

Creating a Compliance Culture An IAS Perspective

Using Microsoft® Business Solutions applications to support compliance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS)

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Using this Document

This white paper outlines the new regulatory climate for businesses worldwide, describes a compliance culture and overviews how specific Microsoft Business Solutions applications can help to support a compliance culture. The paper focuses on IAS/IFRS compliance and assumes a business management reader.

Part 1 of the paper deals with creating a compliance culture. Part 2 of the paper introduces IAS/IFRS and discusses how Microsoft Business Solutions–Axapta®, Microsoft Business Solutions–Great Plains®, Microsoft Business Solutions–Navision®, Microsoft Business Solutions for Analytics–Business Analytics, Microsoft Business Solutions for Analytics–Enterprise Reporting and Microsoft Business Solutions for Analytics–FRx® solutions can help support IAS/IFRS compliance. Part 3 of the paper addresses some IAS/IFRS frequently asked questions (FAQs) and lists references and resources for further information.

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Executive Summary

The market consequences of a series of accounting scandals around the world have made improved corporate governance a top priority for the management of the world's leading businesses. Partly this is in response to a raft of new regulatory controls and partly this is a recognition that higher standards of corporate governance are needed to succeed in today's highly competitive global market.

Businesses operating in this global market are becoming subject to a wide range of new regulatory controls including IAS/IFRS to create reporting transparency, Sarbanes-Oxley to improve corporate governance and Basel II to better control financial risk. These regulations are primarily directed at publicly listed companies, but they are likely to have a "trickle-down" impact on the privately-held, small to medium sized enterprises (SMEs) that operate as close business partners of these public companies.

Many businesses are responding to this new regulatory landscape by instilling a new kind of compliance culture in their organizations. A compliance culture introduces a clearly defined compliance dimension to the way the business operates. This compliance dimension must be embedded in the way people behave, the way business processes work and the way technology is used by these people and processes.

Creating a compliance culture is not simply an IT or finance task; it can't be delegated to external consultants, nor is it something that can be solved with some "quick-fix" technology. A compliance culture must permeate an organization from the top-down and the bottom-up, and it involves the active participation of both internal and external stakeholders to succeed.

In the USA, the primary focus of compliance initiatives has been on responding to the 2002 Sarbanes-Oxley Act. In the European Union (EU) and other countries, a primary concern of any compliance culture has to be the requirement to comply with IAS/IFRS by January 2005. IAS/IFRS compliance puts new pressure on the people and processes involved in creating and presenting financial reports. It also focuses attention on the technology used for financial reporting and consolidation.

Technology supports a compliance culture and Microsoft Business Solutions applications perform an important role in providing that support. But a compliance culture does not come "out of a box." Microsoft Business Solutions recognizes that creating a compliance culture also depends on collaboration between business partners and is working to help ensure that it can act as a responsible compliance partner for your business.

Introduction

Following a series of well-publicised accounting scandals, regulatory authorities in the USA and the EU have acted to create a more transparent business operating and reporting climate to support market confidence. Enron and WorldCom in the USA and Parmalat and Adecco in Europe are some well-known examples of businesses whose activities justify the introduction of new regulatory controls. These controls will impact publicly listed companies worldwide and many private companies that work with them.

In the UK, the Cadbury, Higgs and Turnbull Reports have all contributed towards establishing a higher level of quality in corporate governance. In the USA, listed companies are responding to the demands of the 2002 Sarbanes-Oxley Act (SOX) and other new regulations. And the banking industry worldwide is preparing for the proposed New Basel Capital Accord (Basel II).

Although much of the new corporate governance recommendations and regulations have focused internally on the responsibilities of corporate boards and better risk management, new levels of reporting transparency are also required to present business activity to the outside world. In the EU and an increasing number of other countries such as Australia, new compliance pressure comes from the impending adoption of the International Accounting Standards Board's (IASB) International Accounting Standards (IAS), implemented as the International Financial Reporting Standards (IFRS).

Unlike Y2K or the introduction of the Euro, improved corporate governance does not depend on a "quick-fix" technology solution. Instead it requires the development of a new corporate compliance culture that can respond appropriately to current and future regulatory activity. Going forward, this compliance culture will become an integral part of the organizational culture of every business operating in an increasingly demanding and competitive global trading environment.

A compliance culture is about people, processes and technology. You and your business partners must address the people and process elements of a compliance culture. Microsoft and its partners provide technology solutions to help support the people and processes that deliver compliance.

Part 1: Creating a Compliance Culture

According to UK industry analysts the Butler Group [1]:

“Compliance can be defined as the state of being in accord with the relevant government, industry and other regulatory bodies and their requirements. It also addresses and protects the rights of all stakeholders within the organisation, including employees, investors, customers, and business partners.

