



Updating your NI 52-109/SOX 404 financial compliance controls and testing to meet the new demands of IFRS

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Seminar Objectives

- Why CFOs should be concerned about IFRS transition and NI 52-109 certifications
- Internal control and disclosure controls considerations in 2011
- Examples of IFRS controls
- Quick overview of the leading solution for NI 52-109 compliance and IFRS transition

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Presenter – Catherine Connally



Catherine Connally has over twenty-five years experience in financial management and compliance, internal audit and executive management. She began her career in the extractive sector with internal audit responsibilities in both the mining and oil & gas sectors with Atlantic Richfield and British Petroleum. She is a well known technology and compliance sector entrepreneur. She has worked with, and provided seminars, to over eleven hundred organizations around the world on SOX 404/NI 52-109, IFRS transition and financial compliance. Catherine is a co-author and primary architect of the industry-leading solution for local GAAP-to-IFRS transition and reporting, IFRS PARTNER, as well as CFO PARTNER for financial compliance and internal audit in conjunction with the Sarbanes-Oxley Act. She graduated in finance from the University of Colorado at Boulder in the United States and is a Certified Internal Auditor.

Catherine Connally
CIA
President of Issues Central

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Host – Charley Best



Charley Best
MBA
Vice President
Issues Central

Charley Best has over 25 years of experience in executive management and consulting roles across the technology and industrial sectors. He is an authority on international financial compliance legislation trends. Charley has worked extensively with companies in Canada, the United States, South Africa and Nigeria to develop and deliver methodologies and tools to streamline costs and time-to-comply for areas such as IFRS transition, the Sarbanes-Oxley Act of 2002, NI 52-109, Corporate Governance, Executive Compensation Disclosure and more. He has a BA from Queen's University in Kingston, Ontario, Canada and an MBA from York University in Toronto, Canada.

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Project Planning for documentation of controls and operational effectiveness testing in 2011

Plan the work. Work the plan.

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Transition Process Basics

- The IFRS transition process/project in a company is a key process
 - Quality of comparable financial statement numbers for 2011 published statements
 - It will affect the quality of the financial reporting process moving forward and
 - Deficiencies in the process may be considered material weaknesses in the financial reporting process

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Operating Effectiveness Testing over the Transition Process

- Has the project plan?
 - Located the project plan documentation in the form of word documents, flowcharts, spreadsheets, etc.
- Was the project properly and completely scoped?
 - Scoping documentation should be reviewed and should contain a complete list of all standards and their theoretical differences from GAAP.
- Has there been a proper review/approval by audit committee?
 - Is there evidence that the Audit Committee reviewed and approved the plan in the audit committee minutes?
- Were the milestones and timelines adhered to?
 - Review documentation and project plans to assure that specific timelines and milestones are listed.


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Operating Effectiveness Testing over the Transition Process

- Are there IFRS draft policies documented? Are they accurate based on 2011 experience.
 - Verify the entire inventory of draft policies that should exist
 - This should be documented in the company IFRS scoping documentation
 - Review draft policies for completeness and accuracy with processes.
- Auditor review of policies in evidence?
 - Locate and review evidence of auditor review and agreement with policy decisions
- Have processes changed to run on IFRS now or are adjustments still being made in 2011?
 - Have systems and procedures been updated to accommodate these changes?

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Sample Draft Policy

Proposed IFRS Policy Draft

IAS 17
March 15, 2009 16:16

Policy Development: Leases (Principles from IAS 17)

Purpose: Provide the content for development of draft policy decisions, allow attachment of appropriate company specific documents and provide space for commentary and approvals as decisions progress.

Scope: IAS 17.

