



The transition to IFRS: progress and challenges

Members of the Canadian Audit Committee Network (CACN) agreed, in September 2009 that throughout 2010, they should routinely discuss progress and challenges in transitioning to International Financial Reporting Standards (IFRS) from Canadian Generally Accepted Accounting Principles (GAAP). This is the pivotal year leading up to full implementation in 2011. Back in September, members highlighted a range of challenges ahead of them, notably, ensuring work plans were sufficiently robust to allow time to build the necessary systems and move swiftly to auditable financials; putting energy beyond board and audit committee education; and broader challenges in communicating the changes to the market.¹

When the CACN met on January 19, members reported significant progress since September. In particular, the audit chairs expressed increased confidence that management and the external auditor are working together. (Several members noted that their external auditor helped push management to “*get organized, get people ready.*”)

However, challenges remain:

- **Engaging the full board.** A network member described the challenge audit committee chairs face in getting the full board to pay attention to IFRS: “*With the full board, they want to know, ‘What are the impacts really going to be?’ and do not want to discuss the details. The problem still feels kind of out there.*” To encourage earlier board engagement, one member, working through the governance committee, requested that the full board approve the first-quarter financials in 2011. Several said they would suggest such an approach to their own boards. Members also emphasized that the full board will require training to achieve financial literacy under a new set of accounting standards.
- **Fully understanding decisions management is making.** Some members raised questions about the approval process for accounting policy selection decisions the company makes that could have a significant impact on financial results. Most audit committees do not approve the accounting policy decisions beforehand, and some members said that approval of the financial statements once the decisions have been made gives implicit approval for those decisions. Some members have requested more involvement earlier on: “*I have said, ‘I want to know what decisions are being made and why you’ve made them.’*”
- **Communicating to the market.** Because “*accounting is not black and white,*” members noted that if some financial results obtained under IFRS are “*widely different*” from those obtained under Canadian GAAP, “*we will have to deal with that explanation [to the market]. The [investor relations] part will be critical, and the board will get more engaged.*” Several members noted the tension between the expectations of the Ontario Securities Commission regarding disclosures and the discomfort of managements and boards, who want to wait until they have a clearer understanding of the impact of conversion. The Canadian Institute of Chartered Accountants has posted some sample disclosures on their website, which some members have found helpful.

¹ See http://www.tapestrynetworks.com/documents/Tapestry_EY_CACN_Vantage_Oct09.pdf.



- **Meeting the definition of “financial expert.”** Members whose companies are Securities and Exchange Commission registrants or listed on the New York Stock Exchange expressed concern about meeting the definition of a “financial expert.” One network member stated, *“I do not feel like a financial expert under IFRS,”* and another added, *“None of us can say that we are; none of us have [experience with IFRS].”* Members suggested they would be looking to their auditors to help *“bridge that gap if one exists,”* through additional education.
- **Understanding the status of conversion in the United States.** Some members expressed concern that the delayed transition to IFRS in the United States could prove problematic, and few expect that transition is likely before 2015.

About this document

The Canadian Audit Committee Network is a group of audit committee chairs drawn from leading companies committed to improving the performance of audit committees and enhancing trust in financial markets. The network is convened by Ernst & Young and orchestrated by Tapestry Networks to access emerging best practices and share insights into issues that dominate the new audit committee environment.

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Appendix: Meeting participants

- Bev Briscoe, Audit committee chair, Goldcorp
- John Caldwell, Audit committee chair, IAMGOLD
- Denis Desautels, Audit Committee Chair, Bombardier
- Alan Horn, Audit Committee Chair, Fairfax Financial Holdings
- Alice Laberge, Audit Committee Chair, Potash Corporation
- Jean La Couture, Audit Committee Chair, Quebecor
- David Leslie, Audit Committee Chair, Enbridge
- Jane Peverett, Audit Committee Chair, EnCana
- Ted Reevey, Audit committee chair, Bell Aliant

Ernst & Young participants:

- Colleen McMorrow, Senior Client Service Partner and Greater Toronto Area Leader, Technology, Communications, and Entertainment Industry Practice, Ernst & Young
- Lou Pagnutti, Area Managing Partner, Chairman & Chief Executive Officer, Ernst & Young Canada
- Rob Scullion, Managing Partner for Assurance and Advisory Business Services, Ernst & Young

The following members participated in a teleconference on the same topics following the meeting. Selected comments from that call have been incorporated in this document:

- Brian Canfield, Audit Committee Chair, Suncor
- John Clappison, Audit Committee Chair, Cameco and Canadian Real Estate Investment Trust (CREIT)
- Eileen Mercier, Audit Committee Chair, CGI Group
- Thomas O'Neill, Audit Committee Chair, Loblaw
- Barbara Stymiest, Audit Committee Chair, Research in Motion
- Vic Young, Audit Committee Chair, RBC