

# IFRS conversion

Implications and strategies for NI 52-109 CEO and CFO certification



## IFRS and NI 52-109 requirements

Canadian publicly accountable enterprises must report under IFRS for 2011, including 2010 IFRS comparatives. Reporting issuers are required to maintain ongoing NI 52-109 compliance during the IFRS conversion period and thereafter. Accordingly, CEOs and CFOs must be ready to complete NI 52-109 certifications for the first quarter of 2011 with regards to filings that include IFRS financial statements (and 2010 IFRS comparatives). Companies must also be prepared to disclose any material changes in internal controls over financial reporting, which may include changes resulting from the conversion to IFRS.

## Why the IFRS conversion matters to NI 52-109 certification

Changing the basis of accounting presents a fundamental financial reporting and disclosure risk for most companies. Converting to IFRS and the resulting changes to financial reporting and disclosure policies, knowledge requirements, processes, systems and procedures will have a significant impact on an organization's financial reporting and disclosure risks and controls. IFRS financial reporting and disclosure risk is driven by changes to financial reporting and disclosure policies, and the consequential changes to an organization's people, processes and systems:

### IFRS transition: Financial reporting and disclosure risk

PEOPLE CHANGE	PROCESS CHANGE	SYSTEMS CHANGE
<ul style="list-style-type: none"> <li>• Technical knowledge and skills</li> <li>• Roles and responsibilities (personnel, management and the Board/AC)</li> <li>• Time constraints and resource gaps</li> <li>• Reliance on specialists and external parties</li> </ul>	<ul style="list-style-type: none"> <li>• Accounting policies and procedures, documentation and communication processes</li> <li>• Finance/accounting and disclosure processes and routines</li> <li>• Management reporting processes</li> <li>• Budgeting process</li> </ul>	<ul style="list-style-type: none"> <li>• Parallel accounting</li> <li>• New data</li> <li>• System calculations and reports</li> <li>• Chart of accounts and mapping</li> <li>• Impact on and integration with other IT initiatives</li> </ul>

IFRS Conversion Project/Change Management Risk

From an NI 52-109 perspective, management is focused on ensuring sufficient controls are in place to reduce the risk of material misstatement in financial statements and disclosures due to error and fraud. The IFRS conversion and related changes to people, processes and systems increases the risk of error and fraud. Errors can occur during the transition process (e.g. while analyzing and selecting accounting policies, calculating IFRS balances and adjustments, maintaining parallel accounting and modifying systems), and after the conversion (e.g. due to technical knowledge gaps, poorly modified processes and insufficiently tested system changes).

In addition to the risk of error, the risk of fraud may become elevated during the IFRS conversion. The need to maintain two sets of financial records in 2010 (Canadian GAAP and IFRS), multiple changes to charts of accounts and the added complexity and subjectivity that is inherent in the IFRS conversion process all works to create an environment more susceptible to fraud.

These new and elevated financial reporting and disclosure risks, driven by changes to financial reporting policies and disclosures required to implement IFRS, will require some degree of change to an organization's control environment. In addition, controls should be applied over the IFRS conversion process itself to ensure that management's process for deciding upon and implementing IFRS accounting policies, reporting processes and disclosure procedures are well managed and controlled. Consequently, companies will need to update NI 52-109 documentation for IFRS-related changes to finance processes and controls, and ensure those areas of change are tested prior to certification in 2011. As well, companies should document and test key elements of the IFRS conversion itself to ensure that a well controlled process is followed to move the organization from reporting under Canadian GAAP to IFRS.

## IFRS conversion period NI 52-109 certification objectives

Organizations must maintain effective disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR) during and after the IFRS conversion period. These controls must also be sufficiently documented and evaluated to provide a defensible basis for CEO and CFO certifications. Specifically, companies should consider the following objectives for the NI 52-109 compliance program during the IFRS conversion period:

