



New standards

Setting the tone at the top

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Mark Vaessen
Partner
KPMG International

10 questions for audit committees

In a matter of months, the biggest changes in accounting for more than a decade will come into effect, but our research shows that the vast majority of companies aren't ready.

Progress varies by geography and by industry. But overall, it's clear that a considerable amount of work still needs to be done.

You, as an audit committee member, have a crucial part to play. Regulators are expecting high-quality implementation, and your role is to set the right tone at the top and oversee implementation.

Urgency calls for action

For companies with December year ends, the new revenue and financial instruments requirements are effective in less than nine months, so it's time to step up your efforts on the implementation of these mandatory requirements.

Management will implement the new requirements, but the audit committee is tasked with the crucial oversight role: to evaluate management's progress, challenge the judgements and assess the controls.

You need to be on top of the judgements

I regularly speak with regulators and clients about the challenges of implementation.

My key recommendation is not to underestimate the sheer volume nor the complexity of new judgements and estimates that the new standards introduce – whether in the context of the new expected credit loss model under IFRS 9, or in determining how many performance obligations a customer contract contains and how much revenue to allocate to each performance obligation under IFRS 15.

Management of companies are already making judgements and estimates and, as an audit committee member, you need to make sure that you're on top of this.

What about consistency?

One question I'm asked regularly is: "How much global consistency can we expect these new standards to deliver?" The answer is not straightforward. In the case of revenue recognition, for example, there will now be a common language and framework in which to analyse disparate transactions. This will help.

But each company is unique in the way it makes money and the business model(s) it pursues. And companies operate in different jurisdictions, with potentially different contract laws.

Add to that mix the significant judgements that management need to make under the principles that underpin the new standards, and it becomes clear that consistency does not always mean the same outcome for each company.

Disclosure will be key

Disclosure of significant judgements and estimates, and accounting policies will therefore be more important than ever under the new standards – to help investors and analysts understand your company and frame useful comparisons across your peer group.

In fact, the securities and markets regulators are already fully focused on disclosures and are urging companies to inform investors in a transparent and timely way about the impact of the new standards on their financial statements, and provide a meaningful update on their progress with implementation.

Ask the right questions

There are some broad principles that you can apply in overseeing the efforts of management to schedule and design their response. Of course, the circumstances will vary, but the right questions need to be asked at a high level to maximise the chances of achieving the quality outcome that is needed and, indeed, expected.

I've pulled together some overarching questions that audit committees can use to focus discussion on the implementation plans for the new standards ([See one-page summary at the end of this article](#)).

What should you do right now?

Remember, tone at the top matters and audit committees are in the strongest position to set this. The need to engage with the new standards is now, so if – as an audit committee member – you haven't yet engaged with management on the new standards, then I believe you would be well-advised to start...

Our website contains a wealth of information on all these matters. Visit our [Revenue](#), [Financial Instruments](#), [Leases](#) and [Insurance Contracts](#) hot topics pages to find out more.

About the author

Mark Vaessen is KPMG's global IFRS leader.

10 questions for audit committees



These questions will help audit committees focus their discussions with management of corporates on implementation of the new standards

Key decisions and interpretations

1. What are the **key accounting interpretations and judgements** and why are they appropriate?
2. What plans are in place to conclude on **key decisions**, including validating them with the external auditors to deliver high-quality implementation by 2018? Is there an audit trail of the analysis performed and the conclusions drawn?
3. How will **implementation decisions** be **monitored** to ensure they remain appropriate?

Specific impacts

- IFRS 9*
4. If any new **impairment and hedging methodologies** have been designed, have these been tested?
- IFRS 15*
5. Will the **timing or pattern of revenue recognition** change? If not, why not?

Transparency

6. How will the **IFRS disclosure requirements** be met and how will those disclosures facilitate **comparability**? What level of **assurance** will you expect your auditors to provide on the **adequacy** of the transition disclosures?
7. What is the plan for communicating **changes in KPIs** to users?

People

8. Is there **sufficient resource** to implement the changes? Have the affected members of the workforce received the **appropriate training**?

Systems and controls

9. Have all **changes to existing systems and processes** been identified, including data requirements and internal controls, to ensure they are appropriate for use under the new standards?
10. What steps are being taken to properly document and test any **reporting processes and controls** – both existing and new – particularly where systems and data sources have not previously been subject to audit?