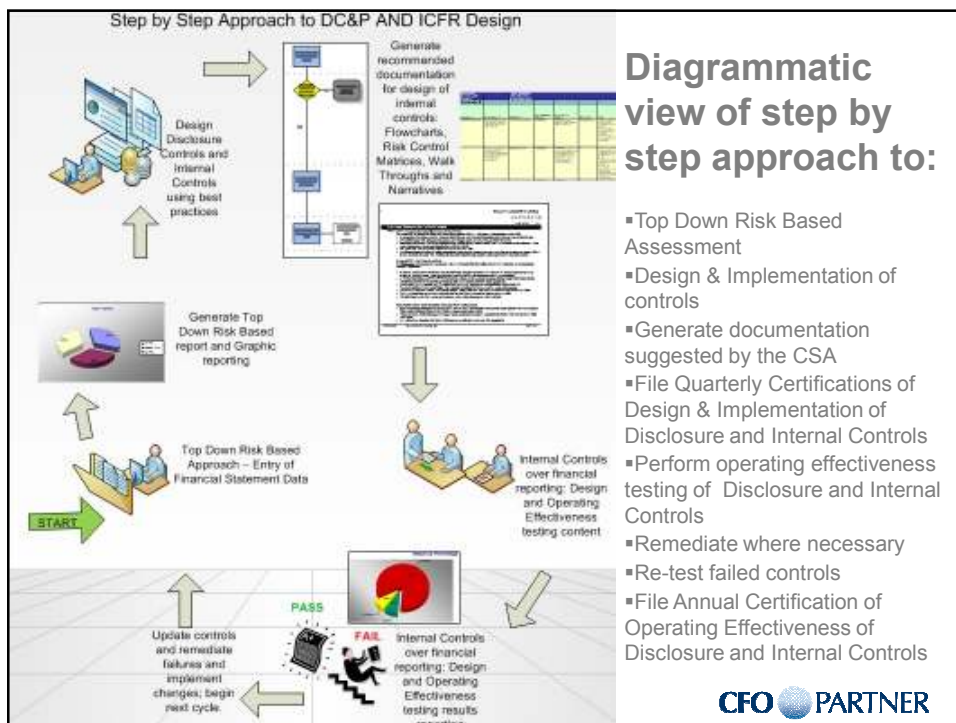
Proposed Policy Classification of Leases
Element: A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership from the lessor to the lessee. Title may or may not eventually be transferred. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Investment property held under an operating lease is accounted for as a finance lease and the asset recognised using the fair value model described in the policy *Investment Property*.

Proposed Policy Financial Statement Presentation: Lessee - Finance Leases Initial Recognition
Element: Financial leases are recognised as assets and liabilities in the balance sheet at amounts equal to the fair value of the lease property or, if lower, the present value of the minimum lease payments determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease if this is practicable to determine; if not, the lessee's incremental borrowing rate is used. Any initial direct costs incurred in connection with specific leasing activities are added to the amount recognised as an asset.

Proposed Policy Financial Statement Presentation: Lessee - Finance Leases Subsequent Measurement
Element: Finance charges are allocated to each period during the lease term and are apportioned between the finance charge and the reduction in the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. To simplify this allocation, an approximation may be used.

The depreciation policy for depreciable leased assets shall be consistent with that for depreciable assets that are owned, and the depreciation recognised shall be calculated in accordance with the policies *Property, Plant and Equipment* and *Intangible Assets*.
A leased asset is depreciated over the shorter of the lease term and its useful life. If there is reasonably certainty that ownership will be obtained by the end of the lease term, the asset is depreciated over its useful life.

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Periodic Top Down Risk Assessment

- Review and revise top down risk based assessment each testing cycle
- Controls may move from high to low risk based on experience from previous periods
- Risk is a fluid and evolutionary process of review
- Very critical to update with potential changes in organizational staffing/structure


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Low Risk and High Risk Areas

- For areas you have determined are low risk,
 - Self-assessments could be used
 - These could take the form of Risk Control Matrices with a customized column(s) for process owner sign-off and or comments
 - Annually the narratives and flowcharts for these low risk areas should be reviewed for accuracy


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Low Risk and High Risk Areas

- For areas you have determined are medium or high risk,
 - More extensive testing should be performed
 - Testing should be performed by an “Objective Tester”
 - This would be someone who does not perform the task and preferably does not approve it
 - This can be a great way to cross-train as well
 - Conclusions should be formally documented

