Fear and Loathing in Agility: Long Live the Accounting Department

Pat Reed
• With disruptive technology ahead, software assets play an increasingly important role in creating a competitive advantage. It’s time organizations recognize and manage business software as a strategic corporate asset.

• Challenge: agile software development is often misunderstood and misreported, impacting profit, and adversely impacting teams and business.

• Companies must evolve their practices to leverage the financial advantage of agile to benefit from agile enterprise adoption.

• Let’s unravel the benefits of agile capitalization and explain how to appropriately interpret and apply generally accepted accounting standard (GAAP SOP 98-1 and ASC 350-40) so your organization can increase its agile adoption to deliver more business value faster to customers.

Pat Reed
Agile Alliance Initiative Director Agile Accounting Program
To become a mainstream methodology, Agile had to overcome many potential obstacles. The first was geography…**One of today’s most daunting obstacles is compliance**, often bringing heavyweight documentation, required procedures that are very waterfall-ish, complex approval workflows, and complicated approval processes.

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Forrester Research, Inc.
“Compliance Is A Hurdle, Not A Barrier, To Agile”
Tom Grant, PhD
“It’s kind of fun to do the impossible”
compliance is complex

• Ever changing
• More scrutiny due to Sept 2008 crash and general 'anger' at Wall Street (e.g. Occupy Movement)
• Many faces, although for financial vertical Singapore is emerging as a leader (strategic)
• Not familiar with internal corporate vernacular, culture, or even software development
compliance has emerging leaders

• Singapore sees compliance as a strategic differentiator and Singaporeans have taken a very hard position within the banking industry. As such, they are now seen as the international standard.

• Complex set of cross-border rules that can be contradictory, incomplete, or vague

• Have seen this in other industries
agenda

1. problem statement
2. the solutions
3. closing
problem statement:  mindsets & mental models
Agile is not just a method or a process, it’s a way of being. You don’t do Agile. You are Agile. The FBI has arranged to loan their ScrumMaster to other teams to get them trained. Increased Transparency has kept stakeholders in sync. Further, stakeholders would modify their expectations, based on the increased visibility of the process.

Jack Israel, CTO FBI

With no significant bugs reported…operation nearly flawless – a stunning and an unpredicted success. What are the implications for failing IT programs across government?

Roger Baker, CIO VA
U.S. Securities and Exchange Commission (SEC) requires that GAAP (Generally Accepted Accounting Principles) be followed in financial reporting by publicly traded companies. Currently, the Financial Accounting Standards Board (FASB) is the highest authority in establishing generally accepted accounting principles for public and private companies, as well as non-profit entities; and the guidance on how to apply GAAP principles has been written in language designed around a waterfall software development methodology.
relevant gaap principles/constraints

- Objectivity principle: the company financial statements should be based on objective evidence.
- Materiality principle: the significance of an item should be considered when it is reported.
- Consistency principle: The company uses the same accounting principles and methods from year to year (note: referenced by documented policies).
- Conservatism principle: when choosing between two solutions, the one that will be least likely to overstate assets and income should be picked.
Before an Agile initiative can scale, an Agile accounting practice needs to be developed to enable CFO’s to understand and leverage the benefits of Agile software development.
To ensure compliance, we must interpret regulatory guidelines through an Agile Lens to consistently estimate, allocate, track, and report labor costs to internal IT projects based on project work done in three specific phases: Preliminary, Development, and Post Implementation.
How do we replicate the Preliminary, Development, and Post Implementation phases within an Agile context consistent with both Agile and Accounting Principles and Values… without ending up a dead ScrumMaster?
Prescribe how all organizations must capitalize or expense internal IT projects based on project stage and type of work

Three Stages:
- Preliminary Stage – Costs must be expensed
- Application Development Stage – Most costs should be capitalized
- Post Implementation Stage – Costs must be expensed
Capitalization begins when (a) the preliminary project stage is completed and (b) management, with the relevant authority, implicitly or explicitly authorizes and commits to funding a computer software project with high probability of success and software will be used to perform the function intended.

