THE IT LIST

For companies looking to list or those listed that are undertaking major acquisitions and divestments, ensuring IT will deliver on the increasing requirements for financial position and prospects procedures is a crucial consideration. By **Az Ajam-Hassani** of Deloitte

Under the UK listing rules, the directors of a company seeking to list must have "established procedures which provide a reasonable basis for them to make proper judgements as to its financial position and prospects". Each business throughout its life as a listed company "must take reasonable steps to establish and maintain adequate procedures, systems and controls to enable it to comply with its obligations".

Because technology is often the most critical component supporting business operations, governance over the financial IT landscape – and the impact that IT has on financial controls – is more important than ever for listed companies.

Unforeseen events, such as security or data breaches and IT system downtime, can have a wide-ranging impact: fines and additional costs, negative effects on brand and reputation, or a loss of customer and investor confidence.

The ICAEW Corporate Finance Faculty's Technical Release regarding guidance on FPP procedures, issued in 2014, sets out, among other things, principles of good governance over the IT environment used for FPP information.

Judgement must be used in applying the principles to the specific facts and circumstances of each case. In practice, therefore, views of market participants – companies, sponsoring banks and reporting accountants – on the minimum requirements for the IT environment can differ ahead of an IPO or a transaction. Management often believes its technology environment is already appropriate, and the requirement for any IT change or testing prior to an IPO or transaction may be underestimated.

The fast pace of technological change can lead to increased risks for management. Just how should such risks be identified and managed? Subject matter experts will often be involved to challenge company management on their take on IT risks and consequential risks to FPP. We've listed some common IT challenges affecting the FPP environment that market participants should consider ahead of an IPO or transaction.

ON CLOSER INSPECTION

Greater risk of financial fines, due to increased scrutiny and identification of IT failure breaches, can significantly affect market expectations around performance.

General Data Protection Regulation came into effect in May 2018, affecting EU-based companies and those that trade with EU citizens. Companies have had to ensure that the handling of personal data complies with the updated regulations and appropriate governance for ongoing monitoring has been established.

The impact on financial IT systems can often be missed and the time required to ensure compliance by market participants underestimated. In particular, complexities can arise for companies that have overseas operations or operate outside the UK, where a change can still be required as a result of a UK IPO; or those that have outsourced to third-party suppliers, for example cloud hosting, where companies may still be liable for non-compliance of their suppliers.

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FAST-CHANGING ENVIRONMENT

In recent years, companies' IT environments have evolved; the focus is now on digital solutions for consumers, improved analytical insight, and delivering efficiencies and cost savings. Financial reporting and key performance indicator (KPI) generation increasingly relies on data flows from IT systems, which underpin a greater proportion of business operations.

Aligning IT strategy to wider strategy is becoming increasingly important; it enables a holistic view for the business to manage current and future needs, such as scalability to support growth. Data flows must be controlled to ensure consistency and quality across the business.

Processes for managing change, combined with a fast-changing IT environment, can result in inappropriate access, which may lead to unintended or unauthorised activities that can affect data integrity or disrupt operations.

Cloud-based technologies enable multi-device and portal-based access, leading to complexities in security and information control.

The impact of digital channels on customer engagement and monetisation has increased data quantity, which requires controlling and managing to ensure accuracy of financial data.

Market participants' management teams will need to be able to identify and assess technology risks, including data management, and the effect on the FPP environment. Technology risks identified by management should be part of the enterprise-wide risk management process. Any changes should be factored into the longer term business and technology strategy.

PRIVATE TO LISTED

Technology implementations can be disruptive and lengthy, so companies may not have upgraded IT systems sufficiently regularly. Out-of-licence or unsupported legacy technology systems can create challenges for the listing process. For highly acquisitive companies, so too can fragmented systems infrastructure. Often manual workarounds are used to support legacy systems. These issues must be identified prior to listing.

In these situations, it can be beneficial to get early input from subject matter experts, with consideration of the impact on financial related systems of FPP requirements for listing or a transaction. They can advise on how much time and investment will be needed ahead of completion of the IPO or transaction. Often this can be on the critical path, given the timescales needed to enhance and test implementation of systems, security and disaster recovery plans.

For companies that are looking to carve out entities to list, there are normally a number of dependent systems, infrastructure and contracts that need to be considered and service agreements to be put in place.

SYSTEM SCOPE

When defining the scope of IT systems to be assessed as part of any FPP exercise, focus should be on the FPP impact of the risks of technology and data. Financial IT systems and financial support systems are typically the focus for the FPP assessment.

Companies can consider mapping out systems architecture and/or data flow diagrams to help market participants understand the interfaces between the underlying IT financial systems. Where companies are looking to carve out entities to IPO, or for those that have been highly acquisitive, such maps can help identify in-scope FPP systems.

IT GOVERNANCE

IT governance structures and processes, including change management policies, are increasingly important to ensure appropriate oversight. The market expectation is that IT matters affecting the business be given high visibility, even though this is often not a management team priority. Here are a few key considerations.

- Where IT functions operate on co-sourced or outsourced operating models there should be oversight of externally outsourced providers (such as hosting systems).
- Companies should consider and assess whether outsourced arrangements have appropriate disaster recovery and back-up procedures, as well as safeguards to mitigate IT risks and comply with regulations.
- IT changes should be managed closely, particularly when it comes to software development, to ensure that no unauthorised changes are implemented.
- Regular testing intervals of key processes, such as disaster recovery and security, should be established.
- User access should be reviewed on a regular basis to ensure that access permissions remain appropriate.
- A clear understanding of data flows and the impact on financial reporting should be understood and appropriately protected where it affects planning, forecasting or KPIs.

ADAPT AND SURVIVE

As the IT landscape continues to evolve, market participants need to consistently challenge IT risk and consider evolving regulations that could affect the FPP environment.

Adapting to an ever-changing market and using subject matter experts during an IPO or transaction is key to ensuring companies appropriately manage risks in an increasingly complex and critical area. ●

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