EPSAS Conversion

Major Program Transformation (MPT)
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1. Major Program Transformatie (MPT)
Introduction Major Program Transformation Methodology

Our Business & IT transformation methodology is the way EY as a service organization helps coordinate its clients in IT enabled transformation programs.

It is a specially designed methodology for a new and better way to deliver the most complex transformation programs to our customers with fewer risks and a higher added value.

The method involves an integrated approach to assist our customers in their transformation supported by technology. It brings an organization targeted approach including tools and accelerators for the delivery of IT programs with a focus on five distinct features:

1. Programme management
2. Independent Solution Architecture
3. Requirement Definition
4. Business Process & Control Design
5. Business Engagement & Readiness

An EPSAS Conversion is considered a transformation project by the impact on the organization, the IT environment and the processes.

The impact and challenges of a conversion to accounting on an accrual principle are not to be underestimated.

Real engagement with the people affected is the key to successful transformations
1. Major Program Transformation (MPT)

Conversion Impact and Challenges

**Change Management**
- Reform will of politicians and executives -> sponsorship required!
- Change of mind necessary – setting up of „climate of change“ required
- Avoidance of reform fatigue

**Resources**
- Capacity building on accrual accounting
- Creation of necessary capacities
- Involvement of responsible auditor is essential

**Technology & organisation**
- Selection and implementation of appropriate IT-/ERP-systems
- Effects on processes and organisation
- Recognition and measurement of assets and liabilities in the opening balance sheet

- Accounting requirements imply changes/ adaptations in processes, technology and organisation
- Not a treasury project: also areas outside the accounting function are affected
1. Major Program Transformation (MPT)

We seek to redress the emphasis in IT-enabled transformation programmes from not just to ‘delivering a system’ to ‘delivering value for the business’ by turning five key programme risk areas in the traditional delivery lifecycle into significant opportunities for greatly enhanced benefit.

1. Transformation Programme Management
   - Independent Major Programme Management expertise ($100mn+)
   - Experienced commercial management of solution providers
   - Board level stakeholder management expertise
   - World class Benefits Identification & Management capability
   - Robust Independent Quality Assurance
   - Programme cost tax optimisation

2. Independent Solution Architecture
   - Truly vendor agnostic solution architecture expertise
   - Requirements traceability
   - Change control governance
   - Value led architectural decisions

3. Requirement Definition
   - ‘Value-led’ requirement definition
   - Cost traceability per individual business requirement
   - Enhanced requirement definition methodology
   - ‘Solution’ agnostic
   - Design ‘Theatres’ combining requirements analysis with Business Engagement

4. Business Process & Control Design
   - ‘Data-led’ process analysis: statistical
   - ‘Value-led’ future process design
   - Integrated control design to reduce cost of future controls through increased automation.
   - Collaboration design forums to iterate the design and reduce downstream testing and acceptance risk
   - Tax efficient design approaches

5. Business Engagement & Readiness
   - Business Readiness and ‘early life’ aftercare
   - Process-centric organisational design
   - Continuous improvement capability build
   - Leadership and culture change
   - Building workforce engagement
2. EY’s EPSAS Conversion Methodology

A 5-Phase approach
2. EY’s EPSAS Conversion Methodology is a five-phase approach

**Impact assessment**
- Project launch, project infrastructure, project governance, time tables and work plan
- Train the core team
- Identify key accounting differences and tax issues
- Assess potential impact on financial statements
- Assess potential impact on the business
- Evaluate the impact on current transformation projects
- Inventory of entities that need to convert to EPSAS
- Identify “must do” changes to get ready for EPSAS
- Prepare phase 2 execution plan

**Design and planning**
- Initiate Phase 2 activities
- Determine preliminary accounting policies and product classifications to be adopted
- Identify high level process and IT changes based on preliminary accounting policies
- Create business process and IT decision criteria: identify and prioritize solution options
- Undertake readiness assessment around skills, resources and support
- Develop training plan and tailor training materials for global roll out
- Develop communication plan
- Prepare conversion road map and phase 3 plan

**Solution development**
- Initiate phase 3 activities
- Prepare accounting policies and skeleton accounts to model
- Prepare disclosures and reporting package and revise SI schedules
- Finalize solution choices
- Complete detailed design and business requirements
- Perform functional and technical design and develop system changes
- Document process and control changes and identify role and responsibility changes

**Implementation**
- Initiate Implementation activities
- Confirm selected accounting policies and tax compliance solutions and finalize manuals
- Roll out accounting and tax policies and perform education
- Test and remediate, including end-to-end dry run
- Roll out process and system changes and educate users
- Implement parallel reporting under EPSAS, identify gaps and develop strategy to address
- Build sustainability
- Plan for implementation

**Post implementation**
- Debrief and assess implementation
- Address Items deferred and implement improvements
- Review compliance with new policies and procedures
- Transition to operational model
- Ongoing EPSAS update and related change management

- Execute external and internal communication plan
- Implement and roll out training
- Project management, project tracking, status reporting, project support
2. EY’s EPSAS Conversion Methodology is a five-phase approach

**Project workstreams**

Project workstreams represent functional areas impacted by EPSAS. Our experience has proven that in order to complete the implementation of EPSAS in an effective and timely manner, individuals or groups with the relevant competencies must be assigned clear responsibility for completing the required operational tasks, with milestones and deadlines. The objectives of each workstream in the first two phases are as follows:

► **Accounting Technical** - the objective of this workstream in the first two phases is to quickly identify the accounting, actuarial and tax differences between EPSAS requirements and current accounting practice and, by the end of Phase 2, to define preliminary policy selections in order to help identify areas of focus for future phases. This workstream will also include a consideration of the impact on HR, Treasury, Legal, and Investor Relations.