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Adjust 2011 Testing Based on 2010

- Use testing results from 2010 to modify your testing for 2011 for IFRS Controls
 - If high risk areas were tested with positive results
 - Lower sample sizes to review for 2011
 - If high risk areas were tested with positive results but turnover in key positions was high,
 - Testing adequate samples is necessary to assure that controls are designed and operating effectively

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Top Down Risk Based approach

- For 2011, IFRS comparable numbers are being calculated either with top-side adjustments or Integrated approach
- As IFRS processes are put into place, risk must be assessed for these processes
 - These processes must be designed and implemented
 - These processes must be tested


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Times of Change Increase Risk

- With the amount of change and upheaval that IFRS will cause in accounting procedures and policies, that alone vastly increases the risk component for IFRS controls
 - Special view to look at fraud and errors
- Nothing can be taken for granted just because it worked in the past
- All processes and procedures must be reviewed and tested carefully

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Materiality Alone is not a Risk Test

- Due to the extreme change in procedures, qualitative aspects drive the risk higher such as:
 - Accounts payable personnel now may have a higher level of complexity in posting information on componentized assets
 - Purchasing systems may have increased in complexity to accommodate componentized assets
 - Training of personnel will be a key area to focus on in the new IFRS process review

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Factors that Increase Risk

Risk with IFRS

- New procedures
- New policies
- New processes
- New systems
- New standards


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Risk Differences: GAAP & IFRS

- Risk differences in GAAP and IFRS
 - Differences in IFRS treatment of transactions versus GAAP increases risk because of unfamiliarity with new standards
 - Differences in disclosures vastly increases risk due to increase in volume and presentation
 - New systems cause increased risk because they must be configured and tested thoroughly
 - Nothing can be taken for granted
 - Personnel may use systems improperly at first due to lack of training or just a natural learning curve
 - Earnings differences cause changes in bank relationships, executive compensation which increases risk


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Risk Increases with Changes in IFRS Treatments

- Specific Standards which are much different and risk is increased due to these changes
 - IFRS 1 elections
 - must choose these carefully as they have implications for financial balances
 - IFRS 2 – Share-based payments
 - Depending on how share compensation is structured, there can be differences in treatment here as well
 - IAS 1 – Presentation of Financial Statements
 - Financial Statements are arranged differently and have different names
 - IAS 16 – Property, Plant & Equipment
 - Componentization and Impairment differences increase risk based on change in practices
 - IAS 17 – Leases
 - The determination of finance versus operating leases can be much different causing an increase in property, plant and equipment balances along with accordant liabilities that must be booked
 - IAS 12 – Income Taxes
 - Deferred tax can have differences for some companies and this is a complex area under GAAP. Add IFRS differences and risk is vastly increased

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Risk Increases with Changes in IFRS Treatments