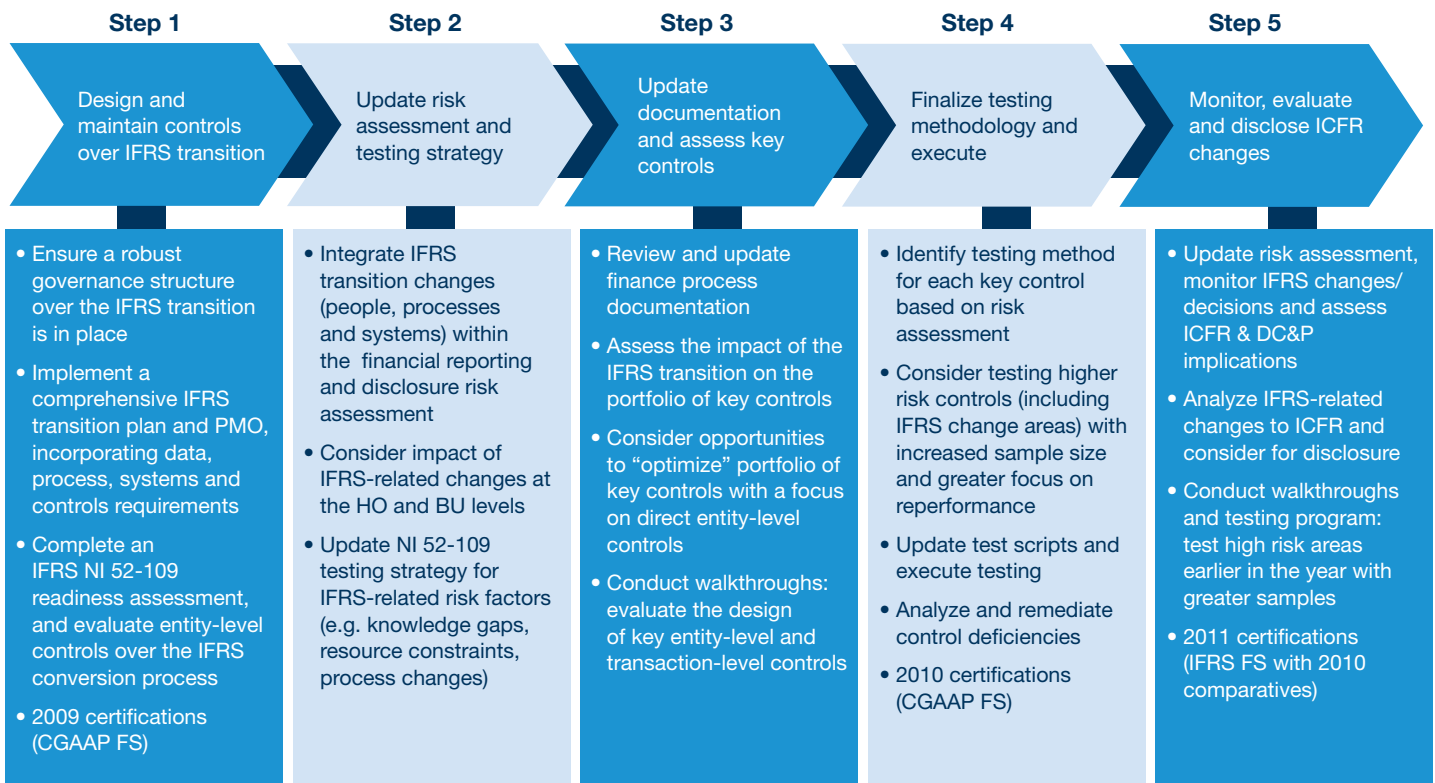
- Maintaining effective DC&P and ICFR over the IFRS conversion process including adequately controlling changes to policies, technical knowledge, processes and systems required for the IFRS conversion;
- Identifying requirements to change key financial reporting and disclosure processes and controls during the IFRS conversion in a timely manner to ensure such changes are designed and implemented effectively, with sufficient time to facilitate testing;
- Conducting walkthroughs and testing of new or changed financial reporting and disclosure processes and controls prior to 2011 to ensure sufficient time is available for any remediation requirements prior to the Q1 2011 NI 52-109 certification;
- Coordinating and integrating the NI 52-109 compliance program and IFRS conversion project to ensure that internal control requirements are identified and analyzed, and internal controls are embedded within any new or changed financial processes or systems required for IFRS; and
- Considering, communicating and acting on opportunities to enhance the company's financial processes and systems throughout the IFRS conversion process.

