



## Transition to IFRS and certification of disclosure

What CEOs and CFOs should know  
about this complex relationship



# Executive summary

Adopting International Financial Reporting Standards (IFRS) affects much more than an entity's financial statements alone: it has an impact on any regulatory, contractual, legal or operational obligations or processes that rely to some extent on financial reporting. For CEOs and CFOs in particular, one of the main priorities will likely be their ongoing responsibilities under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109).

Based on current information, the NI 52-109 requirements will not be changed in any way on adopting IFRS. CEOs and CFOs will be required to make the same representations they currently make about misrepresentations, fair presentation, and – for non-venture issuers – the design and evaluation of disclosure controls and procedures (DC&P), and internal control over financial reporting (ICFR).

With regulatory pronouncements constantly being issued, the accuracy of this document – although current at the time of release – may change based on new pronouncements. So while we encourage you to think through the issues presented, we also strongly recommend that you consult your IFRS advisor to ensure you're acting on the most current information.

# Certification of disclosure on the journey to IFRS

## Understanding the impact on current certification requirements

With the impacts of IFRS going beyond financial statements – affecting regulatory, contractual, legal and operational obligations or processes that rely to some extent on financial reporting – CEOs and CFOs will need to step back and re-assess their responsibilities under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109).

NI 52-109 requirements won't likely be changed under IFRS, so CEOs and CFOs will still face the same requirements around misrepresentations, fair presentation, and – for non-venture issuers – the design and evaluation of DC&P, and ICFR. As a result, issuers need to critically assess IFRS's impact on current certification requirements. Enterprises following a top-down, risk-based approach to compliance – as recommended by the companion policy to NI 52-109 – will likely experience a major impact in three broad areas:

### 1. Scoping, identifying and prioritizing the population of risks

The relative significance of different financial reporting accounts or disclosures, for certification purposes, depends on the possibility of a material misstatement within those items. This assessment depends, in turn, on both quantitative and qualitative factors such as: susceptibility to error and fraud; volume of activity, complexity and homogeneity; extent of judgment, and other factors. Scoping assessments made under Canadian GAAP must be comprehensively revisited under IFRS, to address new financial statement elements, or those for which the underlying risks will change (for example, IFRS relies more heavily than Canadian GAAP on management judgment in various areas).

### 2. Identifying and evaluating internal controls

Financial reporting risks will likely change under IFRS as certain account balances will require a different degree of judgment than previously required. As a result the associated internal controls, from entity-level controls down to technology-based and process-level controls, may also change. The transition may cause challenges to many key aspects of ICFR and DC&P design and effectiveness, including:



- **Board member expertise:** IFRS differs from Canadian GAAP, both in many of its details and in aspects of its governing philosophy; this poses a learning and adaptation challenge for all people within the organization, however senior. Although audit committee members must continue to meet the requirement of “financial literacy” after the transition, much of their past experience will not be directly relevant under IFRS.
- **Qualified personnel:** Although most public companies have begun some form of IFRS training for staff, it’s easy to underestimate how much work is involved in moving to such a different frame of reference. The sheer length of the bound volume of official IFRS pronouncements alone – at over 2,800 pages – hints at the degree of change. And since many aspects of IFRS are in flux (and will continue to be even after transition), this training cannot be carried out against a stable platform of knowledge. Entities may also underestimate the extent IFRS impacts individuals outside the finance group.
- **Segregation of duties and controls over management override:** As systems change to generate IFRS-compliant financial information, instead of Canadian GAAP financial information, existing controls and procedures need to be mapped from the current to the new reporting structure. For some period during the changeover, many entities will likely maintain two parallel systems. As with any major organizational change, this creates a heightened risk that some aspect of the process – such as the ability of certain employees and procedures to act as checks on others – will not operate as it should. This puts management at risk of not detecting such operational deficiencies on a timely basis.

### 3. Concluding on internal control deficiencies

Lack of familiarity with IFRS may make it more difficult to conclude that a particular observation constitutes a control deficiency, or a material weakness. For Canadian GAAP, these conclusions can often be made against an established entity-specific history, drawing on the input of advisors and on a well-communicated body of regulatory expectations. All of this existing context and precedent will not necessarily be equally relevant to IFRS.