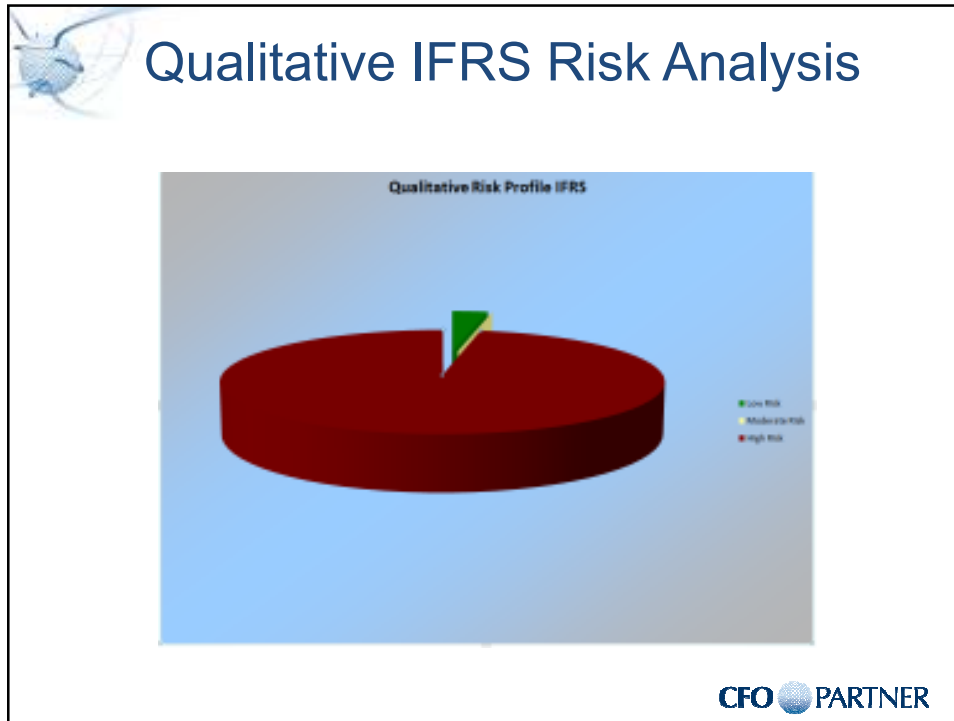
- Specific Standards which are much different and risk is increased due to these changes
 - IAS 39/IFRS 9 – Financial Instruments
 - Classification and measurement of various types of financial instruments can be different
 - Complexity of this standard increases risk
 - Disclosures under this standard are vastly increased and therefore risk is increased
 - IAS 36 – Impairment
 - Impairment tests are different and are based on Cash Generating Units
 - Frequency of impairment testing is increased as well thus increasing risk
 - Discount rate usage is different
 - IAS 37 - Provisions, Contingent Liabilities And Contingent Assets
 - Asset retirement obligations are effectively changed due to calculation methods and effective discount rates
 - IAS 18 – Revenue
 - Depending on the transfer of risk in a transaction, the timing of revenue recognition can be drastically changed in such industries such as technology or construction

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TOP-DOWN, RISK-BASED SCOPING TOOL

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IFRS Accounting Policies Support Transition Controls

- To determine if transition adjustments are accurate, a complete set of accounting policies must be assembled for testing.
- These policies will form the basis of validating the accuracy of GAAP to IFRS adjustments or that entries using the integrated approach are accurate.

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Sample IFRS Policy for PP&E

IFRS Policy
IAS 16
January 25, 2010 10:44:16AM

POLICY DEVELOPMENT: Property, Plant & Equipment (Principles from IAS 16)

Purpose: Provide the content for development of draft policy decisions, allow attachment of appropriate company specific documents and provide space for commentary and approvals as decisions progress

Scope: IAS 16.

Proposed Policy Element: **Recognition Criteria for Property, Plant and Equipment**
The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:
(a) it is probable that future economic benefits associated with the item will flow to the entity, and
(b) the cost of the item can be measured reliably.

Proposed Policy Element: **Measurement of Costs at Recognition**
An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at cost.


Proposed Policy Element: **Subsequent Measurement of Property, Plant and Equipment - Cost Model**
After recognition as an asset, an item of property plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Proposed Policy Element: **Subsequent Measurement of Property, Plant and Equipment - Revaluation Model**
After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Proposed Policy Element: **Depreciation Policy**
The depreciable amount of items of property, plant and equipment shall be allocated on a systematic basis over its estimated useful life. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately with remainder, consisting of parts that are not significant, also depreciated separately. The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.
The residual value, useful life and depreciation method applied to an asset shall be reviewed at least at each financial year-end. If there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the depreciation method shall be changed to reflect the changed pattern.

Selection Criteria: Partial/Draft Policy Documentation Listing Page 1 of 2
Applicability: Policy


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Examples of GL Adjustment Controls for Transition

- Example 1 – Top side IFRS Adjustments are reconciled and reviewed by two people and approved by CFO.
 - Supporting details should be available to verify accuracy of adjustments.
 - Journal entries should have all detailed support and show evidence of approval.
- Supporting Test: Secure IFRS policy for type of entry and determine if the adjustment is per the IFRS accounting policy. Review adjustments for approvals.