## IFRS transition period NI 52-109 certification program

Taking a top-down and risk-based approach, the NI 52-109 certification program should focus on two key elements during the IFRS transition period: evaluating entity-level controls over the IFRS transition process

and applying the financial reporting risk assessment process to analyze, prioritize and incorporate IFRS-related changes to finance processes, systems and controls within the NI 52-109 testing plan. The following diagram sets out a top-down and risk-based approach for the NI 52-109 compliance program during the IFRS transition period:

### IFRS conversion period NI 52-109 certification program: A top-down and risk-based approach



## Adding value beyond compliance

We have learned some valuable lessons from our clients in regions of the world where IFRS has already been implemented, one of which is that the transition to IFRS is an excellent opportunity for taking a good look at the organization's controls, financial processes and systems with an eye towards process improvement and controls optimization. Many organizations are using the IFRS conversion process as an opportunity to optimize and rationalize the number of key controls relied upon for NI 52-109 certification. By leveraging the "deep dive" analysis performed during the IFRS conversion process and by adding risk and controls subject matter expertise, organizations are able to take a critical look at their portfolio of key controls with an eye to reducing the number of key controls and resources required to complete controls compliance testing and the associated cost.

In addition to controls optimization, an IFRS conversion presents an excellent opportunity to assess and improve financial processes and systems across the organization. One effective way of approaching this is

to integrate some degree of finance process improvement and control expertise within the IFRS conversion project team. This will ensure that as management moves forward with analyzing policies, processes and systems to implement IFRS, there is consideration of how they could be improved to be more effective and efficient, ultimately making better use of the organization's resources.

Some concrete examples of where organizations have successfully used the IFRS conversion to improve financial and operational performance include:

- Streamlining and rationalizing financial processes, systems and procedures;
- Automating manual processes and leveraging automated functionality;
- Optimizing spreadsheet models and implementing stronger spreadsheet controls; and
- Enhancing consistency across the finance organization and across business units (e.g. policies, procedures, systems and charts of accounts).

In taking this value-added approach, and by achieving some degree of integration between your IFRS conversion project and NI 52-109 certification program, your organization can drive value for the company beyond compliance.

## NI 52-109 certification program next steps

Companies should move forward with a proactive approach for identifying and incorporating IFRS-related changes into the NI 52-109 certification program. An effective first step is to conduct an IFRS NI 52-109 readiness assessment with three primary objectives in mind:

1. Analyzing the finance process, systems and control changes resulting from the IFRS conversion to understand the key financial reporting and disclosure risks, and impacted areas of control;
2. Performing a preliminary assessment of the application of entity-level controls over the IFRS conversion process to ensure any critical governance or conversion project management gaps are identified and remediated in a timely manner; and

3. Defining an IFRS conversion period NI 52-109 strategic plan that provides a road map for compliance during the IFRS conversion period and beyond.

In addition to conducting an IFRS NI 52-109 readiness assessment, organizations should consider achieving some degree of integration between the IFRS conversion project and NI 52-109 program in order to ensure that key financial reporting and disclosure risks and controls are considered in “real time” as the IFRS project progresses. In addition, having some risk and control knowledge and experience present at the IFRS project table will help to ensure that opportunities for improving finance processes, systems and controls are identified and acted upon.

## Conclusion

The transition to IFRS represents a fundamental financial reporting and disclosure risk to most companies, the implications of which directly bear on NI 52-109 CEO and CFO certifications. Since CEOs and CFOs will need to certify on ICFR and DC&P with respect to IFRS financial statements for 2011, there is a moderate amount of time remaining to document, evaluate, test and remediate internal control changes precipitated by the IFRS conversion. Organizations that are proactive, take a top-down and risk-based approach, and recognize the importance of controls over the IFRS conversion itself will be well positioned to maintain efficient NI 52-109 compliance during the IFRS transition period and beyond.

# How PwC can help

Our experienced team of IFRS conversion and NI 52-109 compliance specialists have deep knowledge and experience in supporting our clients to address the IFRS transition implications for NI 52-109 compliance. We can help you by:

- Conducting an IFRS NI 52-109 readiness assessment;
- Advising on effective approaches for updating the financial reporting and disclosure risk assessment and tailoring the NI 52-109 plan;
- Conducting controls optimization;
- Updating NI 52-109 documentation; and
- Conducting detailed walkthroughs or testing IFRS-related control changes.

Your dedicated PwC team can add significant value to your NI 52-109 compliance program through the challenging IFRS transition period and beyond.

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