Compliance is directly related to the concept of corporate governance. If compliance represents the external demands and expectations of an organisation from these parties, then corporate governance is the response of the organisation to meet these demands.

With a plethora of new legislative and regulatory frameworks relating to the control and handling of information, Butler Group believes that 2004 is the year of compliance. Organisations at all levels and in all sectors will be forced to put in place an effective regime for compliance and corporate governance, or risk the serious consequences that will ensue from failing to meet these obligations.”

There has always been some kind of compliance culture in specific businesses as a component of corporate governance. For example, the highly regulated financial services industry already operates within a relatively strict regulatory regime. But today creating a compliance culture is essential for most businesses. Perhaps if a compliance culture had been in place, Italian food-giant Parmalat would not have been put into administration after a £2.8 billion hole was discovered in its accounts; nor would the shares of world-leading Swiss staffing agency Adecco have halved in value when weaknesses were anticipated in the accounting controls of its US operations.

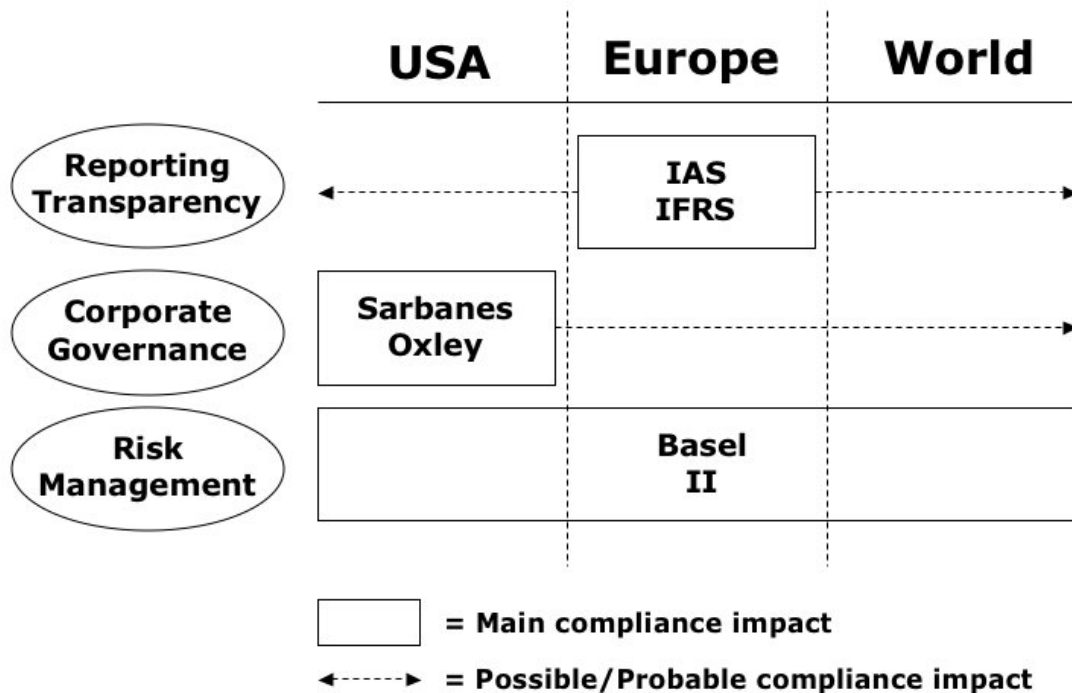
Like any other change in organizational culture, creating a compliance culture starts by establishing a steering group to own, drive and monitor the effectiveness of compliance. Their work begins with increasing internal awareness of the new regulatory climate and educating key stakeholders about the impact of new regulations on their day-to-day work. Businesses must approach compliance education both from the top down and the bottom up. The board and senior management must actively endorse a compliance culture to ensure it is embraced at operational level. And the people participating in the operational business processes impacted by compliance must be aware of the new compliance dimension to their work.

Creating a compliance culture is not just a question of layering on some new or changed technology. It's too important for that. In some cases, companies can be subject to substantial fines for non-compliance and individual executives or managers may face imprisonment. However, implementing a compliance culture won't happen overnight, and it's certain to be both costly and time-consuming to get right. But if the result is more transparent business processes leading to improved corporate governance that generates better market respect for the company, then the effort could lead to a tangible return on investment (ROI) for shareholders.

The Compliance Landscape

In Europe, the Data Protection Act and the Freedom of Information Act are examples of recent and impending compliance-related legislation. This paper focuses on a raft of new regulatory initiatives emanating from the USA and the EU and from regulatory bodies such as the Securities and Exchange Commission (SEC) in the USA and the IASB in the EU. Figure 1 below shows three current regulatory initiatives, their primary purpose and their sphere of influence.