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Examples of Integrated Approach to Controls for Transition

- Example 2 – Entries are made from sub ledgers into IFRS and GAAP ledgers
 - Source data that is used for each ledger should be entered into each system.
 - Full support for all data should be available for the sub ledger entry into each system.
- Supporting Test: Review source data and determine if IFRS balances are correct by reviewing IFRS policies and resulting entries. Review GAAP balances to determine what GAAP standard is applicable and determine if GAAP balance is correct.

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Examples of Spreadsheet Controls for Transition

- Example 3 – Validate that spreadsheets supporting IFRS adjustments and reconciliations are accurate.
- Supporting Test: Input known test data into spreadsheets supporting entries to assure they are accurate.

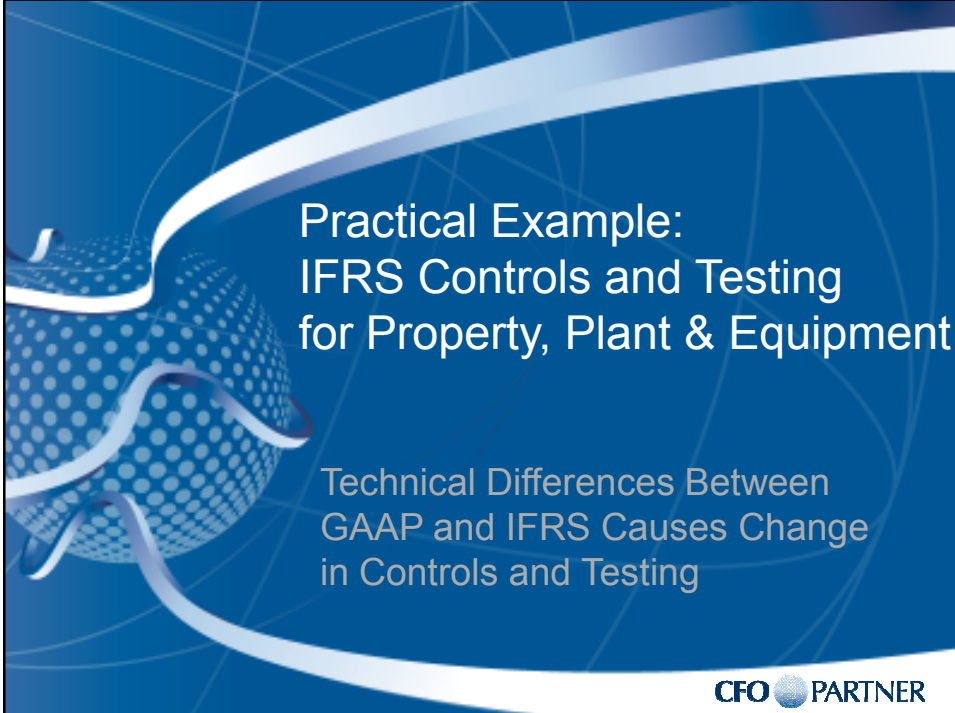
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Examples of Disclosure Controls for 2011

- Example 4 – Disclosures committee adopts formal written procedures to review and IFRS financials with 2010 comparatives.
 - Minutes are taken and meeting minutes are approved.
- Supporting Test: Review procedures and minutes to assure proper disclosure controls are adopted and approved.