Because IFRS disclosure requirements are generally more comprehensive than Canadian GAAP, a larger population of financial information will be subject to internal control processes. For example, entities that hold property qualifying as investment property will be required to either disclose the property’s fair value in the financial statement footnotes, or to record the property at fair value. Either way, management will have to develop, test and evaluate new processes to calculate these fair values on a regular, timely basis, and disclose the key underlying assumptions. Another significant disclosure, applicable to all entities, is the requirement to disclose compensation paid to key management personnel in the footnotes of the audited financial statements. This information has not previously been subject to audit under Canadian GAAP, so additional internal controls may have to be developed and assessed for this additional information.

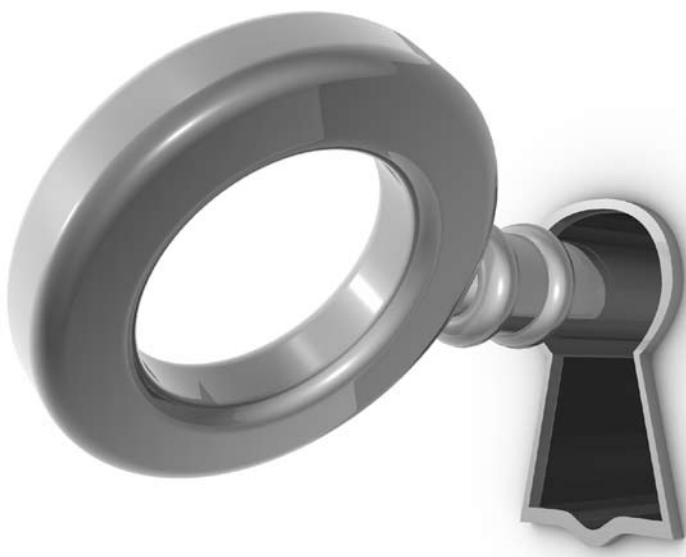
# Planning: The key to successful conversion

The most common pitfall in adopting IFRS, based on our experience with organizations from other jurisdictions, is inadequate planning. This lesson seems particularly relevant to Canadian entities: maintaining post-conversion compliance with NI 52-109 is a major additional step that had no direct equivalent in, for example, Europe or Australia.

The overwhelming lesson is to begin work early, not only on IFRS conversion generally, but on identifying and addressing the specific implications for certification (including for comparative figures).

It will usually be most efficient to address these at the same time as the underlying accounting and disclosure issues, rather than as a separate subsequent exercise. For example, various aspects of IFRS may require additional cash flow forecasting processes not already required by Canadian GAAP. In this situation, appropriately implementing the accounting requirement is closely intertwined with designing the controls and procedures to generate the relevant information.

In addition to these broad challenges, we anticipate that issuers will likely have several specific questions about the relationship between NI 52-109 and IFRS. These questions are addressed later in this document. Before we get to that, it's helpful to understand the NI 52-109 implications of the move to IFRS. We present this information with one caveat: regulatory pronouncements are constantly being issued, so while the content of this document is current at the time of release, it's subject to change based on new pronouncements. Your IFRS advisor can provide you with updates.



## Applying NI 52-109 to IFRS documentation: a summary of requirements

For a calendar-year issuer not early-adopting IFRS, the main flow of disclosure and accompanying certification implications should generally be as follows:

Disclosure documents	IFRS requirements	52-109 requirements
<b>Management's discussion and analysis (MD&amp;A) for years and periods up to and including December 31, 2010</b>	IFRS information included in the MD&A – as set out in CSA Staff Notice 52-320 – will include narrative information of escalating detail. If the issuer has quantified information about the impact of IFRS on key financial statement line items available when it prepares its interim and annual MD&A during 2010, it should also include this in the MD&A.	As information included in the MD&A falls within the scope of DC&P, the IFRS information should be prepared within a system suitable to support the assertions on design of DC&P made in interim certificates, and the assertions on evaluation of effectiveness of DC&P made in annual certificates. Any weaknesses in the design of DC&P that are significant should be disclosed in MD&A. (See the MD&A section below for further detail.)
<b>Interim financial statements for quarters ended March 31, June 30 and September 30, 2011</b>	Primary financial information prepared in compliance with IFRS for 2011, and for the 2010 comparatives, must include various prescribed reconciliations between IFRS and the previously reported information under Canadian GAAP. Any additional disclosures required by the Canadian Securities Administrators (CSA) will be included.	Information included in financial statements falls within the scope of ICFR and therefore should be prepared within a system suitable to support the assertions on design of ICFR made in interim certificates. Any material weaknesses in the design of ICFR will be highlighted in the certificate, and disclosed in MD&A.
<b>MD&amp;A and other disclosure documents</b>	Primary financial information will now be prepared in accordance with IFRS rather than Canadian GAAP; MD&A narrative and other requirements must be modified accordingly.	Falls within the scope of DC&P, as above.
<b>Annual financial statements, MD&amp;A, Annual Information Form (AIF) and other disclosure documents for year ended December 31, 2011</b>	As above	In addition to all of the above, IFRS information should be prepared within a system suitable to support the assertions on evaluation of effectiveness of ICFR included in the annual certificate.