Figure 1: Three Current Compliance Initiatives



IAS/IFRS

The IASB's IAS/IFRS (IFRS) standards are focused on financial reporting transparency and will apply to all listed companies in regulated markets within the EU member states starting 1 January 2005. This mandate is based on an EC directive passed into law in July 2002. Over time in those countries adopting IAS/IFRS, reporting based on local Generally Accepted Accounting Principles (GAAP) will be harmonized with IFRS so that two sets of financial reports are no longer needed. Many other countries are considering the adoption of IAS/IFRS including Australia, which has also mandated its use by 1 January 2005.

Sarbanes-Oxley

The Sarbanes-Oxley Act was passed into law in the USA in July 2002. The Act focuses on improved corporate governance and will apply to all companies (both US and foreign-based) listed on US stock exchanges. It is expected that Sarbanes-Oxley will have a “trickle-down” effect that will also impact private companies (again both US and foreign-based) having major trading relationships with public companies subject to the Act.

Basel II

The New Accord (Basel II) is an example of industry specific legislation, in this case regulated by the Bank for International Settlements (BIS). Basel II is focused on risk management in the banking industry and consists of three pillars: (1) minimum capital requirements, (2) supervisory review of capital adequacy, and (3) public disclosure. Within the G10 countries, Committee members have agreed to a common implementation date for Basel II of year-end 2006.

The bottom line is that now and in the future, thousands of publicly listed corporations around the world and many more private companies working with them will be subject to some or all of Sarbanes-Oxley, IAS/IFRS and Basel II. So business management should already be well-advanced in implementing some kind of compliance program.

Smaller, private businesses that are not directly subject to new regulatory controls may also wish to introduce a compliance culture, to improve their own business practices, make themselves more attractive potential business partners for larger organizations or in preparation for a public listing. For these businesses, introducing a full-blown compliance culture may be impractical for cost and resorting reasons. These firms should look to their accountant for advice and help in getting to grips with compliance.

There is evidence that the market will respond to perceived differences in the quality of corporate governance in every company. Investors will respond negatively when it becomes clear that the veracity of company results can be questioned. And surveys like that conducted by McKinsey in 2000 indicate that investors will pay a premium for the stock of companies they consider to have more effective corporate governance.

By establishing and communicating a commitment to compliance, by demonstrating a clear understanding of corporate risks and by espousing transparent financial reporting, businesses can ensure that they earn and retain market confidence.

The Compliance Program

Creating a compliance culture involves change and a change management process that focuses on:

- Changing people's understanding of and attitude to compliance
- Changing certain business processes to embed a compliance dimension
- Changing the way technology is used to support compliance

Compliance specialists such as Compliance ArchiTech [2] recommend putting in place a clearly defined compliance program that assumes both a proactive and holistic approach and a long-term commitment to compliance in the business context. In summary, its program has four phases:

1. Identify areas of compliance impact and compile them into a "Mandate Grid."
2. Define an Enterprise Process Model (EPM) to map against the Mandate Grid.
3. Develop compliance models based on the intersection of the EPM and Mandate Grid.
4. Publish an enterprise compliance handbook.

Another perspective on implementing compliance management comes from Ventana Research analyst Robert Kugel [3]. Ventana is focused on the performance management aspects of compliance and define the five "Rs" of compliance management as:

1. Role – defining the function performed by each individual in a specific operation or process
2. Responsibility – listing and assigning the full duties of the individual in a specific operation or process
3. Routing – mapping the complete order of the steps executed in carrying out these duties a compliance function, including any conditional branching and looping that occurs
4. Reporting – listing the status of each process, the results of the process, and exceptions to the expected condition of either the process state or outcome
5. Response – affirmatively confirming the achievement of the compliance function or launching the appropriate remedial process(es) to achieve compliance

What's also important to recognize is that creating a compliance program is an organization-wide effort that involves a wide range of stakeholders, both internal and external.

The Compliance Stakeholders

Creating a compliance culture involves a steering group – the compliance team – and the co-operation and collaboration of a wide range of organizational stakeholders. A typical compliance team will include:

- A full or part-time compliance officer
- An external compliance overseer
- Internal representatives from finance, IT and operations
- External IT partner and accounting/audit/legal partner representatives

The compliance officer leads the compliance efforts and is responsible for compliance-related communication and liaison across departmental lines. The external overseer functions as a “check and balance” to the internal compliance officer and may be a non-executive board member with special responsibility for compliance oversight.

