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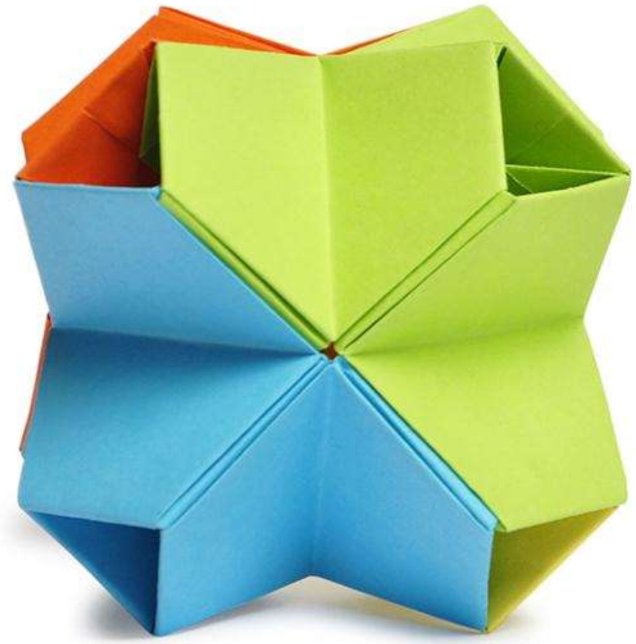
Deloitte Finance Club

The community for Financial Controllers and senior financial executives



Wednesday, 7th May 2014

Deloitte Finance Club

A few facts

- *Financial Controllers' Club* established in **May 1997**

- Provides an **annual programme of technical updates and hot topic briefings**

- Connects our members to relevant experts as well as over **2,200 members** across the country

- Renamed **Deloitte Finance Club** in January 2013

Deloitte Finance Club

Upcoming programme

- **The Summer finance checklist**
  Thursday, 17 July 2014 – **NEW FORMAT: MORNING SESSION**

- Our programme for the rest of 2014 is under development –
  any suggestions or feedback welcome

Deloitte Finance Club

Today's agenda

- Accounting and governance update — **Tracy Gordon**, **Amanda Swaffield**, **Peter Westaway**
- Finance IT implementation: improving ROI — **Robert Cullen**, **Simon Barnes**

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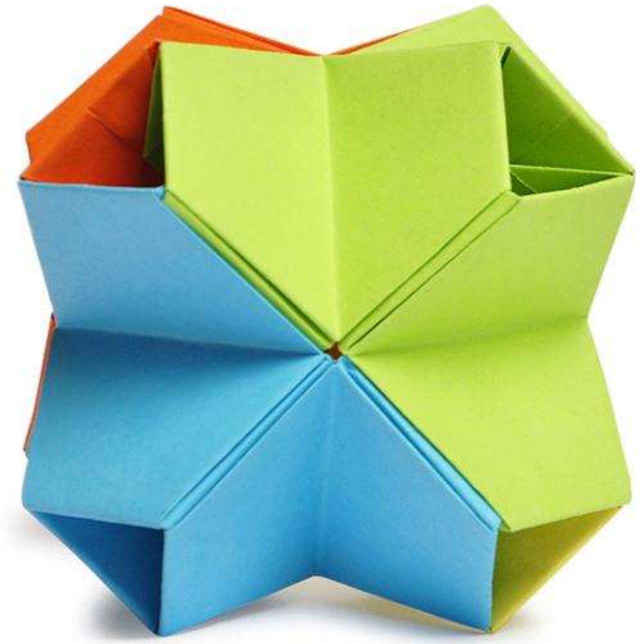
Accounting update



Amanda Swaffield

Accounting update
Agenda

- New UK GAAP – converting from UK GAAP to FRS 101
- New UK GAAP – developments
- ‘It has begun… the next wave’ – further examples of reporting practice
- The governance agenda for 2014 – FRC consultation on changes to the Code
- The governance agenda for 2014 – Audit market reform
- Reminders for interim reporting
- IFRS developments
- IASB leasing project

New UK GAAP – converting from UK GAAP to FRS 101

GAAP conversion overview

The GAAPs on offer

FRS 100

- 'Application of financial reporting requirements'
- *Which standard to apply; application of SORPs; Statement of compliance; effective date; meaning of 'equivalence'*

FRS 101

- 'Reduced disclosure framework'
- *List of disclosure exemptions from full IFRSs for 'qualifying entities'*

FRS 102

- 'The FRS applicable in UK & Republic of Ireland'
- *Operational FRS derived from IFRS for SMEs; list of disclosure exemptions from this FRS for 'qualifying entities'*

GAAP conversion overview

Who can do what?

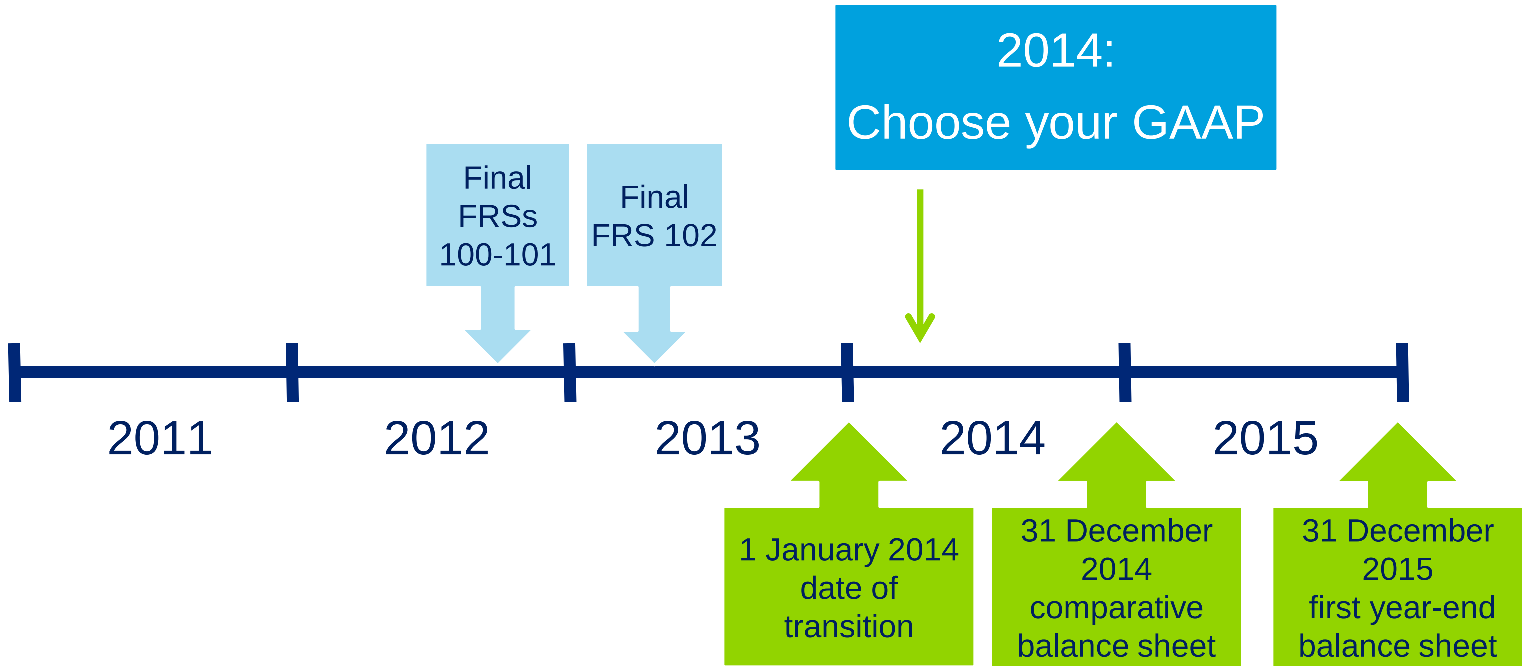
	EU adopted IFRS	Reduced disclosure available? (FRS 101)		FRS 102	Reduced disclosure available? (FRS102)		FRSSE
Listed:							
- group consolidated	Mandatory	No					
- parent/subsidiary	Option	Yes		Option	Yes		
- individual entity	Option	No		Option	No		
Unlisted large/medium:							
- group consolidated	Option	No		Option	No		
- parent/subsidiary	Option	Yes		Option	Yes		
- individual entity	Option	No		Option	No		
Unlisted small:							
- individual entity	Option	No		Option	No		Option

= more likely to be used   = available option   = not available

GAAP conversion overview

Decision making time

- FRSs 100-102 effective for periods beginning on/after 1 January 2015
- Early adoption permitted
- Transition to IFRSs possible at any stage
- Expect further consultation on accounting for financial instruments



FRS 101

What is FRS 101 exactly?

FRS 101 Financial Statements are…

Prepared using IFRS recognition and measurement bases

***Technically* Companies Act accounts (therefore must comply with company law)**

Granted a number of disclosure exemptions

Available to “qualifying entities” in individual financial statements only

FRS 101 Financial statements

Who is eligible to apply FRS 101?

What is a qualifying entity?

A qualifying entity is…

- A member of a group where the parent prepares publicly available consolidated financial statements which are intended to give a 'true and fair' view
- Included in those consolidated accounts
- Shareholders must have been notified in writing and make no objection
- Entity must make certain disclosures in its financial statements

NB: Charities cannot be qualifying entities under FRS 101

What does this mean in practice?

Most parents and subsidiaries will be qualifying entities

No explicit requirement for the consolidated accounts to be prepared under IFRS

Disclosure reductions are available in separate (company only) financial statements

What are the disclosure reductions?