# Key questions

As management and boards work through IFRS conversion and requirements, there will undoubtedly be questions about the implications for certification. While the questions are by no means a comprehensive list, they do address what we foresee as key issues likely to arise.

## Effectiveness during 2011

**Q:** I understand the NI 52-109 certificates will not address the effectiveness of ICFR applying to IFRS until the annual certificates accompanying the 2011 year-end information. But practically speaking, shouldn't management also be satisfied about the effectiveness of ICFR relating to IFRS at the time it files its quarterly certificates during 2011?

**A:** It is true that, although the structure of NI 52-109 separates design from effectiveness, there is an inevitable degree of overlap between the two; the thinking and processes involved in concluding about adequacy of design are inherently part of assessing effectiveness. However, formally evaluating effectiveness is a more comprehensive and meticulous process. Section 7.13 of the companion policy to NI 52-109, for example, describes the documentation generally required to provide reasonable support for an ICFR evaluation, including describing the evaluation process, how the certifying officers determined the extent of testing of each component, the evaluation tools applied, and the results of their application. Consider this example: at Q1 2011, management might have carried out a large portion of the evaluation procedures, sufficient to support its conclusions on the adequacy of design. However, they may not yet have completed all the specific intended procedures, or assembled the documentation described in section 7.13.

When issuers prepare IFRS interim financial statements during 2011, they may not yet have implemented all the control procedures intended to be in place for the year-end. For example, because of timing pressures, the issuer may prepare some of the IFRS information in the initial filings using spreadsheets or other workarounds, rather than the more integrated systems it intends to implement later. These kinds of areas may require a particularly careful assessment of whether they represent material weaknesses in design of ICFR. Even if they are not material weaknesses, there may be a good argument for providing some explanatory language in the MD&A about the current state of the enterprise's IFRS-related systems. For example, the MD&A might discuss how much work remains to be done to bring ICFR to its full intended state of effectiveness, relative to IFRS, before filing the annual certificate. This disclosure might be a direct continuation of information provided in earlier MD&A, consistent with the expectations of Staff Notice 52-320 (SN 52-320).

## 2010 comparative information

**Q** • The initial IFRS financial statements issued during 2011 will also contain comparative information for 2010. This comparative information may to some extent be constructed after the fact (for example, by making adjustments to the underlying Canadian GAAP information) and may not be generated from the same internal control processes as the 2011 information. Is this a problem?

**A** • The assertions on design and effectiveness both of DC&P and ICFR are made at the end of the period covered by the interim or annual filings, as applicable. They do not state whether this design was in place at all points during the period, nor report on its effectiveness on all intervening dates. In practice, of course, this distinction often may not have a particularly significant effect. For example, a control structure that by its nature allowed weaknesses and ineffectiveness to arise between reporting dates would likely be inadequately designed. However, in a transitional situation such as adopting IFRS, the distinction does provide some flexibility. Therefore, if aspects of the 2010 comparative information are prepared through methods falling short of adequately designed and implemented ICFR, but is remedied by 2011, this need not be reflected in the NI 52-109 certificates or accompanying MD&A disclosure. Of course, the information nevertheless needs to be sufficiently supported to evidence the issuer's basic obligation to prepare and file compliant financial statements, and to support a review and/or audit, as required.

Despite this, investors will likely assume – unless informed otherwise – that all numbers presented for 2010 and 2011 are generally derived from a similar control system. Therefore, notwithstanding the technical guidance provided above, we believe entities should attempt to ensure that the information they report for 2010 has control-based underpinnings comparable to the information reported for 2011. If this is not possible, some form of supplementary MD&A disclosure might be advisable.

## Control reporting during 2010

**Q:** • **Changes in ICFR** – During 2010, we will not be reporting financial information under IFRS, but we will be preparing to do so in 2011 – including making the changes required to our ICFR. Some of these changes to ICFR may be material. Should they be reported in our MD&A during 2010?