A key objective of any compliance team is “information assurance” – to be able to assure regulators and investors that the data and processes used to generate business information are verifiable and transparent. Finance, IT and operations must be represented on the compliance team since all will be involved with these data and processes. External IT and accounting/audit/legal partner representatives provide specialist input into compliance program initiatives that may involve customizing existing technology solutions or interpreting complex accounting/legislative documentation.

The compliance team owns the compliance program and is responsible for defining, driving and monitoring the program. But the responsibility does not stop there. A compliance culture must involve everyone in the organization and reach out to external business partners, at least in terms of its ethos. And in practice, a compliance culture must involve everyone in the business, as facilitating “whistle-blowing” is one means to enforce the culture.

Part 2: IAS/IFRS compliance and Microsoft Business Solutions

A core pillar of any compliance culture in the EU and elsewhere is the need to comply with IFRS. IFRS compliance in the EU is driven by the European Commission [4], which in June 2000 stated that:

“The thrust of the proposals is to achieve clear rules for comparable, transparent reporting, and for its rigorous interpretation and application. This must result in relevant, reliable information that is useful for investors and other stakeholders to make a meaningful comparison of performance among companies and take capital allocation decisions.

European investors need high quality information before deciding on which companies to allocate their financial resources. Similarly, European companies must be able to compete on an equal footing for financial resources available in the global capital markets.”

From January 2005, all companies listed on an EU regulated Stock Exchange will have to prepare their consolidated financial statements based on IFRS. This is expected to impact some 7,000 companies, including 1,521 UK companies listed on The London Stock Exchange [5]. But IFRS compliance is not just an issue for public companies in the EU.

Leading the worldwide adoption of IAS/IFRS are nine liaison standard setting countries including: Australia, Canada, France, Germany, Ireland, Japan, New Zealand, United Kingdom and the USA. Other countries active in the convergence effort include China, Hong Kong, Singapore and South Africa.

According to the Institute of Chartered Accountants of England and Wales (ICAEW) [6]:

- From 1 January 2005, all Australian entities will be required to prepare their financial statements under International Financial reporting Standards (IFRS).
- The Hong Kong Financial Accounting Standards Board (FASC) has a mandate to achieve convergence (as far as practicable) with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).
- The Accounting Standards Board of Japan (ASBJ) will continuously make maximum efforts to contribute to convergence of accounting standards and to enhance harmonisation of our own standards with IFRS.
- New Zealand reporting entities should apply international financial reporting standards (IFRS) in general purpose financial reporting on periods beginning on or after 1 January 2007.
- In South Africa, statements of Generally Accepted Accounting Practice (GAAP) have been harmonised with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Boards (IASB).

From January 2005 in the UK, publicly traded companies will be able to use IFRS for their individual company accounts and non-traded companies and limited liability partnerships for individual and /or consolidated financial reporting. Furthermore, it's likely that subsidiaries and associates of listed companies will need to comply with IFRS, as will private companies intending to list.

IAS/IFRS Compliance

At first glance the scope of IFRS is daunting. There are dozens of standards that impact different areas of business activity. Nothing is set in stone since further changes may be made to accommodate ongoing harmonization efforts, particularly those between the IASB and US FASB. In the EU, individual EU member states may decide to extend the application of the standards to non-listed or parent companies or even exempt certain companies (until 2007). Not every standard will impact every business, and certain businesses may already operate in compliance with specific standards.

There is no doubt that compliance with IFRS will have a material impact on the way many businesses will “present” to and be valued by the financial markets going forward. For example, according to a PWC study [7] Volkswagen adopted IFRS in 2001 and saw a dramatic change in the presentation of its capital and reserves - from €9,811 million at January 1, 2000 according to the local German Commercial Code to €20,918 million at January 1, 2000 according to IFRS.

So, not only will the look and feel of key financial statements change under IFRS, the performance of the business will look different. It’s important that this impact is effectively communicated internally, to key business partners and to the market.

From an EU perspective, what is clear about IFRS is that:

- The 2005 deadline only applies to public companies listed on regulated exchanges in EU member states (comprising 25 countries plus three EEA countries) not already using IFRS.
- IFRS only applies to the way these companies present their consolidated financial statements – using IFRS for individual company statements is optional.
- 2005 financial statements showing prior year comparisons (e.g. 2004/2005) will need to have those prior year numbers restated to comply with IFRS.
- The penalties for non-compliance with IFRS are not “personal” (as they are with Sarbanes-Oxley in the USA) but could result in a company losing investor confidence and eventually being de-listed.
- There is no expectation that IFRS compliance will require wholesale changes in current business process management systems (e.g. enterprise resource planning or ERP) or in financial reporting and consolidation systems but new or enhanced technology may be required, particularly in businesses using outdated legacy accounting or financial reporting systems.