As specified by FRS 101

As specified by FRS 101	
Disclosure not currently required under UK GAAP	• Cash flow statements (IAS 7) • Key management compensation (IAS 24)
Exemption available if equivalent disclosure in consolidated accounts	• Share-based payments (IFRS 2) • Financial instruments (IFRS 7)* • Fair values (IFRS 13)* • Acquisitions (IFRS 3) • Cash flows from discontinued operations (IFRS 5) • Group related party transactions (IAS 24) • Impairment (IAS 36)
Other disclosure exemptions	• Comparative data (IAS 16, 38, 40) • Third balance sheet (IAS 1) • Capital management (IAS 1) • Standards not yet applied (IAS 8)

* No exemption for financial institutions

Differences in primary statements
UK GAAP vs. FRS 101

Key changes to disclosures

Primary statements

Area	FRS 101
Profit and loss account	The results of discontinued operations must be presented on a line by line basis on the face of the statement of comprehensive income (this may be in a columnar format).
	The UK GAAP practice of disclosing net finance costs on the face (analysed in a note) is not possible under FRS 101 as IAS 18 requires disclosure of revenue on the face of the profit and loss account.
	The note of historical costs and profit and loss is not required under FRS 101.
Statement of other comprehensive income (SOCI)	The Statement of total recognised gains and losses (STRGL) required under UK GAAP is replaced by the Statement of other comprehensive income (SOCI).
	Items presented in other comprehensive income (OCI) must be analysed by those that maybe reclassified subsequently through profit or loss and those that will not.
	Additional line items will appear in this statement that would not have appeared under UK GAAP, such as movements on available for sale (AFS) financial assets and deferred tax on revaluations of property, plant and equipment.

Key changes to disclosures

Primary statements

Area	FRS 101
Balance Sheet	First-time adopters moving to FRS 101 from any GAAP other than EU-adopted IFRSs must apply paragraphs 6-33 of IFRS 1 as adopted by the EU and will therefore need to present an opening (third) balance sheet in the first year of adoption of FRS 101.
	Additional line items will be included in the balance sheet that would not have appeared under UK GAAP, such as derivative financial instruments. These may (but do not have to) appear on the face of the balance sheet.
	IFRS 5 requires that assets held for sale, and liabilities associated with them, are presented separately on the face of the balance sheet.
	IFRSs/FRS 101 require derivative financial instruments to be held on balance sheet at fair value (apart from certain types of hedging arrangement). These do not have to be presented on the face of the balance sheet.
Statement of changes in equity	The Statement of changes in equity (SOCIE) is a new primary statement for reporters previously applying UK GAAP. It replaces the note reconciling shareholders' funds which was required under UK GAAP.

Disclosures in notes
UK GAAP vs. FRS 101

Disclosures in notes

UK GAAP v FRS 101

Increased disclosure			Decreased disclosure	
Accounting policies	Discontinued operations	Taxation	Share based payment	Group defined benefit pension schemes
Leases and investment property	Disclosure where instruments at fair value	Description of reserves within equity		

Applying IFRS 1 *First-Time Adoption of IFRSs* for FRS 101 adopters

FRS 101

Applying IFRS 1 First-Time Adoption of IFRSs

Opening balance sheet

- This is the starting point for an entity moving to FRS 101 from UK GAAP.
- The date of transition is the beginning of the first period for which an entity presents full comparative information under FRS 101 in its first FRS 101 financial statements.

Recognition and measurement

- All IFRSs effective at the transition date are applied retrospectively, subject to certain prohibitions and exemptions set out in IFRS 1 Appendices.
- The entity recognises and derecognises all assets and liabilities in accordance with the requirements of IFRSs.

Adjustments

- Adjustments are usually recognised in retained earnings except when another IFRS requires a separate component of equity to be recognised.
- For example, when an entity applies the revaluation model in IAS 16, the difference between fair value and depreciated cost at the date of transition is credited to a revaluation reserve.

Statements

- An entity's first FRS 101 financial statements include at least:
  - three statements of financial position;
  - two statements of comprehensive income, two income statements (if presented);
  - two statements of changes in equity; and
  - related notes.

FRS 101

First Time Adoption Presentation & Disclosure

Area	FRS 101
Early adoption	If FRS 101 is applied for a period beginning before 1 January 2015, FRS 101 requires disclosure of that fact.
IFRS 1 key required disclosures	Explain how the transition from UK GAAP to FRS 101 affects financial position, performance and cash flows (including use of any transitional provisions). Present a reconciliation of: • Equity reported under previous GAAP to equity under FRS 101 as at: − The date of transition to FRS 101; and − The end of the last period presented in the entity's most recent annual financial statements under previous GAAP. • Total comprehensive income under FRS 101 for the latest period in the entity's most recent annual financial statements (starting from total comprehensive income under previous GAAP for the same period). If any impairment losses were recognised or reversed for the first time in preparing the opening FRS 101 statement of financial position, the entity must include the disclosures that IAS 36 would have required if the entity had recognised those impairment losses or reversals in the period starting from the date of transition to FRS 101. Distinguish separately any errors made under UK GAAP that are corrected as part of the transition process from other transitional adjustments.

Wider considerations

Conversion considerations

A number of things to consider

Tax *- affected?*	Current group framework/s *- compatible?*	Early adoption *- beneficial?*	KPIs *- relevant?*	Management incentives *- appropriate?*
Cost of Conversion *- minimise?*	Audit exemptions *- possible?*	Things to think about…	Covenants *- impacted?*	IFRS 1 options *- considered?*
Distributable profits *- decreased?*	Companies Act formats *- significant complexities?*	iXBRL *- affected?*	Chart of accounts *- consistent?*	Disclosure reductions *- permission?*

‘New’ UK GAAP – developments

‘New’ UK GAAP

Most recent developments

- FRS 103 issued
  - based on IFRS 4, FRS 27 Life Assurance and elements of ABI SORP
  - broadly allows current accounting for insurance contracts to continue
  - requirements of FRS 102 and 103 may nevertheless change accounting for many insurers
  - effective date of 1 January 2015

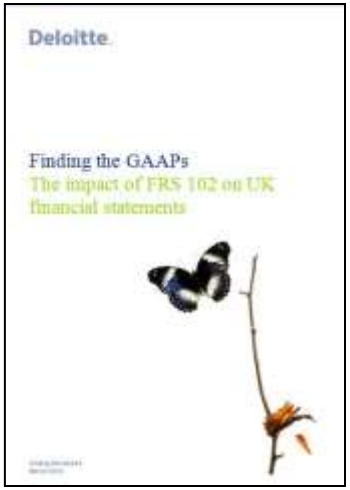
- FRED 54: draft amendments to FRS 102 – basic financial instruments
  - amends the criteria that determine whether a debt instrument is ‘basic’.
  - intended to reduce the need for entities to measure debt instruments at fair value.
  - assessment continues to be rules-based.

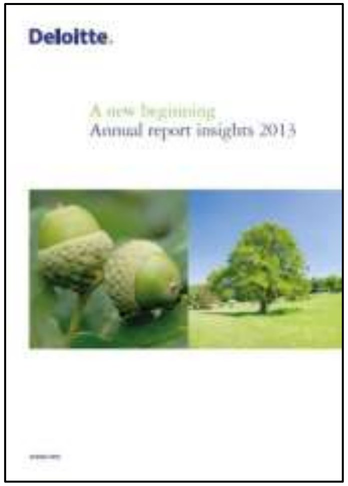
- FRED 51: draft amendments to FRS 102 – hedge accounting
  - replace the restrictive hedge accounting requirements with principles based on draft IFRS 9 Financial Instruments
  - more opportunities to apply hedge accounting, reducing profit or loss volatility.

Deloitte support

Tools and resources

- ‘Need to Know’/’A Closer Look’/’Point of View’ publications
- GAAP 2014 – comprehensive financial reporting manuals on FRS 102 and IFRS
- ukGAAP 2014 in your pocket – a guide to FRS 102
- ‘Choosing your GAAP’
- Model accounts for IFRS, UK GAAP, FRS 101 and FRS 102, including tracked changes versions from current IFRS and UK GAAP to FRS 101/FRS 102
- Technical seminars including “Stay Tuned Online” and podcasts
- Annual report benchmarking
- www.ukaccountingplus.co.uk
- www.deloitte.co.uk/futureofukgaap





‘It has begun…the next wave’ – further examples of reporting practice

Early examples of reporting practice

‘A new beginning’ and ‘It has begun’

- Deloitte’s 2013 annual report survey, ‘A new beginning’, provides insight for users and preparers of annual reports based on a survey of 100 UK listed companies’ annual reports

- The follow-up publications, ‘It has begun’, and ‘It has begun...the next wave’ look at early examples of reporting practice under the new Regulations and the 2012 UK Corporate Governance Code.

- All publications are available at: www.ukaccountingplus.co.uk

‘It has begun… the next wave’

A review of 50 FTSE 350 companies

Improved compliance compared to September reporters

49 companies prepared a separate strategic report and 44 were clearly approved by the Board.

Change in way directors’ report presented – buried at back of narrative, as part of governance report or as a ‘statutory information appendix’. 48 promoted information.