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**Practical Example:
IFRS Controls and Testing
for Property, Plant & Equipment**

Technical Differences Between
GAAP and IFRS Causes Change
in Controls and Testing

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Property, Plant & Equipment

- IFRS related standard – IAS 16
- Differences from GAAP and impact
 - 1 - Componentization for material items
 - 2 – Choices between Deemed Cost and Revaluation
 - Choices have implications for future
 - 3 – Capitalization of items is determined by materiality and asset life
 - 4 – Borrowing Costs (IAS 23) may need to be capitalized
 - 5- Current carrying values may require recapture of cost

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Component Accounting

- Refers to useful lives and depreciation
- MUST follow it in IFRS, AcSB guidance provides wiggle room
 - Analysis must be performed to determine if component accounting is material
 - Analysis may yield answer of immateriality
 - Auditors will want to see forensics details
 - Methods and policies must be adopted
 - In the future, assets may be componentized

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Impairment Losses & Reversals

- Differences: IFRS can reverse, GAAP does not allow impairment reversals
 - Except for goodwill when it is impaired, no reversal is allowed
- The CGUs can thus be written up or down:
 - as events that impact impairment
 - Economy-wide events
 - Business sector events
 - Entity-specific events, or
 - results of impairment tests

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Cash Generating Units (CGUs)

- If an asset does not have independent cash flows must tie to a CGU
 - No revenue or cash inflows yet?
 - Look at the possibility of the prospective CGUs ability to generate cash inflows
- Start from the top and then work to the smallest or lowest level of cash inflows
- This allows the basis for Impairment tests
 - The cash generating units are the level(s) at which impairment test is performed and allocated if needed


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Property, Plant & Equipment Controls and Tests

- **IFRS Control 1:** Asset additions/purchases are properly classified to assure that the appropriate assets are componentized and that appropriate useful asset lives and salvage values are assigned to the components.
- **IFRS Test:** Secure accounting policy for Property, Plant & Equipment and determine what asset classes are componentized to assure the appropriate assets are componentized. Determine if the components have the appropriate useful lives as per policy.


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Property, Plant & Equipment Controls and Tests

- **IFRS Control 2:** Depreciation of assets including components are performed per policy and are accurately performed.
- **IFRS Test:** Secure accounting policy for Property, Plant & Equipment and determine what asset classes are componentized along with the appropriate useful life information for depreciation.
 - Verify the accuracy of the depreciation calculations.
 - Verify that depreciation calculations are performed at the appropriate levels.
 - Determine that all assets which are not componentized are accurately not componentized and the depreciation is accurate.
 - Determine that all assets which are componentized are accurately componentized and the depreciation is accurate.

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Property, Plant & Equipment Controls and Tests

- **IFRS Control 3:** IFRS 1 elections are accurately applied and calculations appropriate.
 - Elections for one time revaluation of an asset or asset class are properly valued and recorded on asset records.
- **IFRS Test:** Secure accounting policy for Property, Plant & Equipment and IFRS 1 elections to determine that IFRS 1 elections were properly applied and calculated.
 - Specifically, if a one time revaluation was performed, that appropriate methods were used to calculate revaluation and that documentation properly supports the valuation. Validate that the revalued assets are properly booked with components as appropriate. Validate useful life calculations.

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Other Implications for PP&E

- Impairment testing is another area that affects PP&E
- The impairment testing is more frequent and is different
 - This means that for impairment testing, this will require revisions to controls
- Cash Generating Units (CGUs) are new:
 - This means that all assets are contained in a Cash Generating unit and impairment testing must be performed accordingly
 - Impairment to assets will be tested and allocated based in CGUs

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Process View Flowchart of PP&E

IFRS PP&E Controls - Process View
 Subprocess 2: RECORDING AND APPROVING TRANSACTIONS Jan 25, 2010 10:28am