In the EU, many Microsoft Business Solutions customers are non-listed SMEs. According to Richard Martin [8] of the Association of Certified Chartered Accountants (ACCA), the impact of IFRS on SMEs is still uncertain, especially as the IASB has only recently published a discussion document to stimulate the debate about new standards aimed specifically at SMEs. And while SMEs are not under the same pressure as listed companies to adopt IFRS, SMEs should also be in the process of understanding what IFRS compliance could mean to them. In fact, “At ACCA’s conference in Brussels in January this year [2004] the consensus was that the concepts and the principles of the standards for unlisted companies must use IFRS as the common base.”

IAS/IFRS Compliance: Functional Guidelines

It is not within the scope of this paper to present a detailed discussion of exactly what application functionality is required to help comply with IAS/IFRS. However, some general statements can be made about areas of application competency that are important to focus on when evaluating how business management applications will support your IAS/IFRS compliance culture.

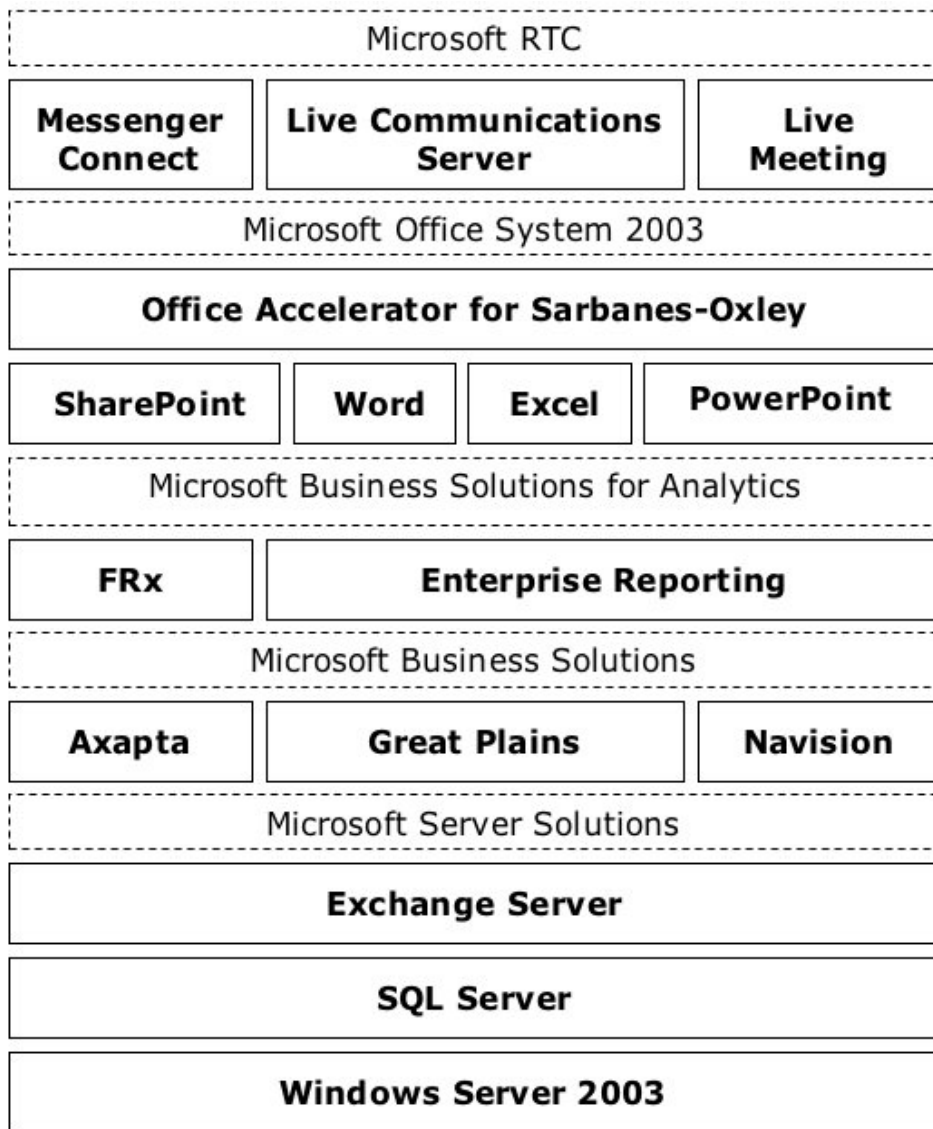
- During the transition to IFRS, applications may need to present financial statements that comply with IFRS, local GAAP and specific local tax reporting formats and to restate prior year numbers. This requires flexible report formatting and mapping of account codes to report lines.
- Financial reporting software must be capable of producing a complete set of financial statements including income statement, balance sheet, statement of changes in equity and cash flow statement plus accounting policies and supporting notes. Cash flow statements must be analysed between operating, investing (short and long term) and financing activities.
- Chart of account coding structures, accounting transaction coding and financial reporting formats must support segment reporting. It must be possible to make secure and audited postings into prior years and prior periods, to allow restatement of final accounts if required.
- Fixed asset management software must offer multiple asset valuation books (or versions). Different depreciation methods per asset must be supported including differing depreciation methods for sub-assets from their parent assets. Asset revaluation must be possible and the software must be able to highlight actual or potential impairment of tangible and intangible assets (e.g. goodwill), and to maintain parallel depreciations of a tangible asset assuming impairment and non-impairment.
- Applications must be able to convert foreign currency transactions at spot (transaction date) rate or average rates for reporting purposes and to provide fully auditable and selective transaction revaluation capabilities. In hyperinflationary environments financial reporting software must be capable of restating a local hyperinflationary currency in a presentation currency at the spot rate on the balance sheet date.
- Inventory costing methods in addition to LIFO must be supported and project accounting software must support % of completion accounting.