‘It has begun… the next wave’

Further examples of better reporting practice

Segro plc

Risk disclosure becoming more dynamic

Four mentioned solvency or going concern in risk discussion

British American Tobacco plc

Human rights disclosure brief in most cases with no policy

8 gave no information

Lloyds Banking Group plc

Various interpretations of “senior management” in diversity disclosures

39 disclosed absolute numbers

Domino printing sciences plc

None took GHG impracticability clause

43 promoted to strategic report

Intensity ratios linked to industry

Elementis plc
ITV plc

Level of innovation encouraging

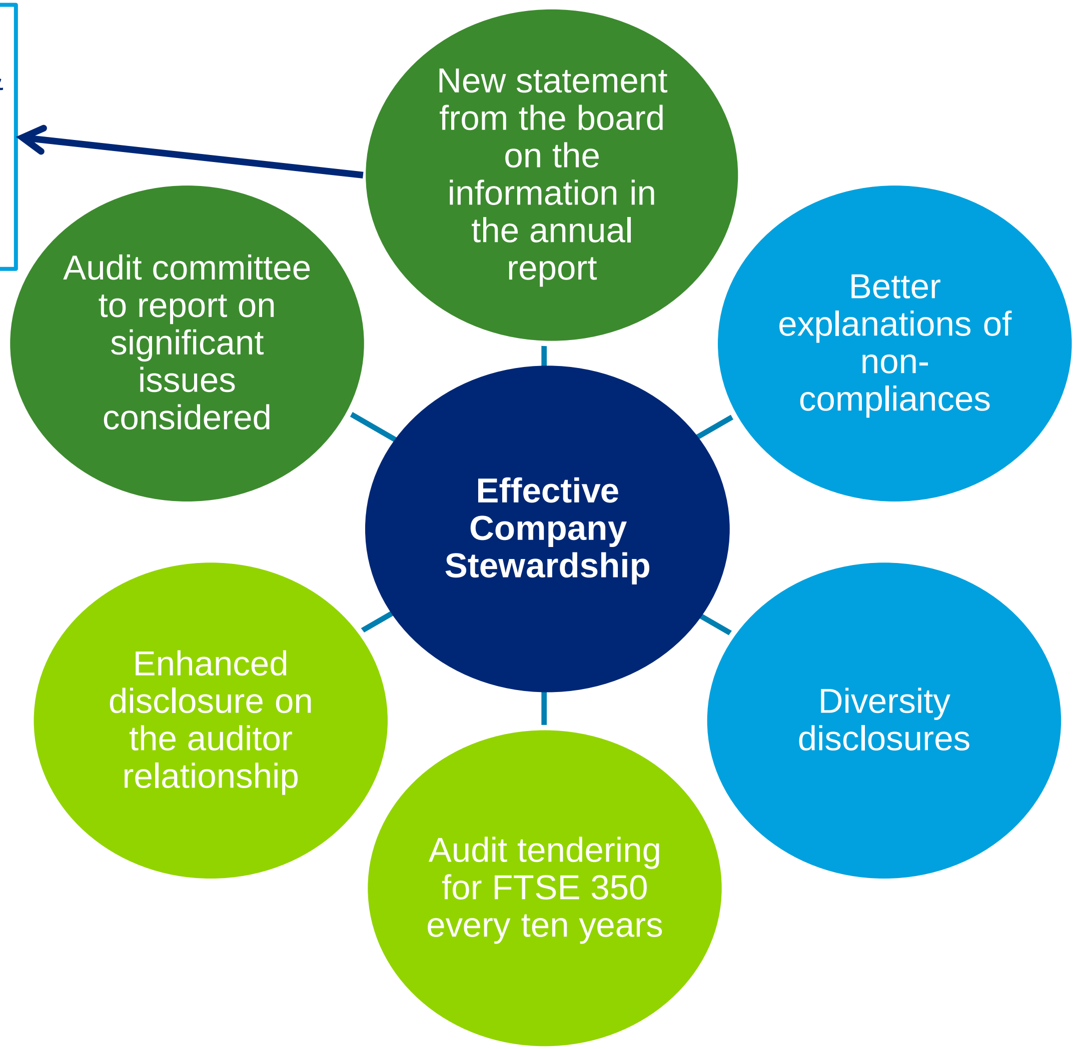
Continued efforts on linkage throughout annual report

Changes for the current reporting season – what we are seeing in practice
UK Corporate Governance Code

Effective Company Stewardship

Revisions to the UK Corporate Governance Code

Two elements:
- Fair, balanced & understandable
- Performance, business model & strategy



Changes to the UK Corporate Governance Code

Emerging practices from the first reporters under the new regime

Majority included the fair, balanced and understandable statement without detail on process

Intu Properties plc

Companies not afraid to explain why not a good time for an audit tender or the decision to retain incumbent

Meggitt plc

Many disclosures focused just on effectiveness of the external auditors

Mondi plc

Average number of significant issues disclosed by audit committees was four – limited cross-referencing to other disclosures

ITV plc

Lots of statistics on gender diversity but limited evidence of broader considerations

Lonmin plc

The governance agenda for 2014 – FRC consultation on changes to the Code

FRC consults on changes to the UK Corporate Governance Code

Part of two-yearly review of the Code

Remuneration

- Policies should be designed with the long-term success of the company in mind
- Policies should allow for clawback where appropriate to do so

Shareholder engagement

- Companies should explain when publishing AGM results how they intend to engage with shareholders when significant percentage of them have voted against any resolution

Going concern and future viability

- Two separate statements required – compromise to meet the needs of investors and the concerns of companies
- See following slides

Principal risks and monitoring the risk management system

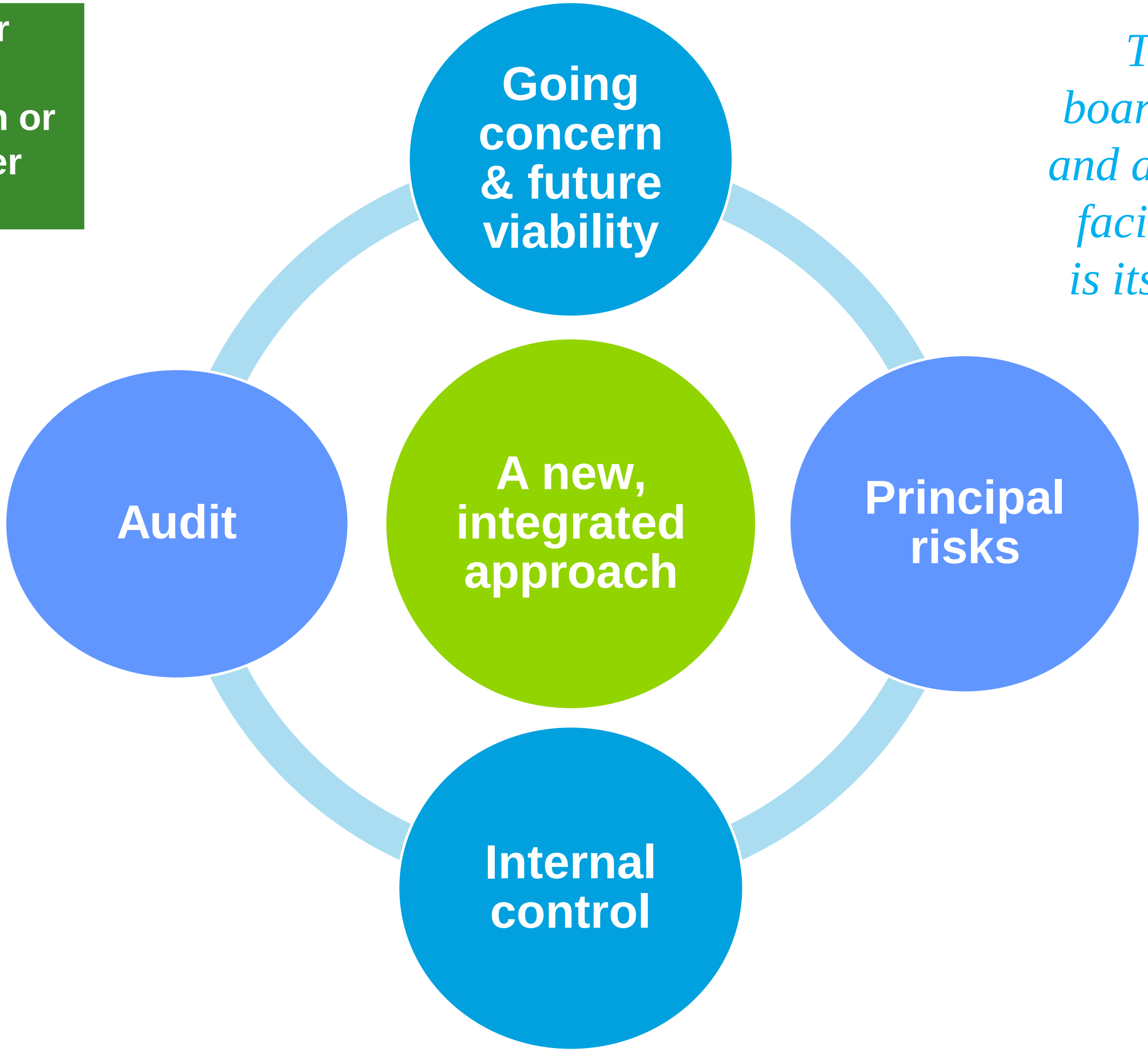
- Boards to confirm that they have undertaken a robust assessment of principal risks and how those risks are managed & mitigated
- See following slides

If approved, these changes would be applicable for periods commencing on or after 1 October 2014

Risk Management, internal control and going concern

FRC consultation on amendments to the Code and new draft guidance

Proposals for periods commencing on or after 1 October 2014



The ability of the board to understand and address the risks facing the company is itself a major risk factor.

FRC Consultation Paper

The FRC's proposed approach to going concern

Two different assessments required

There is a clear distinction between the meaning of going concern in the broad context meant by Lord Sharman and how it is used in accounting standards

The term "going concern" is only used in the revised guidance in relation to the financial statements

For narrative reporting the focus is on an assessment of the future prospects of the company over a period to be determined by the directors

The auditors will need to report if they have anything material to add in relation to the disclosures on solvency and liquidity risks and going concern

The existing Code provision requiring listed companies to make a "going concern" statement in the 'front half' of the annual report will be removed as that statement is focussed on the narrow meaning of assessing the going concern basis of accounting, and so detracts from a broader integrated assessment and description of solvency and liquidity risks, it will be replaced with the future prospects statement described above.