Process Flow	Task/Control	Risks
Activity 1: Accounting Record Requirements	<ul style="list-style-type: none"> • 1: Asset acquisition procedures with componentization requirements 	
Decision: Does Asset Require Componentization? Yes / No	<ul style="list-style-type: none"> • 1: Determine if componentization of assets is required 	
Activity 3: Approval of Asset Acquisitions (Componentized)	<ul style="list-style-type: none"> • 1: CONTROL: Review and approval of Asset Acquisitions to ensure proper authorizations and accuracy of transaction recorded with appropriate components as required 	<ul style="list-style-type: none"> • Asset Acquisition is not recorded at all or on a timely basis • Asset purchases may be unauthorized • Property, plant & equipment accounting does not comply with IFRS • Transactions at, before or at end of the period will be recorded into the wrong fiscal period causing financial reporting to be incorrect.
Activity 4: Approval of Asset Acquisitions (Not Componentized)	<ul style="list-style-type: none"> • 1: CONTROL: Review and approval of Asset Acquisitions to ensure proper authorizations and accuracy of transaction recorded 	<ul style="list-style-type: none"> • Asset Acquisition is not recorded at all or on a timely basis • Asset purchases may be unauthorized • Property, plant & equipment accounting does not comply with IFRS • Transactions at, before or at end of the period will be recorded into the wrong fiscal period causing financial reporting to be incorrect.

Documentation supporting controls over asset purchases and appropriate classification of components by asset class.

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Risk Control Matrix for PP&E

IFRS PP&E Controls		Key Controls Identification & Testing for: [Company Name]						Testing	
Controls & Risks									
Process Name	Control Objective	Task Group	Value Added Indicator	Control Activity or Test	Responsibility	Risk	Management Assertion: COE/CFE/IFR/VAAP/D	Control Attributes	Frequency of Control Activity
PROPERTY, PLANT & EQUIPMENT RECORDS ACCESS, TRAINING & CAPITALIZATION	Critical accounting and information systems have proper access controls implemented that are appropriate to the personnel requiring access to protect and safeguard these systems from unauthorized access.	System Access to Property, Plant & Equipment Records	KEY CONTROL	CONTROL: Access to critical systems or various system options are properly assessed to that only appropriate personnel receive authorization for access. Such authorizations are promptly changed upon the termination or change of personnel to other positions.	IT	Procedures may be implemented that circumvent existing internal control techniques. The potential for error, theft, sensitive payments, and unauthorized transaction risk increases substantially. The likelihood of alteration of documentation or statements may be increased. Unauthorized access to property, plant & equipment records and stored data.	Safeguarding	Manual Presentative	Quarterly
	Personnel receive appropriate and timely training to properly accomplish their job responsibilities especially where it relates to legislative compliance and adherence to IFRS.	Personnel Training	KEY CONTROL	CONTROL: Finance personnel involved in transaction processing or approvals receive periodic training on key components to their positions as well as updates on important legislative and IFRS related changes.	Manager	Personnel who are not properly trained may make erroneous entries that cause material mis-statements and cause the company to be out of compliance with IFRS.	Presentation and Disclosure	Control Environment Manual Presentative	Quarterly
	All critical accounting policies and procedures are properly authorized and reviewed periodically to assure they reflect current accounting (IFRS) requirements, standards and compliance requirements.	Capitalization and Depreciation Policy	KEY CONTROL	CONTROL: Critical accounting policies and procedures for property, plant & equipment and depreciation records are documented, are in place, have a periodic review process in place and are approved by the appropriate management personnel.	CPD	Company policy has not been followed regarding adherence to IFRS Compliance. Critical Corporate Accounting Policies have not been followed causing material mis-statements to financial reports. Financial information is not presented fairly and in accordance with IFRS in the financial statements.	Completeness Existence or Occurrence Presentation and Disclosure Rights and Obligations Safeguarding Valuation or Allocation	Control Environment Manual Monitoring Presentative Risk Assessment	Quarterly

Risk Control Matrix displays key attributes to the controls: Control description, control objective, risks, assertions and control attributes supporting COSO model requirements.

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Process Narrative for PP&E

Process Narrative
 IFRS/PP&E Controls
 January 25, 2010 10:33:09AM

Subprocess 1: PROPERTY, PLANT & EQUIPMENT RECORDS ACCESS, TRAINING & CAPITALIZATION

CONTROL: Finance personnel involved in transaction processing or approvals receive periodic training on key components to their positions as well as updates on important legislative and IFRS related changes.

Responsibility: Manager
 Frequency: Quarterly
 Overview: Review share statement of such training is personnel for their future role and evaluation.

