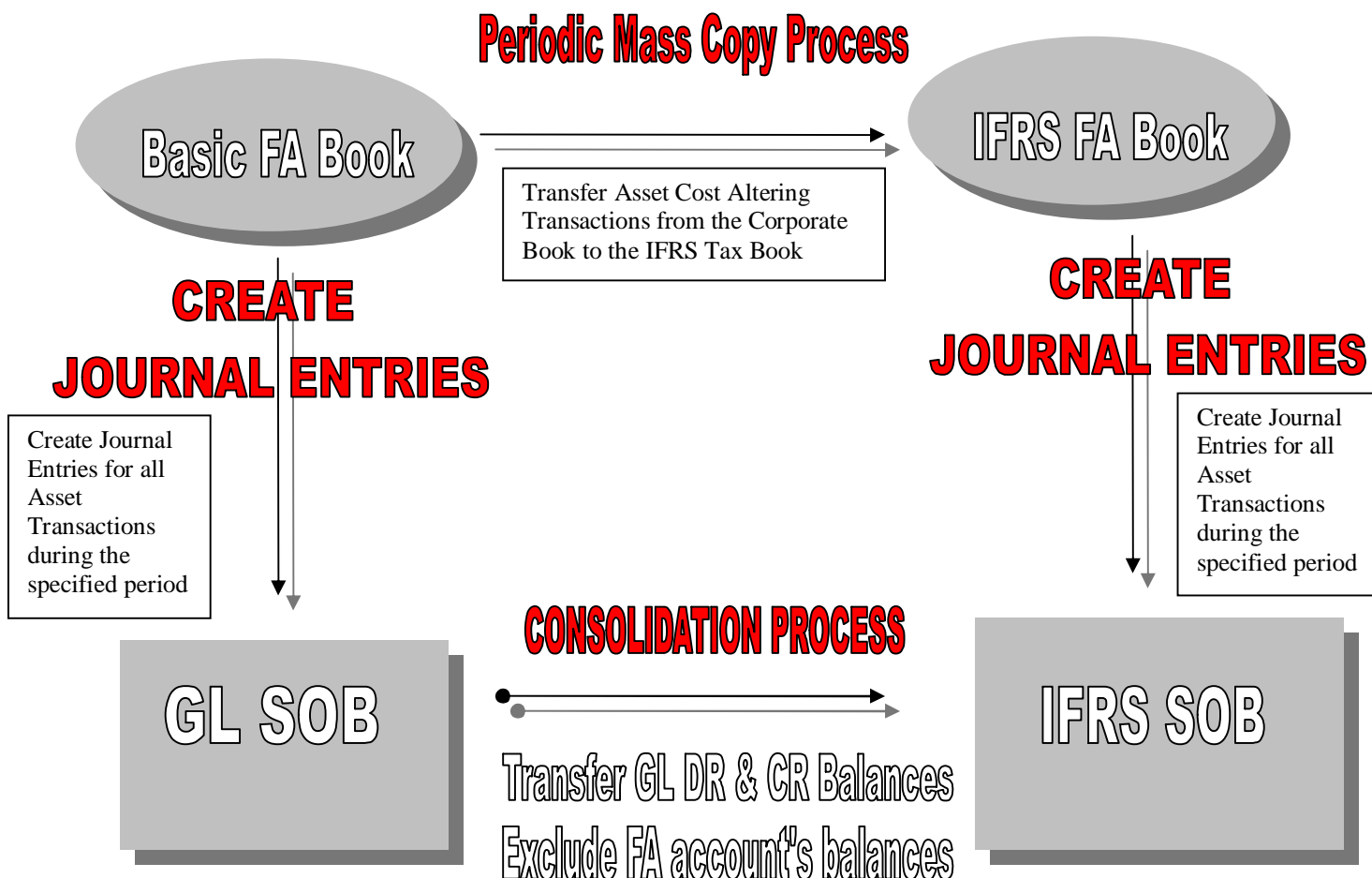
This second step involved the creation of a second Fixed Assets' Register (Assets' Book), where the assets would be classified with different depreciation rates, based on the life expectancy of the assets. Also, there would be some extended reclassification of the assets in order to isolate in separate categories the assets that should not be transferred in the IFRS book. For the particular Company A leasing is not currently used operationally, thus there is no need to take any further action in covering that contingency.