Risk Management, internal control and going concern

Proposed changes to the UK Corporate Governance Code

The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.

Code Principle C.2

Just a slight change to the Main Principle from "significant" to "principal" to bring the terminology in line with Strategic Report disclosure requirements

The directors should confirm in the annual report that they have carried out a robust assessment of the principal risks facing the company – including those that would threaten its business model, future performance, solvency or liquidity – describe those risks and explain how they are being managed or mitigated.

Taking account of the company's current position and principal risks, the directors should explain in the annual report how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate. The directors should state whether they have a **reasonable expectation** that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary.

**NEW* Code Provisions C.2.1 and C.2.2*

A new provision which replaces the existing Code Provision requiring a statement from the board that the business is a going concern

The board should monitor the company's risk management and internal control and, at least annually, carry out a review of their effectiveness, and report to shareholders that they have done so. The monitoring and review should cover all material controls, including financial, operational and compliance controls.

Code Provision C.2.3

This provision has been changed to reflect that the board's review should not just be a one-off, annual exercise but an on-going monitoring responsibility

Risk Management, internal control and going concern

Plus a significant new recommendation ‘hidden’ in the draft guidance

The board should explain what actions have been or are being taken to remedy any significant failings or weaknesses identified from [the board’s] review [of the effectiveness of the system of risk management and internal control], including the process it has applied to deal with material risk management or internal control aspects of any significant problems disclosed in the annual report and accounts.

Section 7: Communication
Risk Management, Internal Control and the Going Concern Basis of Accounting
Consultation on draft guidance

The existing guidance just requires a board to **confirm** that necessary actions have been or are being taken – this guidance is more onerous in terms of disclosure and appears to be necessary even where a significant failing or weakness has been fully resolved by the end of the year

The governance agenda for 2014 – Audit market reform

Audit market reform

The latest position – what is certain and what is not

EU legislation to introduce mandatory rotation every ten years

FRC 'comply or explain' regime for tendering every ten years for FTSE 350 – now in place

UK decision to take the Member State option to extend rotation period to 20 years

The Competition Commission is considering the implications on its mandatory tendering proposals

CERTAIN

VIRTUALLY CERTAIN

UNCERTAIN

Audit market reform

The position in Europe is now clear: Mandatory rotation EU regulation expected to come into force by Sept 2014

Under the proposals:

- All EU public interest entities will be required to **rotate** their auditors every ten years.
- If Member States choose to allow it, this period can be extended to 20 years if a tender is undertaken at the ten year point, or 24 years for a joint audit.

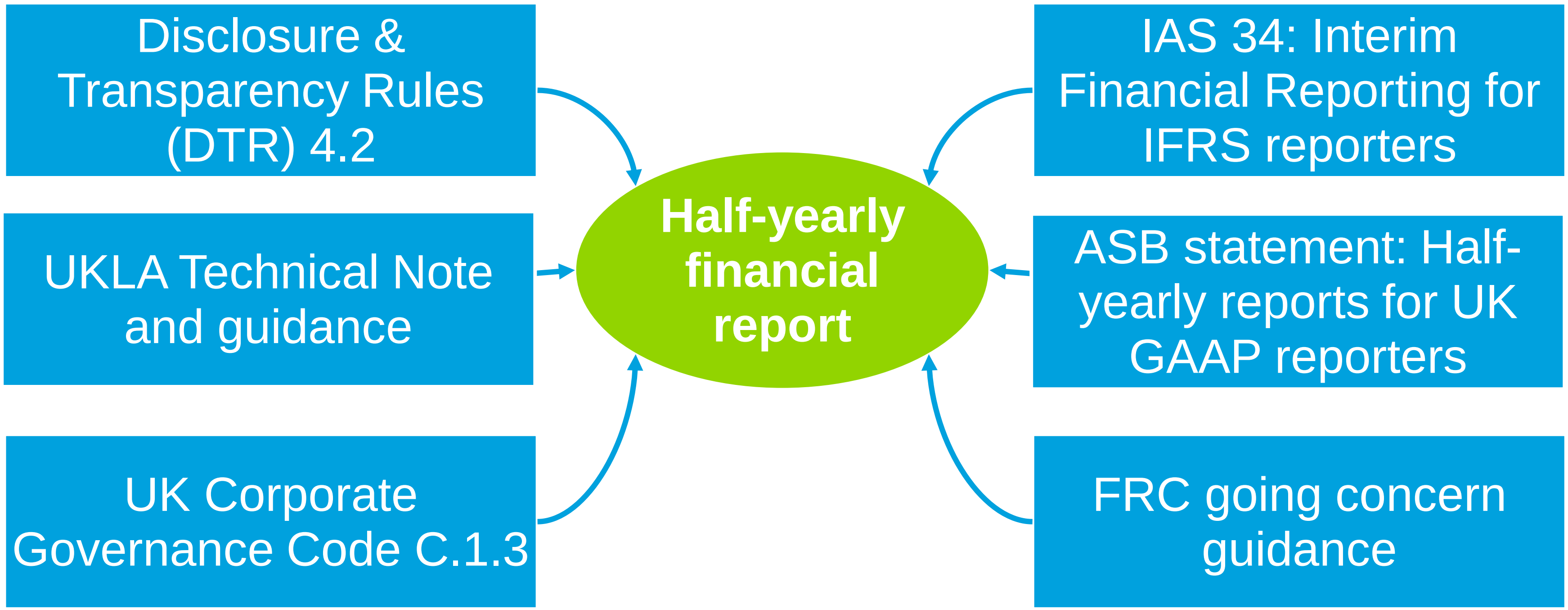
Transitional arrangements

Length of tenure as at date of entry into force	Must rotate
20 years or more	Within 6 years*
11-20 years	Within 9 years*
< 11 years	At the end of maximum duration permitted

* Of date of entry into force

Reminders for interim reporting

Reminders for interim reporting
Sources of requirements



Reminders for interim reporting

DTR requirements

Contents:

Condensed financial statements

Interim management report:

- Important events and impact
- Principal risks and uncertainties for remaining six months
- Related party transactions and changes since last annual report

Responsibility statement

Timing and dissemination:

Publish within two calendar months of six month period end

↓

Disseminate via Regulated Information Service in full, unedited text

↓

Include an indication of which website the report is available on

IFRS developments

IFRSs effective from 1 January 2014

Consolidation "Package of 5" (EU deferred to 2014)

Investment entities amendments

IAS 36 amendments on impairment disclosures

Novation of derivatives and continuation of hedge accounting

IFRIC 21 Levies (endorsement outstanding)

IASB activity update

Ongoing projects and EU endorsement

Leases ED –
considering responses
and redeliberating

Revenue standard –
due in Q2 2014

Insurance ED –
considering responses and
redeliberating

IFRS 9 –
hedging phase issued in
Q4 2013, final impairment
phase expected Q2 2014

The draft revenue standard

The five-stage approach

1. Identify the contracts with customers
2. Identify the separate performance obligations
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognise the allocated revenue when performance obligation is satisfied

Core principles:

- Revenue recognised in a manner that depicts transfer of goods and services to customers
- Amount recognised should reflect the amount entity expects to be entitled in exchange

IASB leasing project

IASB leasing project

Where are we now?

- Number of decisions made at March IASB/FASB meeting
- Redeliberations set to continue in future meetings
- Expected completion date yet to be determined
- Currently no plans for further exposure drafts prior to final standard

IASB leasing project

Decisions on lessee accounting

Leases are coming on balance sheet

Short-term lease exemption expanded – now consider whether lease term 12 months or less

Portfolio approach available to lessees (and lessors) for “small” assets. Exemption to be explored.

Single model (no ‘type B’) gives finance lease expense profile

Variable payments only included in initial measurement if based on index / rate

IASB leasing project

Other decisions

Lessor accounting will be similar to IAS 17 (no receivable and residual approach)

Extension options included in lease term if "reasonably certain" (only lessees would reassess)

Will include unbundling guidance similar to new revenue standard

IASB and FASB Divergence:

- FASB still have 2 types of leases for lessees (type B giving straight-line expense overall)
- FASB not taking forward "small" asset exemption

'Need to know' and meeting minutes available at
www.ukaccountingplus.co.uk

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Finance IT implementation
Trends and best practices

Robert Cullen

Key trends

The following technology trends are currently shifting the marketplace.

Trend 1: Embracing Software as a Service (SaaS)

Trend 2: The move towards a tiered strategy

Trend 3: Enhanced flexibility in applications

Trend 4: Increased focus on analytics

Trend 5: Innovative application user interface

Trend 6: Leveraging wireless and mobile technology

Cloud ERP

Overview

What is cloud ERP?

"Cloud ERP is a collective term encompassing off-premises-based, service-based ERP delivery solution configurations. It incorporates software as a service (SaaS) delivery models, platform as a service (PaaS) development capabilities, and cloud infrastructure scenarios. It does not include remote hosting, where ownership (i.e. a perpetual license) remains with the customer."