**A:** SN 52-320 highlights the impact of IFRS on ICFR as a key element of an issuer's IFRS changeover plan, to be updated in annual and quarterly MD&A during 2009 and 2010, before the changeover. During this period, elements of ICFR may be in constant construction, testing and revision; however, until the transition itself, these will not impact on the financial information that is actually being reported. Unless specific problems exist (a topic discussed below), updates provided consistent with SN 52-320 should provide a sufficient sense of progress related to ICFR. These updates should provide a reasonable description of overall progress against the changeover plan, but need not, for example, provide detail about individual components of ICFR.

This will change from Q1 2011 onwards, after the initial IFRS financial statements and accompanying NI 52-109 certificates have been filed. From that point, any further changes in ICFR from one quarter to the next should be assessed for whether they require D&A disclosure, as changes that have materially affected – or are reasonably likely to materially affect – ICFR.



**Q** • **Material weaknesses** – Could any aspect of our control-related IFRS preparations during 2010 result in reporting a material weakness relating to the design of ICFR?

**A** • While we believe this is unlikely, it is not impossible. NI 52-109 defines a material weakness as “a deficiency, or a combination of deficiencies, in ICFR such that there is a reasonable possibility that a material misstatement of the reporting issuer’s annual or interim financial statements will not be prevented or detected on a timely basis.” Clearly, this is a forward-looking concept, based on assessing the adequacy of an issuer’s ICFR relative to its ongoing requirements to prepare compliant financial statements. From this perspective, stakeholders should be alerted to any existing control-related condition that threatens the flow of reliable financial information. The transition to IFRS does not override this basic objective, and indeed may make it all the more important.

## Quantitative information in pre-transition MD&A

**Q** • If we do have quantified information on the impact of IFRS available when we prepare any of the 2010 MD&A, what controls should underlie this? Is this information a form of forward-looking financial information (FOFI)?

**A** • This kind of quantitative information on the impact of IFRS does not appear to fall within the definition of FOFI – which encompasses information about “prospective results of operations, financial position or cash flows, based on assumptions about future economic conditions and courses of action.” The pre-transition IFRS disclosures will not in themselves be based on assumptions about future economic conditions and courses of actions, but rather on assessing how past events would have been reported differently, if different bases of recognition or measurement had been applied. However, the disclosure requirements attaching to FOFI may be a useful reference point in considering how to construct these IFRS disclosures. Among other things, this may involve identifying material risk factors that might cause the amounts ultimately reported in the IFRS financial statements to differ from those reported in advance in the MD&A, and describing any key assumptions. Although these disclosures are, in a sense, a prediction of content within financial statements to be issued in the future, they are provided as MD&A disclosures, and should therefore be supported by DC&P comparable to all other financial information contained in the MD&A.

# Where to go from here

As with any new regulatory requirement, more questions will no doubt arise as management and boards progress with their IFRS conversions and think through the related issues. Although finding the answer to some of these questions can be technically demanding, they all ultimately come back to the same overall premise: focusing on overall objectives, control principles and risks is fundamental to an effective transition to IFRS.

We believe there is a significant risk that many enterprises may underestimate the impact of IFRS on their certification processes – a challenge that's unique to Canadian entities, compared to other jurisdictions that have already completed the transition to IFRS. Taking an integrated and proactive approach to the accounting and control aspects of implementing IFRS should help to manage the costs, minimize the risks and maximize the benefits.



## Contact one of our IFRS risk management specialists

**Don Newell**

416-601-6189

[dnewell@deloitte.ca](mailto:dnewell@deloitte.ca)

**Karen Higgins**

416-601-6238

[khiggins@deloitte.ca](mailto:khiggins@deloitte.ca)

**Terry Hatherell**

416-643-8434

[thatherell@deloitte.ca](mailto:thatherell@deloitte.ca)

1858 **150** 2008  
Deloitte celebrates  
150 years of professional service



**[www.deloitte.com/ca/ifrs](http://www.deloitte.com/ca/ifrs)**

Deloitte, one of Canada's leading professional services firms, provides audit, tax, consulting, and financial advisory services through more than 7,700 people in 57 offices. Deloitte operates in Québec as Samson Bélair/Deloitte & Touche s.e.n.c.r.l. Deloitte & Touche LLP, an Ontario Limited Liability Partnership, is the Canadian member firm of Deloitte Touche Tohmatsu.

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its member firms.

© Deloitte & Touche LLP and affiliated entities.

Designed and produced by National Design Studio, Canada 09-1827