The third step required the creation of a second General Ledger Book according to the solution plan. This second ledger book would be used for the documentation of the IFRS transactions. In order to save maintenance effort, this Accounting Book would use the same 14 period calendar (12 months + 2 adjustment periods: beginning and ending) and the same chart of accounts.

The fourth step involved the flow process itself. For this the solution plan called for the utilization of as many of the software's ready solutions as possible. Thus in all cases, the transfer of data between books was established through core processes of the ERP software. The main process of transferring the accounting information from one book to the other is being executed through the standard process of Consolidation. In detail the consolidation process involves the rules and the mapping processes that connect the lower degree Greek accounts with the relative IFRS accounts in order to be able to transfer the debit and credit balances of these accounts from the Local book to the IFRS book.

Figure 1:

Solution Architecture

Periodic Mass Copy Process

Basic FA Book → IFRS FA Book

Transfer Asset Cost Altering
Transactions from the Corporate
Book to the IFRS Tax Book

CREATE
JOURNAL ENTRIES

CREATE
JOURNAL ENTRIES

Create Journal
Entries for all
Asset
Transactions
during the
specified period

Create Journal
Entries for all
Asset
Transactions
during the
specified period

GL SOB

CONSOLIDATION PROCESS

IFRS SOB

Transfer GL DR & CR Balances
Exclude FA account's balances

Although there is a clear addition in the Local Law for the operations of Anonymous Companies[1] with the title "International Accounting Standards" where the following minimum documentation was established as mandatory, Company A never asked these to be created through the system and thus they were outside the scope of the project:

- Daily Journal of Tax Differences (Ημερολογιο Φορολογικων Διαφορων)
- General Ledger of Tax Differences (Καθολικο Φορολογικων Διαφορων)
- Tax Asset Ledger or Ledger of Asset Tax Differences (Φορολογικο Μητρωο Παγιων Περιουσιακων Στοιχειων η Μητρωο Φορολογικων Διαφορων Παγιων Περιουσιακων Στοιχειων)

The fifth step involved the testing of the IAS implementation, the next step was the presentation of the whole solution and the collection of feedback information, comments and suggestions. The

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[1] Chapter No 15 in K.N. 2190/1920 «For Anonymous Companies»

following step was to update accordingly the whole project and the last stage was to present and use the completed project.

Solution Implementation

In every major project it is customary to create a test environment first, where all the customizations are being tried out. In many cases, this is also the instance where the User Acceptance Tests and the key-user trainings take place. This test environment is also used for a final demo to the customer before the full implementation is run in the production system. Effort-wise this means that the installation of the software and most of the customizations will have to be established at least two times at the premises of the customer.

In the case at hand, Company A, the implementation team was able to minimize the exposure to the end-users' demands by establishing early on in the project's life cycle the responsible key-users from the side of the customer. This is very important in projects of this magnitude in order to be able to stay under the negotiated number of deliverables and also inside the pre-planned time limitations.

The first piece of information collected from the customer was the original Chart of Accounts, along with the additional IF-prompted Accounts that would summarize the data for the IFRS needs. A dataload file was created for the additional accounts in order to expedite their transfer to additional instances during the project's execution.

For the general ledger transactions transfer process, the implementation team used the existing core process of "Consolidation" and the relevant mapping tools for connecting the Greek Chart of Accounts to the IF-prompted summary IFRS accounts. Although, during the planning phase of the project it was made clear by the customer that they would use only the IF-prompted accounts in their IFRS book for adjusting entries, later-on there was a reverse of their initial position and it was asked to be able to use the Greek accounts in both Accounting books but receive summary information in the IF-prompted accounts. Since there were over 3000 Greek accounts and only 230 IFRS ones, this could cause a major problem. Thankfully, this was easily covered by the flexibility of the software and did not cause major delays in the work plan of the project implementation. It took 30 working days of continuous work for two consultants (15 days each).

The new Asset book was a far more complicated task in order to cover the IFRS principles. Most of the Greek companies do not follow the exact IFRS rules as these are defined in the IAS 16,17,36 and 38.[2] Especially in issues like, which assets should be included into an authentic IFRS book and which should not, every accountant chose to do what was the most convenient and with the minimum extra workload on the accounting department. This practice used to be the rule in the first years of IFRS implementation (2005-2006), for the additional reason of ignorance on the part of the certified accountants. However, today most of the main auditor firms like Price Waterhouse, Ernst and Young, etc, including SOL, have special classes devoted to

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[2] IAS 16: Property, plant and equipment
IAS 17: Leases, finance leases and operating leases
IAS 36: Impairment of Assets
IAS 38: Provisions, Contingent Liabilities and Contingent Assets

IFRS and the new directions given to the companies are far more strict and close to the IFRS "spirit."