- Hype Cycle for ERP 2012, Gartner

The following are recognised benefits and differences over a traditional legacy ERP system:

Implementation timeline	License cost model	Infrastructure
• Much quicker to implement than traditional on-premise solutions since all that is required is a browser and internet access. Embedded business processes maintained by business application super users • Customisation to source code not permitted	• Subscription fee based on various factors including vendor, number of employees / application users and company size • Total Cost of Ownership (TCO) debatably less due to accelerated implementations, reduced upgrade costs and on-going support model	• Majority of ERP infrastructure handled by the cloud vendor • No hardware and IT support staff necessary for infrastructure other than Internet connection

Upgradability	Scalability	Functionality
• Reduced upgrade costs – mainly focused on integration and business critical process regression testing as part of a business as usual (BAU) function • Always on the latest version • Reduced application support staff	• Scalable to support growth without additional hardware • Multiple users can access and manipulate the tenant without constraints	• New functionality available sooner and is automatically included on release schedules 2 to 3 times per year • Generally available on mobile devices since the cloud ERP system is reached through the internet

Market analysis

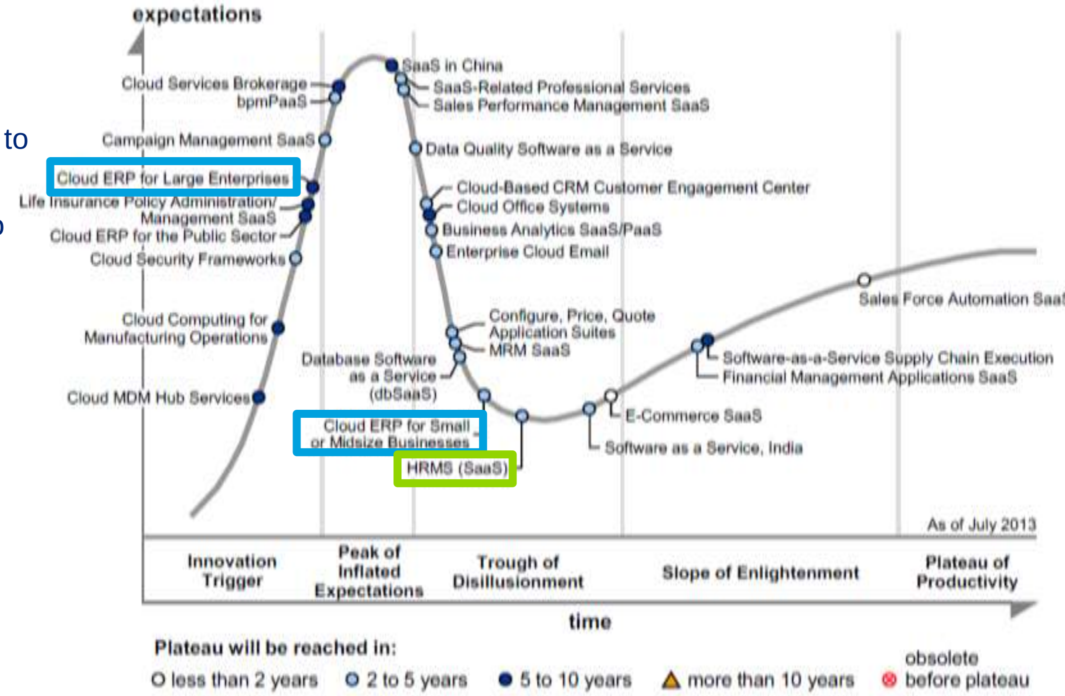
Cloud ERP and SaaS predictions

Cloud ERP for small, midsize and large enterprises are on the rise, following the path of HRMS SaaS which has already reached and passed the peak of expectation.

In 2013, Cloud ERP for the Public Sector was added to the Hype Cycle as On The Rise.

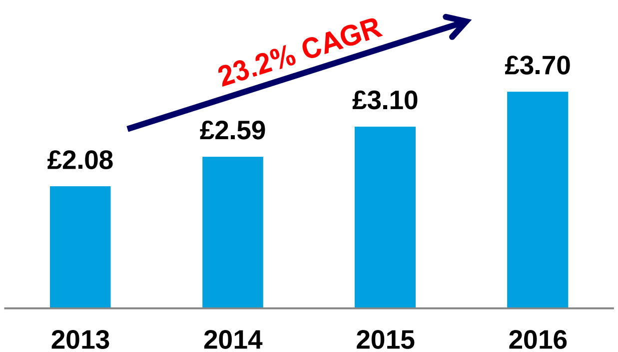
- The ERP section of the SaaS market is predicted to grow at 23.2% over the next 4 years to become a **£3.7B industry**
- Cloud ERP is predicted to grow at a higher CAGR than Cloud-based CRM: **23.2% for Cloud ERP** vs. 16.1% for CRM
- Gartner says by 2016, the impact of cloud and emergence of postmodern ERP will relegate highly customised ERP systems to “legacy" status

Gartner’s Hype Cycle for Software as a Service



Source: Gartner (July 2013)

Cloud ERP Sales in £UK Billions



What is the difference between Cloud and Software as a Service (SaaS)? The Cloud is where data and applications are hosted, i.e. on the internet instead of your hard drive. SaaS refers to an application that can be rented instead of bought. All SaaS applications are held in the Cloud but not all Cloud solutions are distributed as SaaS.

Key trends

Trend 1: Embracing Software as a Service (SaaS)

Overview	SaaS, sometimes referred to as "on-demand software“ is a natural evolution of online technologies and has changed many aspects of how businesses operate in terms of scalability and flexibility. The demand for SaaS is being driven by the business, where there are heightened expectations for agility and flexibility. SaaS can create the possibility of rapid business model innovation, improved service levels, and new ways of controlling costs. As well as doing things faster, better and cheaper, SaaS solutions like cloud computing, can also enable organisations to do entirely new things, like helping organisations of any size better compete and operate on a global scale.
Key aspects	• New Choices: Companies have new options for deployment models (public, private and hybrid clouds) as well as for service models • Demand for return on investment (ROI): Companies have an increasingly limited tolerance for spending money on technology without tangible, documented improvement in effectiveness • Lower costs and scalability: Many SaaS and cloud computing options cost less and are faster to implement than large enterprise systems. There are now SaaS products and services that can compete with or integrate with comprehensive on-site solutions. Many offer elastic scalability so organisations can add or remove capacity on demand. This is especially advantageous for organisations with variable workloads or growth spikes triggered by acquisitions
Challenges	• Security: SaaS security may be as effective as security associated with in-house data centres, but many companies just don’t have the comfort level to go down this path • Inferior customisations compared to traditional ERP: While SaaS products provide the ability to configure changes to suit an organisations needs, the full breath of customisation that the industry has grown accustomed to with traditional ERP does not exist
Summary	Enterprises should recognise emerging cloud capabilities and take advantage of new service offerings, such as more nimble, flexible, and affordable architectures. That means evaluating SaaS alternatives to discover offerings that are aligned with operating environments and risk profiles. Navigating the options, assessing the opportunities and risks, and migrating to the appropriate SaaS environment can enable organisations to position themselves for future adoption of additional Finance capabilities.

Key trends

Trend 2: The move towards a tiered strategy

Overview	Today's businesses are more complex than ever before and their shelf-life is short as they constantly change through mergers, acquisitions, divestments, consolidation within industries and also across industries. The vector of change is getting stronger and stronger, as each year goes by. Companies are on a never-ending, perpetual journey to try to integrate operations while trying to standardise processes and create common ways of working across multiple business units, divisions and countries. As a result, business leaders are considering alternative strategies to meet even-changing and local requirements.
Key aspects	• A tiered ERP suite strategy is the use of ERP suites from different vendors in two or more levels of the organisation – for example, corporate headquarters and local subsidiary operations – Gartner • This can provide benefits including speed of implementation due to, for example, pre-configured functionality, screens and reports, reducing the resources required for implementation, training users, as well as providing flexibility whilst maintaining established core systems • On-Demand delivery solutions can provide an order of magnitude savings in total cost of ownership versus traditional on-premise applications A single, global ERP system for an enterprise, is the approach that should be considered in an integrated organisation, where there is a high degree of dependence and commerce among units. Where this is not the case and existing ERP systems are too cumbersome for smaller business units, a tiered-strategy may be appropriate.
Challenges	• Integrating with larger central systems such as SAP or Oracle can be expensive and complex, particularly for smaller businesses • Requires focus on understanding local, national or regional statutory and regulatory requirements • Managing and minimising the number of secondary tier systems and vendors can be a challenge
Summary	• The cost of configuration in the Tier 1 system should be compared with a Tier 2 system to meet business requirements. Many Tier 2 systems enable cost effective two-tier deployments • Subsidiary support for a single instance strategy can result in consolidation nightmares • CFOs are considering adopting a tiered strategy as an alternative to a single-vendor strategy when a single-vendor strategy is not achievable or timelines and costs are not considered to be commercially prudent

Key trends

Trend 3: Enhanced flexibility in applications

Overview

Starting with the second half of the 90's and continuing into the 2000's, ERP systems have seen a dramatic increase in deployment numbers. The most significant lesson learned from such deployments is the importance that flexibility holds for ERP systems. The high failure rate of ERP implementations in the last 15 years and the millions of dollars lost, attest to this fact, and the primary reason is the attempts made at trying to adapt existing business processes to rigid ERP system structures.

Key aspects

- Flexibility is a key business driver and will drive product selection
- Next-generation applications will incorporate business-oriented graphical modelling tools that will enable rapid, code-free modifications to business applications, as a result:
  - Ownership of business configuration will move to the business unit
  - Total Cost of Ownership will be driven down as specialist skills are no longer essential for change
  - The application can change and grow to meet a businesses changing needs
  - Flexibility should be built into all aspects of ERP lifecycle
  - Tools must be uncomplicated and collaborative to allow for example a report to be shared

Challenges

- In some cases, fuller functionality is only achievable through code
- The need to be flexible is often associated with increased costs
- Some of the newer applications are flexible as standard, but do not provision for additional flexibility to be built in, e.g. customisations

Summary

Flexibility will differentiate the vendor and become a key driver of application vendor selection
High levels of configurability are essential for SaaS applications, but also for on-premises applications so that the apps can be configured in metadata without compromising the ability to upgrade.