Capitalization ends no later than the point at which a computer software project is substantially complete and ready for its intended use.
the solutions: break paradigms, expand mental models and create a common language, culture and partnership
waterfall methodology

- Preliminary
- Development
- Post Implementation

Effort

Analysis  Design  Development  Testing  Deployment

Time

3 Months

Preliminary  Development  Post Implementation
agile methodology

Time

3 months

Effort

Iteration 1 2 3 4 5 6

Analysis  Design  Development  Testing  Deployment
Start with Why

- Collaborative, trusted partnerships between IT and finance, technical accounting, financial reporting, auditors
- Reduce risks of over expensing, audit findings, reporting errors, inconsistencies, waste, overengineering
- Increase SG&A efficiencies through better expense cost avoidance
- Positive impact on earnings and bottomline valuation
- Increase team productivity, focus and morale
Engage the right people

- Technical Accounting
- Finance, IT Finance
- Financial Reporting
- Audit
- Compliance
- Portfolio Management
- Technical Leads, PrjMs, Scrum Masters, Financial Analysts
an agile approach...

Step 1: Paradigm shift: let’s suspend our knowledge of the differences between Agile and Waterfall…..and take a new look at the “waterfall centric” project stage framework through an Agile lens

Step 2: Adopt an Agile Project Stage Framework and Test Case

Step 3: Standardize on a lightweight process to capture evidence of management authorization and commitment to project funding

Step 4: Apply and adapt this framework to our organization
**Framework for Success**

1. Reality Check: Start with “Why”
2. Engage the right people
3. Apply Lean Systems Thinking
4. Design the future (outcomes & journey map)
5. Design the test first
6. Diagnose the System, Design Thought Experiments, Hypotheses, Discover simple rules
7. CoCreate and test your solution
8. Share knowledge & empower your people
a new look at agile

What happens before Iteration 1 begins?
1. The nature of work performed in the Preliminary and Post Implementation phases is primarily Expense.

2. The nature of work in the Development Phase determines whether it will be Capitalized (if the work is critical to creating the asset) or Expense (if the work is basically overhead i.e. training, manual data conversion, administrative).
can project labor can be capitalized?

- It is reasonably expected that the project will be completed and the software will be used to perform the function intended.

- Beneficial use of a minimum duration of 3 years

- New or upgraded software functionality

- Estimated costs (excluding hardware and software costs) result in the creation of a new asset of at least $100K.

- High probability that the project can be accomplished

- Preliminary project stage is completed

- Management, with the relevant authority, implicitly or explicitly authorizes and commits to funding a computer software project and it is probable that the project will be completed and the software will be used to perform the function intended.
critical success factors to build an acceptance test

- Simple
- Defensible / Auditable
- Consistent across divisions
- Scalable
- Sustainable
- Easy to understand, interpret, implement, administer
- Value and risk balanced
acceptance test scorecard

Does this solution clearly address the 3 stages of an IT project?

1. Preliminary (expense)
2. Development (mostly capital except for administration, overhead, training and data conversion costs)
3. Post Implementation (mostly expense)

Have we documented management authorization of funding?

Have we assessed probability that the project will be completed and resulting software used to perform the function intended?

When do we define that the software is complete and ready for it’s intended use?

Would this proposed solution provide a defensible, auditable, scalable and sustainable solution?

Is it consistent with GAAP and FASB (SOP 98-1)?
expense versus capitalization

Inception:
- Customer Evaluations
- Quickstart
- Inception Deck
- Treatment

Expense

Design Storming

Release N: Theme
- Feature 1
  - Feature 2
  - Feature 3

Release

Backlog
- Story 1
- Story 2
- Story 3
- Story ...

Iteration 1
- Story 1
- Story 2

Iteration 2
- Story 3
- Story 4

Iteration 3
- Story 5
- Story 6
- Story 7

Iteration ...
- Story 8
- Story 9
- Story 10

Backlog
- Story 11
- Story 12
- Story ...

Customer Evaluations
Quickstart
Inception Deck
Treatment

Inception:
- Design Storming

Release Roadmap

Plan Releases

Iterate

Accept?

Small Releases

Product Owners

Defining System

Customers

Solution IQ
Costs can be Capitalized once the “Approval to Start” has been secured and end at the completion of the Application Development stage when the asset is in production for customer use.

- The Preliminary Project Stage: “What” (Ends In Inception at the beginning of Design Storming)
- The Development Stage: “How” (Starts with Design Storming)
- The Post Implementation Stage: “When” (Begins 72 hours after the last production implementation, when final user acceptance testing and Level 2 support or maintenance handoff is complete)
3  **closing: get involved**
Thank you!

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