A useful source for further reading on these functional guidelines is the Business Application Software Developers Association (BASDA) *IAS /IFRS White Paper* [9].

IAS/IFRS Compliance: Microsoft Solution Landscape

Microsoft does not supply technology that ensures IFRS compliance. Rather, it offers a range of applications that support aspects of IFRS compliance today and will provide deeper and broader support for IFRS compliance over time. Microsoft also supports third-party efforts to independently accredit technology solutions in terms of their ability to support IFRS compliance. The overall solution landscape is outlined in figure 2, and sections below indicate how specific Microsoft product lines can help with IFRS compliance.

Figure 2: Microsoft Solution Landscape for Compliance Support



Microsoft server solutions help to store and secure compliance-related data. Microsoft SQL Server™ acts as the data repository for a wide range of compliance data managed by Microsoft and non-Microsoft applications. Windows Server™ 2003 Information Rights Management (IRM) is used to secure specific compliance-related documents and reports from unauthorised changes.

Microsoft Business Solutions applications help to manage business processes with a compliance dimension. Most of the financial transactions required to create financial reports subject to IFRS are managed in the general ledger and associated modules found in Microsoft Business Solutions–Axapta, Microsoft Business Solutions–Great Plains or Microsoft Business Solutions–Navision applications. Microsoft Business Solutions for Analytics–FRx and Microsoft Business Solutions for Analytics–Enterprise Reporting applications are used to define, format and publish the entity-specific or consolidated financial statements that form the basis for IFRS compliance.

Microsoft Office solutions are used to manage the workflow, communication and documentation of the compliance process. Microsoft SharePoint® Portal is used to communicate compliance information and manage collaborative compliance-related activities. The Office Accelerator for Sarbanes-Oxley is specifically used to support the documentation and validation of processes and control points relative to Sarbanes-Oxley compliance. Microsoft Real Time Collaboration solutions are used to support collaboration on compliance initiatives and for compliance event management (CEM) to help ensure that compliance issue resolution can take place faster, cheaper and better.

IAS/IFRS Compliance: By Microsoft Business Solutions Application Domain

This section outlines how specific Microsoft Business Solutions applications support IFRS compliance and a compliance culture in general. The products mentioned below are subject to continuous improvement, so what is described below may change going forward.

Microsoft Axapta

Microsoft Axapta is currently being reviewed from an IAS compliance perspective. More information is expected by the end of calendar year 2004.

Microsoft FRx

New processes, accounting treatments, and formats for financial statement consolidation and reporting are core to compliance with IAS/IFRS. Microsoft FRx is capable of producing a complete set of financial statements, including income statements, balance sheets, statements of changes in equity and cash flow statements that help you comply with IFRS guidelines.

Whether it is the changes in the structure of your organization's Balance Sheet or Income Statement that IFRS describes, or how your financial data is reported along product, segment or geographical dimensions, Microsoft FRx helps put you in control of the financial reporting process and assists you in making a successful transition to the new standards and constructs outlined by IFRS. Whether you are preparing financial reports for use by your internal management team or producing financial statements for compliance reporting, the flexibility and ease of use in Microsoft FRx supports your needs.

Using a flexible building block approach within the application, you begin with a blank canvas that allows you to create a financial statement in a format you select to comply with IAS/IFRS. For example, you can quickly create a balance sheet in either decreasing or increasing order of liquidity or an income statement that presents details by function. In addition, the direct link to the general ledger pulls in your chart of account information so that you do not have to memorize your chart of account structure or general ledger database, reducing both the opportunity for error and time it takes to create a report format manually. By combining the format you create with a reporting tree, you can report on specific chart of account segments for more detailed reporting at the dimension level. These features allow you to easily create many different formats and mix and match components of those formats in order to report in accordance with the IFRS, GAAP or local tax reporting formats.