Company A had decided to use a special evaluator firm in order to revaluate all of its active assets with a beginning value for the new Asset book as of January 2006. The total number of their assets was about 700.000 with approximately 400.000 being active. Due to the large number of revaluations that needed to be performed, the data was being given in large groups of assets with a small delay.

Through the database tools of the ERP software, the implementation team was able to create the new asset book and then copy all the asset categories' settings from the normal book to the new asset book under IFRS (except those categories whose assets should not be copied to the IFRS Tax book). Since the accounting department finally opted for the Greek accounts to be used in the detailed level, there was no need to change the accounts specified at the category level for the transactions in IFRS.

Once the IFRS Asset system components were ready, there was the major issue of uploading the assets, with their new values, in the new Asset book. This was accomplished in two different steps. First, the implementation team used the help of a developer who used sql code to copy the Asset' identities from the Local Asset Book, to the IFRS. Then using a "functionality" available to the ERP software, the team utilized an intermediate table to insert the new values per asset. These were later on incorporated to the asset identities that had been copied in the first part of the procedure. The assets were introduced with their new values as being the original Cost values for the date of January 1st, 2006 (which would be used as the base for the depreciation in the IFRS book).

When the assets were incorporated in the system, a number of predefined test-scripts were run in order to test the validity of the theoretical model and the stability and credibility of the implementation. After the successful completion of the test scripts, the implementation team organized a presentation of the actual and running solution to the users from the Accounting and IT departments to mark down any additional feedback and unknown factors that may have been revealed by the implementation process or the script tests.

During this presentation there were some comments from the end-users towards the complexity of the new processes and the extra workload, but these were smoothed away by the key users and the heads of the two departments. In reality, the only new process was the Consolidation of the General Ledger debit and credit balances from the Greek accounts to the IFRS ones. Even so, in order to decrease the users' apprehension towards the introduced process, the implementation team established a "wizard" that would lead the user step by step through the whole process, while in the same time it provides a good feedback on the status of each step of the process. After all, the consolidation process is not something that would be executed by anything less than the head accountant (a key – user in cooperation with the implementation team).

A second and more important change that was derived from the presentation stage was the users' request for full analysis of the Cost Center and Project information, in the IFRS balances and adjustment transactions. This caused the implementation team some

extra effort in order to change the system setup accordingly and was finally covered by alterations in the account mapping of the Consolidation process.

The above mentioned presentation was followed by the User Acceptance Test (UAT) on the same instance while in the same time, in a different instance the implementation team was setting up the production system with the major components. Once the UAT was finished and there was adequate documentation regarding all the user requests that had been incorporated and covered by the tested environment, the implementation team completed the setup of the production system, provided the customer with the necessary user guides and setup documents for all the new components and processes. This signalled the closure of this project, which was formalized with the customer's final acceptance document.

Conclusions

The main logic of this project solution was utilized by Oracle Hellas in three more IAS projects with equal success. The major advantage and feature of its success, is its simplicity and flexibility in accommodating different accounting setups.

For the public Utility Company, this project initialized a new era in their attitude towards their ERP software. What they believed as a slow moving, complex program with limited abilities in covering some of their industry – specific needs, was proven to deliver a solution in the minimum of time (3 months) and with limited cost and human effort.

It is characteristic of the impact of the IFRS implementation success – story, that once this solution was "up and running" the IT department came forward with two other integration projects that where being negotiated back and forth among different agencies of the corporation for years with no results. Both of these resulted in small, specific project oriented, time and material contracts that were covered successfully by Oracle in the following 3 months. What was important in these two projects, was the fact that both dealt with interfacing other peripheral custom made software packages that controlled mine production and logistics, with the main ERP Financial modules. This indicated the faith of the corporation's management in the ERP doctrine of bringing all the accounting generating peripherals under the same central software in order to be able to have a single report generating information base for the management. This enables the different departments to be able to report to management in far less time and in a way that allows for real time cross validations of data across the corporation. Meanwhile, the IT department is searching for more ways of gaining value from its ERP infrastructure, with or without Oracle's help in the final effort.

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