Key trends

Trend 4: Increased focus on analytics

Overview	Today's business environment requires dynamic and adaptable reporting and financial management tools that can provide clear insights and inform critical decision making. Analytics can help companies in their efforts to identify profitable business segments, identify and take actions to mitigate risks, and more effectively monitor business health on an on-going basis.
Key aspects	Regulatory reporting continues to be a major focus and challenge, however from the operational perspective there has been a move away from the traditional profit and loss reporting to reporting on product and customer profitability and associated costs.
Challenges	With business analytics becoming a competitive advantage, different areas of an organisation must determine its role in analytics – especially when the data and decisions are often outside of Finance. Other key challenges include: • Cross estate (multiple application) reporting and analytics • Data quality (common reference data across systems, out of data information, etc.) • Ensuring a single source of truth from a data perspective • Gathering / migrating sufficient amounts of data from legacy systems to make analytical results meaningful and accurate • Identifying employees with the specific skills needed to support an analytics capability • Agreeing how to get the most value out of internal and external data • Understanding how data will be used to guide decisions – and who is accountable for implementing them
Summary	• It is the effective delivery of support that will be most critical to an organisation's ability to deliver value in an analytics enabled world • Leading firms are implementing a new set of analytical capabilities, expanding into areas that grow revenue and improve margins in their organisation • Finance must leverage its ability to bring cross functional information together to drive value for each function • Cloud technologies can play a part in analytics as many provide embedded BI out of the box with minimal customisation in the cloud

Key trends

Trend 5: Innovative application user interface

Overview

The quality of user experience is fast becoming a main factor for organisations when selecting an ERP solution, where step-by-step, intuitive process flows, which are automated and have embedded controls are key

Key aspects

- Supports fast, flexible and user friendly data entry / system navigation
- Includes, as standard, data validation checks and alerting mechanisms
- Uses standard system commands, navigation and system operation across all modules
- Provides configurable menus and screens
- Consistent screen design throughout the application (both core and self service modules)
- Easy to use, pleasing to the eye and flexibility to be branded to the customer's liking

Challenges

- Finance application user interface design must retain a professional look, while also engaging and exciting the user
- The user interface should leverage online behaviours already learned by the user, but apply them to a business context
- A balance must be achieved between providing rich, configurable functionality while also ensuring ease of use

Summary

- A user's first impression is solely based on the UI
- If the UI is flawed, regardless of the functionality available, that first impression may be difficult to change

Key trends

Trend 6: Leveraging wireless and mobile technology

Overview	The integration of applications with wireless and mobile technology is evolving at a rapid pace. This is particularly true in relation to the availability of these applications on mobile devices, (e.g. smartphones and tablets), along with the ability to action various processes using these devices. Application vendors look at mobile technology as a vehicle to increase the utilisation of their self service modules and information deployment by making business processes literally portable. The potential of mobile applications to transform business processes hinges not only on the speed and convenience of mobility itself, but also on the devices' unique capabilities to sense, respond to, deliver, and capture information in real time.
Key aspects	• Empowering managers to action items "on the go", particularly in relation to system generated approvals • Utilising tablets (e.g. iPad) to provide real-time information and performance snapshots • Empowering managers and employees to access and utilise self service functionality via their person mobile devices
Challenges	• Adapting to the rapid development and obsolescence of devices and platforms • Achieving a balance between developing innovative mobile applications and ensuring that the applications are useful and add value to the customer • Ensuring that data privacy and security measures are in place with a view to reassuring customers that data remains secure
Summary	As organisations become more technology savvy, and a shift takes places from administrative activities to self service functionality, application vendors must ensure that they have factored mobile technology into their latest version design, or, at the very least, the intention exists on the application roadmap. Equally, organisations should have a mobile device strategy in place, to ensure that any information viewed from a mobile device is done so in an appropriate manner.

Major cloud ERP vendors

NetSuite delivers high quality, Cloud based ERP with integrative capabilities

NETSUITE

"These advantages are NetSuite's core tenets; it delivers a 360-degree view of customer data in a holistic ERP and CRM solution and provides users with a sound set of customer service capabilities for midsize organizations"
- Forrester Wave, July 2012

Overall Strategy

- A single, fully integrated solution which connects finance, sales, service and fulfillment
- Expanding globally through NetSuite OneWorld and other international focused products
- Oracle and NetSuite announced a strategic alliance focused on plans to deliver integrated HCM and ERP Cloud Services for mid-size customers

Key Characteristics

- Established in 1998
- $309M in Revenue in 2012, 31% YOY Growth
- 20,000+ customers
- International Offices: Australia, UK, Philippines, Czech Republic, Hong Kong, Singapore, Japan, Uruguay
- Growing SMB market as well as larger enterprises using a two-tier ERP system
- **Deloitte has in house expertise to implement NetSuite**

Functional Areas	Qualifications	Solution Quality
• Finance • Supply Chain & Inventory Management • Order to Cash and CRM • Ecommerce • Limited HCM • OpenAir – Project Mgmt. • Configured for over 50 countries – proven tax compliance in 110 countries	• Knowledge Universe • Unilever • Computer Associates • Prudential Locations LLC • Magellan • Igloo • Qualcomm • Groupon	• Considered by many the #1 Cloud based ERP solution • Individual CRM product is outperformed by SFDC and SAP according to Forrester • Limited HCM scope – Shadow HR to support workflow, procurement, expenses and time management

Major cloud ERP vendors

Workday provides a leading Cloud HCM and an emerging finance offering

"Workday's configuration flexibility, integration platform, and usability make it good choice for both medium-size companies seeking simplicity in cost of ownership and large multinationals interested in HR process transformation."

- Forrester, January 2012

Overall Strategy

- Positioning as an Enterprise Management solution (back-office applications)
- Leading Human Capital SaaS provider expanding into Financials, Big Data, Recruiting, Workforce scheduling
- Built as true cloud, a single version of Workday exists across all customers with a strong mobile capability
- Currently issues with Finance re: EMEA localisations, reports and scalability, which are being addressed

Key Characteristics

- $274M in Revenue in 2013, 104% YOY Growth
- 600+ Customers (March, 2014)
- Object orientated technology as opposed to a relational database structure
- **Deloitte has been offering consulting services for Workday projects since 2005 and is considered to be leading global/EMEA partner for HCM implementations**
- **Deloitte implemented Workday financials for Workday**

Functional Areas	Qualifications	Solution Quality
• HCM • Talent / Recruiting • Payroll – NA (UK and Swiss payroll in development) • Finance • Procurement • Reporting • Big Data Analytics	• Brown University • Chiquita • Flextronics • Lifetime Fitness • Symantec • TripAdvisor • University of Rochester	• Considered the leader in Cloud HCM with growing Financial, Big Data and Recruiting offerings • Application architecture is a key differentiator

Major cloud ERP vendors

Oracle Fusion Applications are the next generation of Oracle ERP

"Oracle Fusion Applications emphasises a sleek user interface, flexible deployment options, and next-generation architecture with embedded analytics."

- Forrester, June 2012

Overall Strategy

- Oracle Fusion Applications is a portfolio of next generation suite of software applications
- Built from features and functionalities taken from Oracle E-Business Suite, JD Edwards, PeopleSoft and Siebel product lines
- With the newly announced alliance with NetSuite, positioning of Fusion Financials in the market is assumed to be at the Enterprise level

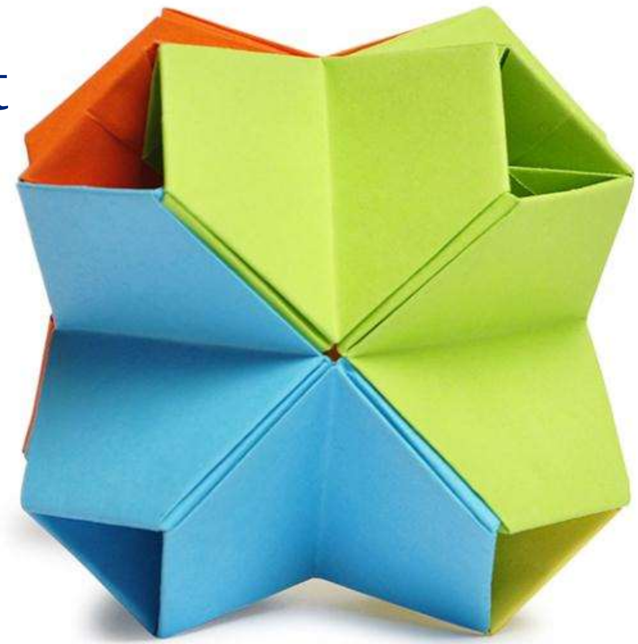
Key Characteristics

- Launched September 2010
- 200 Customers (June, 2012)
- **Deloitte is a Diamond Partner with implementation experience in EMEA of the HCM product**

Functional Areas	Qualifications	Solution Quality
• CRM • Financial Management • Governance, Risk, Compliance • HCM • Procurement • Project Portfolio Management • SCM	• Brocade • Cheshire West • Shutterfly, Inc. • Toshiba Medical Systems Europe • Zillow, Inc.	• Initial version of Fusion applications have been released • Focus on Fusion CRM as a replacement for Siebel • Can be run SaaS or On Premise • Limited data points on quality

That's not the right question?