Once you have created the financial statements in the appropriate formats to comply with IFRS, you generate your reports using a wide variety of options that can be set at run time. Reports can include varying levels of detail such as account level or transaction level details. Reports can be run for both the current year as well as for prior years, allowing you to easily restate prior year numbers in new IFRS formats. And, with the optional Microsoft FRx Currency Translation module, you can convert foreign currency transactions at spot rates, average rates or historical rates for reporting purposes. These features are available in Microsoft FRx today to help you with the transition and implementation of IFRS.

Microsoft Great Plains

Microsoft Great Plains tightly integrates with Microsoft FRx, facilitating seamless rapid report design and delivery. Using the Microsoft FRx building block approach, you can create reports in a format designed to comply with IAS/IFRS. You can define the rows and columns that will appear with a reporting tree that establishes the relationships between reporting units.

With the use of the Microsoft FRx Currency Translator within Microsoft Great Plains, you can seamlessly translate currency across multiple accounting systems. Use the Currency Rate Maintenance Wizard to quickly set up currency exchange rate tables with information pulled from the General Ledger.

Additionally, Microsoft Great Plains integration with the MS Office Accelerator for Sarbanes-Oxley; specifically supports the documentation and validation of processes relative to Sarbanes-Oxley compliance. Microsoft Great Plains aids with Sarbanes-Oxley compliance by:

- Enabling frequent flash reporting through Report Scheduler, Business Alerts and Key Performance Indicators.
- Aggregating financial data through Enterprise Reporting; and advanced reporting functionality that allows for advanced consolidations, multi-dimensional analysis of data, etc.
- Making financial data more accessible through drill downs from Microsoft FRx reporting, Key Performance Indicators, Smart Lists (creating customized queries into data with ability to export to Excel and drill down into details), Microsoft Business Solutions Business Portal queries, etc.

Microsoft Great Plains expects to release a document related to IAS compliance by the end of calendar year 2004.

Microsoft Navision

A white paper outlining how the solution can assist with IAS compliance is available from Microsoft Navision partners.

Conclusion

To succeed in today's competitive global market, leading businesses must pay more attention to improving their corporate governance through better risk management and more transparent reporting. Introducing a compliance culture is a key step in implementing improved corporate governance. And IAS/IFRS is just one aspect of the new regulatory landscape that reinforces the need to introduce a compliance culture in your organization.

If your organization operates as a listed company in an EU country or Australia, you should already be complying with IFRS or well on the way to doing so. You should already have a compliance team in place to manage the transition to IFRS and have recognized that creating a compliance culture takes time and represents a major change management initiative that involves re-educating people, reviewing and revising financial management business processes and updating or enhancing technology.

Introducing a compliance culture can be viewed as a burden. But an effective compliance culture is better thought of as a way to support improved corporate governance for the benefit of all organizational stakeholders, and ultimately the future prosperity of the business. Microsoft Business Solutions and its partners can't deliver a compliance culture in a box, but they can act as a key compliance partner to support your compliance efforts going forward.

Appendix A: IAS/IFRS FAQs

The FAQs below are compiled from a number of sources.

Q. What benefits can businesses expect from adopting IAS/IFRS?

According to PriceWaterhouse Coopers [10], the benefits include:

1. Improving the comparability and transparency of reported information.
2. Making it easier and cheaper to access capital.
3. Reducing operating costs.
4. Providing better information for strategic decision-making (e.g. M&A)
5. Helping to increase share price

Q. What impact can businesses expect IFRS to have on their reporting?

TAKKT AG [11], a German business equipment group, adopted IFRS in Q1 2002, and the impacts on its financial reporting included:

1. Amortization of goodwill over 20 years vs. 15 years.
2. Capitalization of leased assets classed as financial leases.
3. Treating unmailed customers catalogs as prepaid expenses.
4. Calculating deferred taxes on realizable tax losses.
5. Separating the reporting of minority interests in reserves and retained earnings.
6. Changes in the reporting of future pension obligations.
7. Market values of derivative financial instruments were disclosed.
8. Differences arising from consolidation of inter company debts and liabilities were posted to the profit and loss account.

Q. Who is subject to IAS/IFRS compliance in the EU?

According to a European Commission FAQs page [12]:

“The Regulation will directly concern around 7000 listed EU companies, which will have to prepare their consolidated accounts in accordance with IAS by 2005. At the moment, only 275 listed EU companies use IAS for their financial reporting.