KEY CONTROL

Activity 3: Capitalization and Depreciation Policy

CONTROL: Critical accounting policies and procedures for property, plant & equipment and depreciation records are documented, are in place, have a periodic review process in place and are approved by the appropriate management personnel.

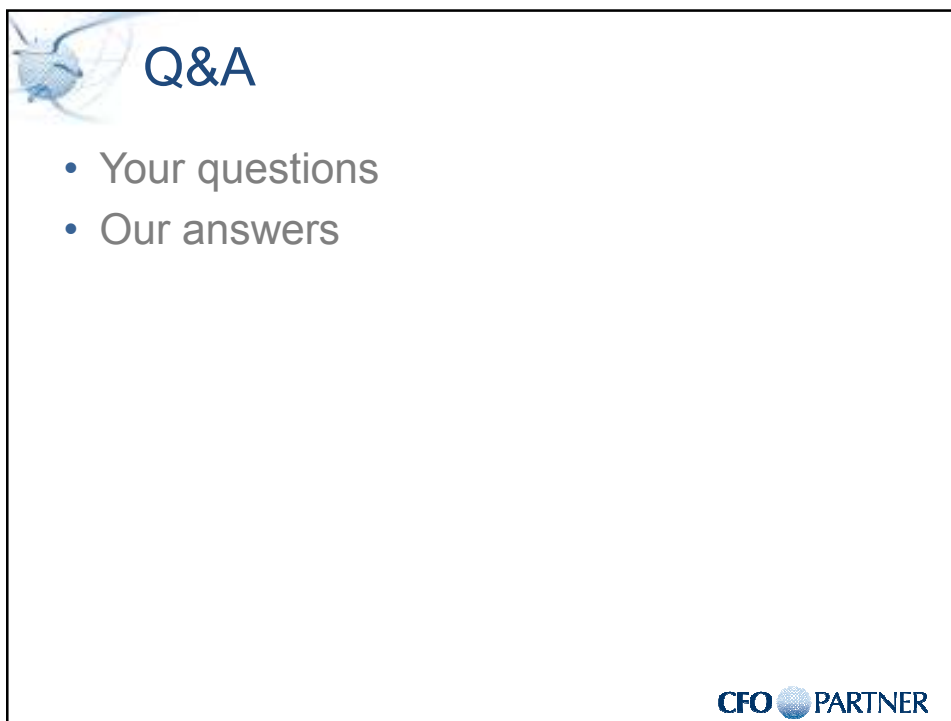
Responsibility: CFO
 Frequency: Quarterly
 Overview: Depreciation and Capitalization Policy:

- The entire cost of an asset must be depreciated. Depreciation is allocated ratably over the estimated useful life of the capital asset, as detailed below.
- Depreciation is to commence in the first month after the asset is placed into service. Property, plant & equipment will be depreciated on a straight-line basis over their estimated useful life.
- Depreciation expense for a property, plant & equipment begins in the month following the acquisition date of the asset and continues until the accumulated depreciation equals the original stated cost, or until the asset is retired from service.
- A fully depreciated property, plant & equipment will remain in the property, plant & equipment subledger until the property, plant & equipment is retired from service.
- All leasehold improvements under IFRS are not capitalized.

Depreciation Standards:
 - IAS 16/3801
 - Section 3801
 Estimated Useful Life: 4 to 5 years

Process narratives outline the details for how each control works. This provides control details to support testing.

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Q&A

- Your questions
- Our answers

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Disclosure Controls and
Internal Control over Financial Reporting

Canada's leading solution
for NI 52-109 compliance

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Summary & Contact Information

- To learn more about your CFO PARTNER maintenance program details or to schedule a 30 minute one-on-one presentation of how CFO PARTNER can dramatically streamline your NI 52-109 activities in 2011:
- For more information on our products and services:
 - CFO PARTNER for NI 52-109 and SOX 404 website:
 - www.cfopartner.ca
- For more information: Charley Best: 1-800-410-6681 x112
 - charleybest@issuescentral.com