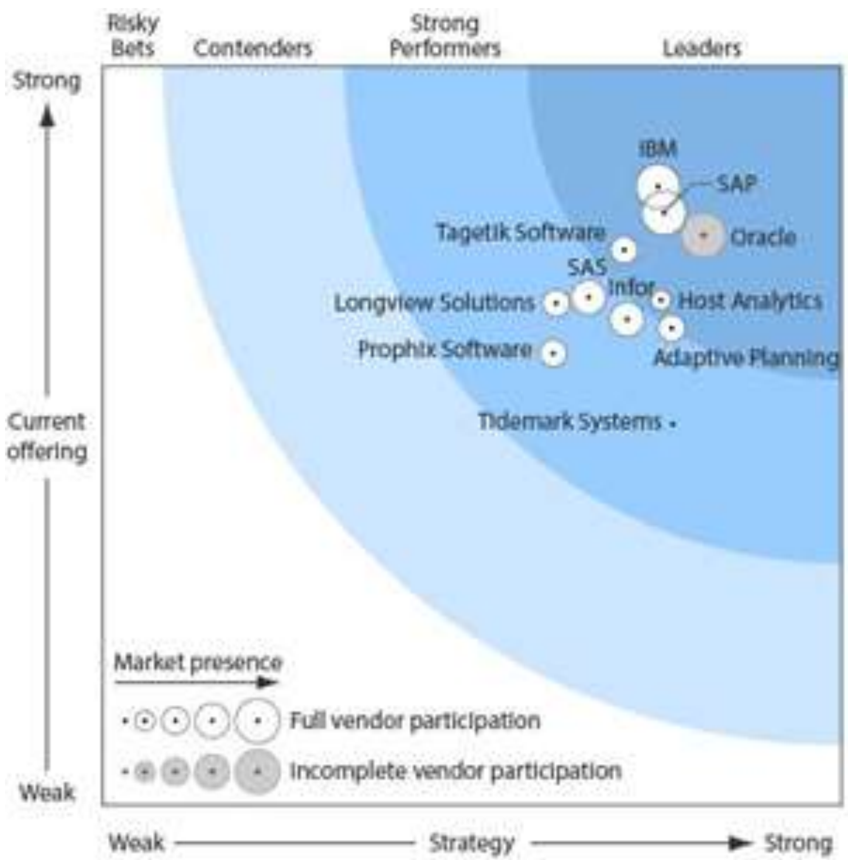
How to select, implement and support planning, reporting and consolidation systems and software

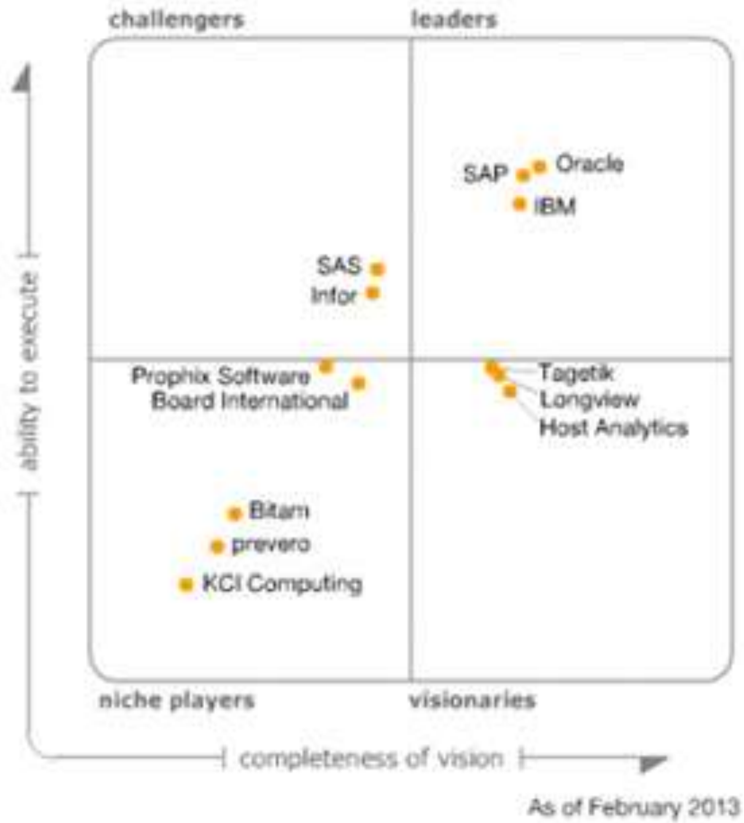


Simon Barnes

The selection process

What is the market saying?





Source: Gartner (February 2013)

Now we know we need a system & the market supports it

What's the next step?

Should we go Tier 1 or Tier 2?

Lets do a Spec and Select

What will IT support?

How can I choose which is best for our organisation?

We need to write an RfP

How much will it cost to implement?

What will the users think?

Who can we use to help

Cloud/hosted/ on premise?

3 months later…

Progress has been made

- Run a process to select a selection partner
- Created an agreed “long list”
- Produced a very long comprehensive RfP full of very interesting questions
- Reviewed and approved with Business, Procurement and IT
- Sent to all the vendors on the long list
- Agreed scoring and weighting per question
- Carefully reviewed all the responses reviewed
- Created and agreed a “short list”
- Invited short list of 2 or 3 to present
- Weeks of intensive preparations, presentations and discussions
- Constant vendor conversations
- Get to the final decision meeting where the decision will be made...

What were the scores?

Vendor 1 vs Vendor 2

Questions	Vendor 1	Vendor 2
Vendor	226	205
Software Version	582	550
Software	876	866
Data Input and Reporting	949	943
Data Insight	772	1,104
Solution	726	853
Security	1,099	986
Support Model	542	516
Technical	976	975
Commercials	580	566
TOTAL	**7,328**	**7,564**

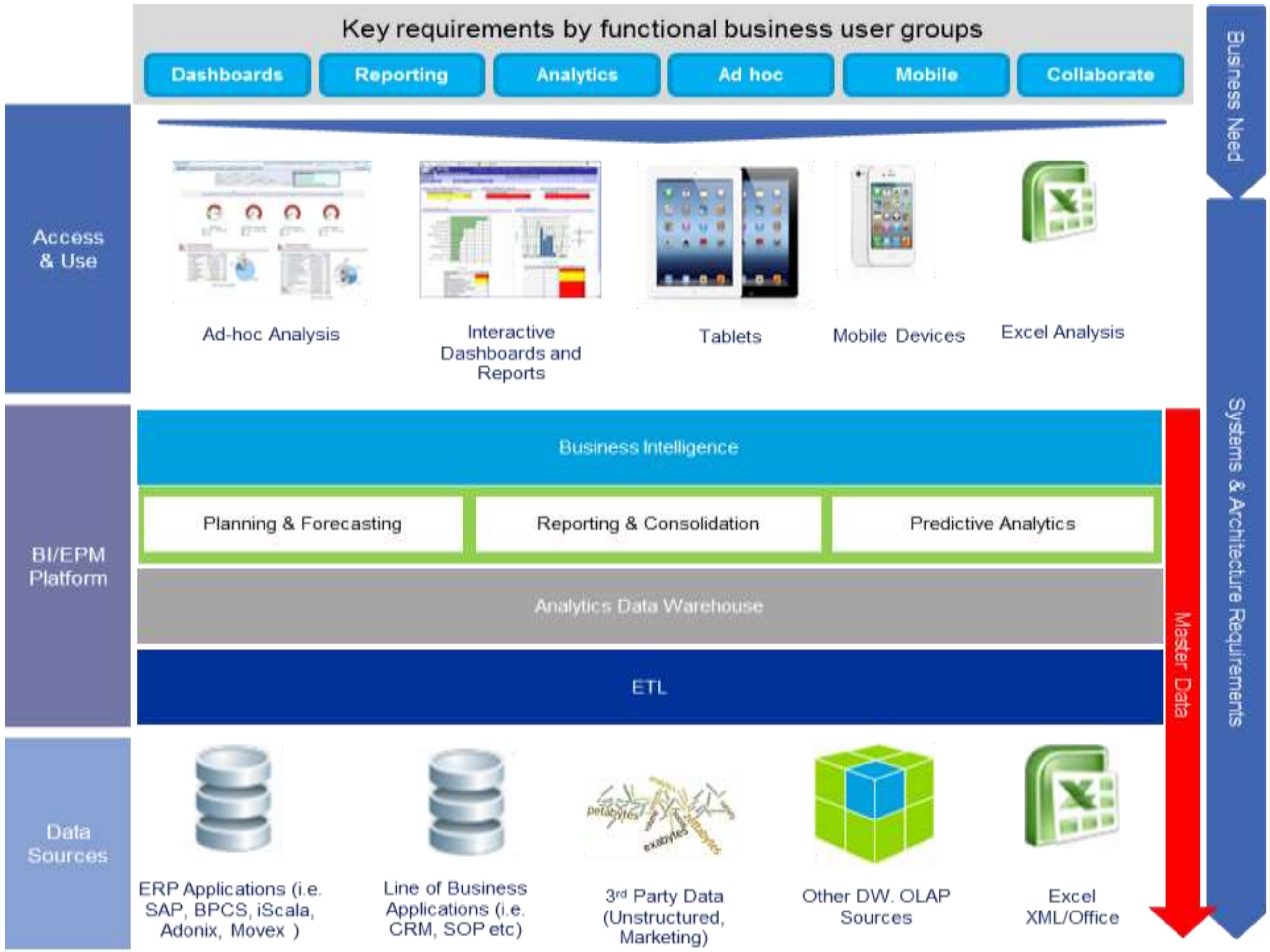
What have you learnt?

- Who has the best pre-sales, are they busy?
- Who has the best presenters?
- Who do you “like”?

So if that's not always the best approach what is?

Ask different questions

Where are you trying to do over the long term, what does your 2-5 year solution roadmap look like?



So if that’s not always the best approach what is?

Ask different questions

Can you make some relatively quick decisions?

- ❑ Are you a Strategic buyer or best of breed?
- ❑ Tier 1 or 2?
- ❑ Does it have to be SaaS, Cloud or on-premise?