At present, seven Member States (Austria, Belgium, Germany, France, Finland, Italy and Luxembourg) specifically allow listed companies to prepare their consolidated financial statements in accordance with IAS.”

Q. What will happen if I don't comply in time?

The FSA has the power to de-list publicly quoted companies that don't comply by the January 2005 deadline. This only applies to listed companies. Non-compliance may also create reduced market confidence in a company and lead to a drop in share value.

Q. What about local GAAP reporting requirements?

The IAS/IFRS is an international standard and therefore extends across country borders. Until local GAAP is harmonized with IAS you may need to produce a dual set of reports to meet local GAAP requirements and IAS/IFRS requirements.

Q. I run an SME, and I'm not affiliated to a listed company in any way. Why should I be worried about IAS/IFRS?

At present the IAS/IFRS only extends to listed companies, however you may wish to consider this as best practice. At present the IAS/IFRS deadlines only relate to publicly listed companies. Therefore, at this stage there are no timelines facing SMEs. But if you are considering a listing in the future, converting to IFRS will be required.

Q. Who should I contact for assistance?

Your accountant should be able to assist you further.

Q. Isn't this just another Y2K/Euro scenario, with software vendors trying to convince us to spend more money on upgrading our software?

IAS/IFRS is not a software issue; it is part of a new compliance culture that demands compliance-aware people and processes that impact the way software is used to support compliance.

Q. How do I know if my software is IAS/IFRS compliant?

There is no sure way of knowing this, but various bodies are working on or implementing accreditation schemes to provide software buyers with some assurance as to the ability of specific software to comply with IAS/IFRS. BASDA and KPMG are among the parties working on these accreditation schemes. Microsoft is a supporter of these accreditation initiatives.

Q. What is Microsoft Business Solutions doing to help SMEs through the IAS/IFRS issues?

Microsoft is currently reviewing its product range to assess how best we can meet the needs of our customers regarding IAS/IFRS. Although Microsoft Business Solutions cannot ensure that its customers comply with the new standards, it can work towards providing the tools and applications customers need to help them to become compliant.

Appendix B: References and Resources

References

[1] Butler Group *Solutions for Compliance*

<http://www.butlergroup.com/events/com/intro.asp>

[2] *Adopting a Holistic Regulatory Compliance Approach: An Analysis of Total Cost of Ownership (TCO) and Return on Investment (ROI) Benefits* by Jeff Jinnett.

www.compliancearchitech.com

[3] *The Five 'R's of Compliance Management* by Robert Kugel

<http://www.ventanaresearch.com/research/article.php?id=765>

[4] European Commission press release 14 June 2000.

EU moves closer towards global financial reporting standards

http://europa.eu.int/comm/internal_market/accounting/ias_en.htm#regulation

[5] London Stock Exchange monthly statistics (April 2004)

http://www.londonstockexchange.com/market/stats_02.asp

[6] *Worldwide adoption of IAS/IFRS*

http://www.icaew.co.uk/library/index.cfm?AUB=TB2I_35396

[7] PriceWaterhouseCoopers *IFRS Case Study: Volkswagen*

http://www.pwc.com/uk/eng/ins-sol/survey-rep/ifrs/pwc_IFRS-volkswagen.pdf

[8] *2005 - The Impact of IFRS on SMEs* by Richard Martin

<http://www.accaglobal.com/publications/corpsecrev/45/956314>

[9] *BASDA IAS / IFRS White Paper*, BASDA Ltd, January 2004 – draft issue 03.

<http://www.basda.org/VD04/default.asp?CID=7&PSID=4>

[10] PwC Corporate Reporting – IAS 2005 Frequently Asked Questions

<http://www.pwcglobal.com/extweb/pwcpublishings.nsf/DocID/691D2B01598C5C2D8025699F006ABCCF>

[11] TAKKT AG FAQs page

http://www.takkt.de/en_aktie/136.htm

[12] *Financial reporting: the IAS Regulation - Frequently Asked Questions*

<http://europa.eu.int/rapid/pressReleasesAction.do?reference=MEMO/01/40&format=HTML&aged=1&language=EN&guiLanguage=en>

Resources

Other Useful FAQ Pages:

Accountancy Age - <http://www.accountancyage.com/Features/1137212>

IAS Knowledge FAQs - <http://194.143.187.55/iasknowledge/framesets/expert/help/faq.htm>

ACCA IFRS FAQs - <http://www.accanet.com/ifrs/practicaltools/faqs/>

Other Resources:

IFRS in Your Pocket - <http://www.iasplus.com/dttpubs/pubs.htm#may2003>

Compliance (UK-centric) - <http://www.complianceonline.co.uk/index.html>