► **Business Processes and Technology** - our objective in this workstream is to identify the significant impacts on business processes, systems and data and, by the end of Phase 2, to come up with a short list of potential solution options and a view of the scale of the effort required to implement. These options are developed inter-dependently with accounting policy choices; they are informed by the accounting policy choices being considered, as well as act as one of the inputs in informing policy adoption choices.

► **Education and Training** - the objective of this workstream is to establish the education and training framework around the organization-wide implementation of EPSAS, assess readiness around skills to determine education needs and develop and implement training and education sessions.

► **Project Management** - the objectives of the workstream are to support the EPSAS implementation program, coordinate workstreams and consolidate workstream outputs into conversion roadmaps.
2. EY’s EPSAS Conversion Methodology is a five-phase approach

Impact on regulatory reporting
Impact on accounting processes
Impact on external reporting
Impact on the business and implementation options
2. EY’s EPSAS Conversion Methodology is a five-phase approach

Business processes and technology

1.0 Identify
   1.1 ID which of the top 10 Departments are impacted
   1.2 Within these Dep.’s, which BUs and locations are impacted
   1.3 Which group functions are impacted
   1.4 Determine if key accounting differences will have systems, process or data impact

2.0 Investigation
   2.1 Create initial compendium of issues, by dep., BU, and location
   2.2 Determine key BU locations impacted
   2.3 Visit key locations to understand systems, process or data impact

3.0 Option Creation
   3.1 Identify potential solution options
   3.2 Create solution decision criteria
   3.3 Apply criteria to identify if in-flight projects provide a potential solution
   3.4 Identify subset of solution options

4.0 Selection
   4.1 Discuss potential solution options
   4.2 Evaluate potential solution options
   4.3 Select initial preferred option for each accounting policy difference
   4.4 Begin to validate the solution by reference back to the Accounting Technical workstream

Outputs

- Potential solution set for each accounting policy change
- Plan for a more detailed solution investigation
- Initial heat map of identified impacts on BUs and locations

Impact on processes
Impact on systems
Impact on data
2. EY’s EPSAS Conversion Methodology is a five-phase approach

Planning example

Phases 1 & 2

Solution development

First time adoption activities

Prepare accounting policies and procedures manuals

Prepare disclosures and reporting package and revise SI schedules

Complete detailed design and business requirements

Plan for implementation

Implementation

First time adoption activities

Prepare skeleton accounts to model current COA

Perform functional and technical design and develop system changes

Document process and control changes and identify role and responsibility changes

Execute external and internal communication plan

Implement and roll out training

24-36 Months

Post implementation

Debrief and assess implementation

Address items deferred and implement improvements

Review compliance with new policies and procedures

Transition to operational model

Ongoing EPSAS update and related change management

Implement parallel reporting under IFRS, identify gaps and develop strategy to address

Roll out accounting and tax policies and perform education

Test and remediate, including end-to-end dry run

Build sustainability

Confirm selected accounting policies and tax compliance solutions and finalize manuals

Roll out process and system changes and educate users

Review compliance with new policies and procedures

Transition to operational model

Ongoing EPSAS update and related change management
3. Major Program Transformatie (MPT)

Business Engagement & Readiness
3. Major Program Transformation (MPT)
Business Readiness: getting the business ready for the solution on six fronts

Change Impacts
- Business role changes
- Team role changes
- System role change
- New behaviours
- Capability gaps
- Information requirements
- Control objectives

Operating Model Alignment
- The right capability breadth and depth
- Relentless and rigorous execution
- Strong underpinning governance

Business Readiness Management
- Business requests
- Programme delivers
- Making sure the Business is ready for the Solution
- Making sure the Solution is ready for the Business

Aligning with the Operating Model
- Organisation design
- Roles and Responsibilities
- KPI's and Performance Management
- Leadership
- Culture
- Systems & Data
- Process ownership

Process centric work instructions
- Delivery mechanisms
- Business Continuity
- Regulatory requirements
- Role alignment
- Error handling

Go-live and beyond
- Early life support
- Crisis management
- Governance
- Communications
- 3-12 month post go-live business plan for continuous improvement
- Knowledge management

Detail, detail, detail!
- Business role changes
- Team role changes
- System role change
- New behaviours
- Capability gaps
- Information requirements
- Control objectives

Deployment & Post Go-Live Support
- Process, not system
- End to end process training
- Capability build
- Leadership development

Business Procedures
- Training
- Communications
- 3-12 month post go-live business plan for continuous improvement
- Knowledge management

Business Procedures
- Business role changes
- Team role changes
- System role change
- New behaviours
- Capability gaps
- Information requirements
- Control objectives