This will get you down to 2-3 very quickly

Then run a different sort of RfP

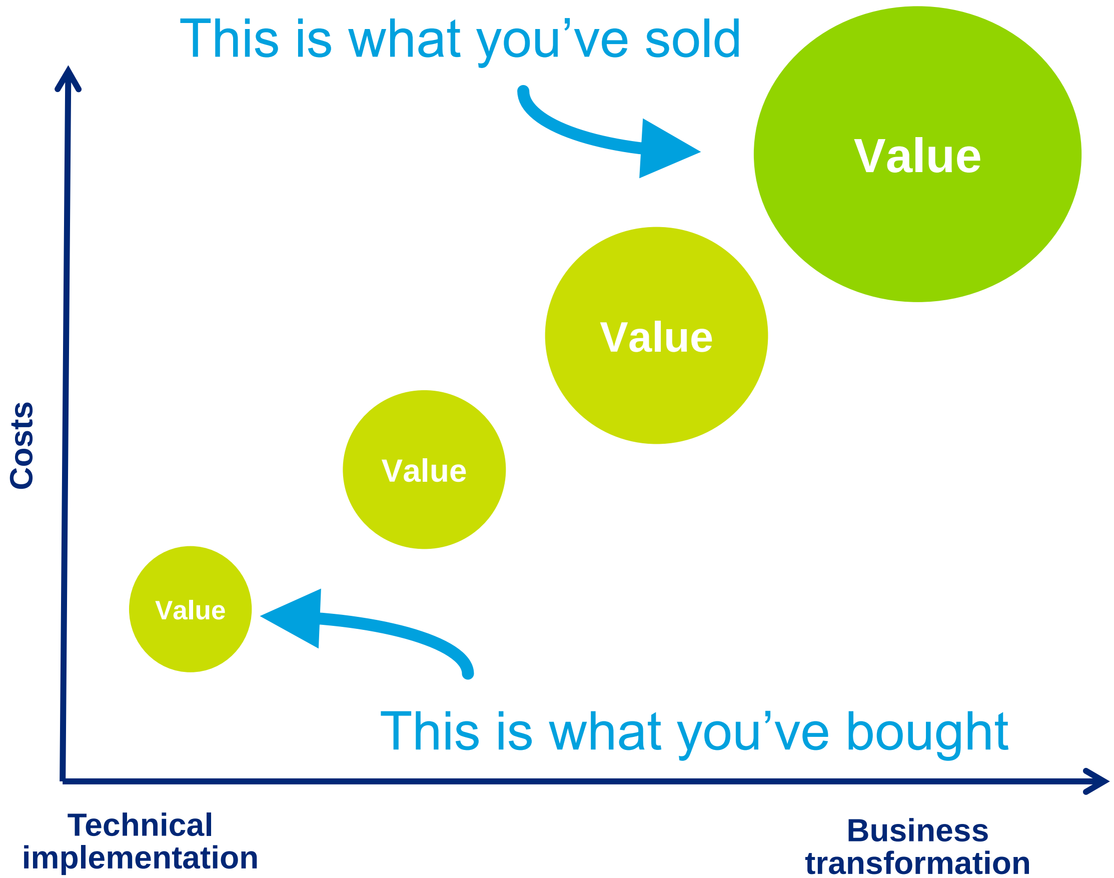
- ✓ Don’t ask the obvious they can all do it, input/reports/security
- ✓ Base it on sets of scenarios
- ✓ Make it reference based - talk to others, understand the implementation
- ✓ Look at TCO, support models and full picture
- ✓ Get into a position to really negotiate
- ✓ Negotiate on what is important

Then get the users to validate the decision

Implementation

Need to decide on the approach first?

Be clear about the type of support you need



Characteristics

High business transformation

- Process
- Org design
- Operating models
- Management info
- Longer timeframe
- Higher value
- Higher costs

Technical implementation

- Re-imp of current process
- Systematizes what is there
- Often slower to value
- Can disappoint
- Lower costs
- Lower value

Need to decide on the approach first?

Be clear about the sort of support you need

	Advice & Guidance
Approach	• Light senior team support • Project Leadership • Steering Committee • Design Review/QA
Ratio	1:20 (1 day support for every day of your time)
When its right	• Record of successful delivery • Technical delivery • Requirements fundamentally clear • Complete business buy-in

Need to decide on the approach first?

Be clear about the sort of support you need

	"With"
Approach	• Shared roles – Project Management • Joint teams in all workstreams • Partner ownership
Ratio	50:50
When its right	• Business Transformation • Engaged team but with political sensitivities • New or unfamiliar technology

Need to decide on the approach first?

Be clear about the sort of support you need

	"To"
Approach	• Light client involvement • Focused value driven sessions • Full partner ownership • Driven at senior levels
Ratio	80:20
When its right	• Short time-frames • Limited business/technical availability • Strong clear leadership • Ability to dictate • Outcome based

Implementation, project failures

Why do projects fail

This is what we typically hear

Its cost so much more than we thought

It's not really going to give us the benefits we stated in the business case

It's taking a lot longer than we planned

It's really complicated to support

It works but the numbers are still wrong

It doesn't do what we thought it would do

It's very difficult to use

Doesn't help me at all

It's really slow

Not surprised really, IT ran the project, they don't know Finance

Well Finance ran the project so it's not up to us in IT to fix it

Why do projects fail

This is what we typically hear

Scope & planning

Its cost so much more than we thought

It's taking a lot longer than we planned

Project type & user engagement

It's not really going to give us the benefits we stated in the business case

Doesn't help me at all

It doesn't do what we thought it would do

Design

It's really slow

It's really complicated to support

It's very difficult to use

Data quality/MDM

It works but the numbers are still wrong

Governance

Not surprised really, IT ran the project, they don't know Finance

Well Finance ran the project so it's not up to us in IT to fix it

Support – transition to BAU

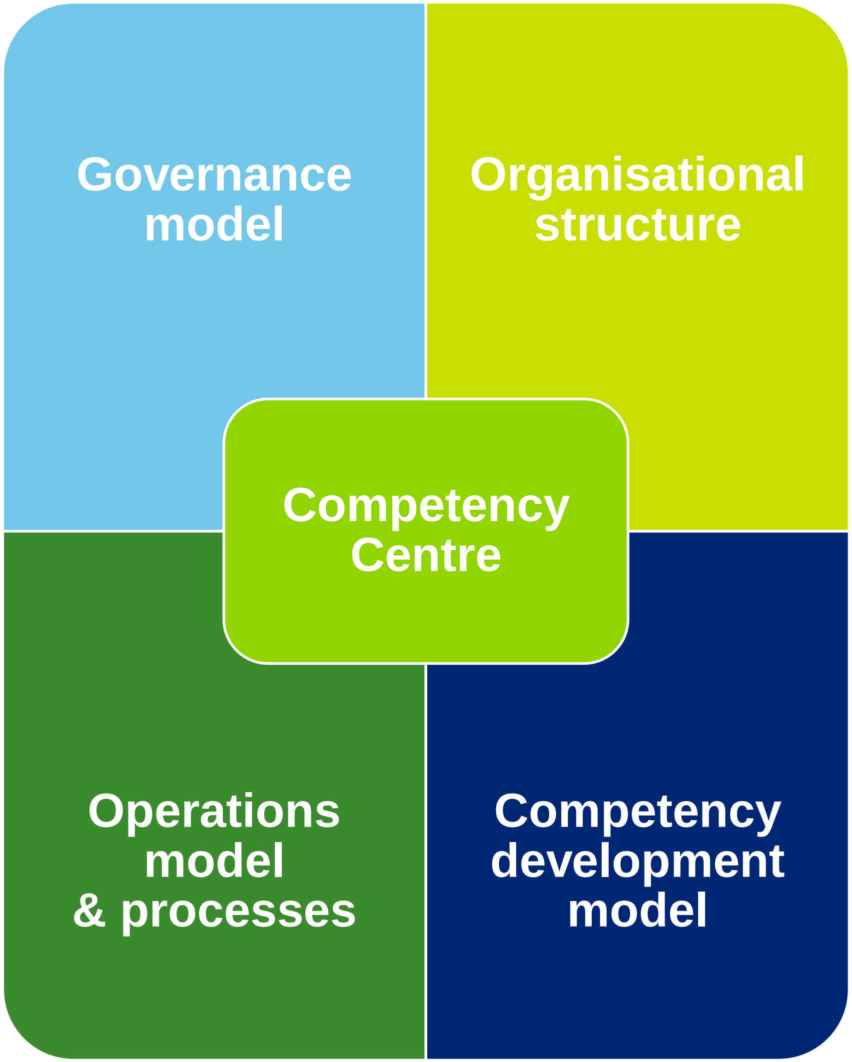
How to support complex applications

What not to do…

- Ignore it and hope it goes away, not a project problem
- Assume it will get picked up as part of standard IT support
- Go-live and then start the transition to support process
- Employ a lone contractor to support
- See it as a low value activity
- Be too optimistic about how fast it can transition, the first 6 months are the most difficult and require the highest skill levels
- Don’t mix Sustain and Support models and requirements

Develop a Competency Centre

- Identify and align functional business information requirements
- Safeguard and constantly improve the target state and strategy in line with key business drivers
- Drive execution of the BI strategy effectively and efficiently
- Access to tools, methodologies and best-practices
- Drive data integrity & quality
- Develop capabilities – centrally and in the business
- Drive alignment and integration across all related initiatives
- Make it a career choice



Questions

Deloitte Finance Club

Upcoming programme

- **The Summer finance checklist**
  Thursday, 17 July 2014 – **NEW FORMAT: MORNING SESSION**

- Our programme for the rest of 2014 is under development –
  any suggestions or feedback welcome

Deloitte Finance Club

Contacts and resources

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Resources:

- Deloitte Finance Club home page: www.deloitte.co.uk/financeclub
- UK Accounting Plus (formerly IAS Plus): www.ukaccountingplus.co.uk
- Future of UK GAAP: www.deloitte.co.uk/futureofukgaap
- Plan. Budget. Forecast.: http://www.planbudgetforecast.com/