



The IFRS Journey to Readiness

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In spite of financial pressures created by the global recession, many Canadian publicly listed companies are generally making good progress as they prepare for International Financial Reporting Standards (IFRS) beginning in 2011.

In a KPMG survey on IFRS Readiness, which was conducted between December 2008 and February 2009, financial professionals at 120 Canadian companies were asked to gauge what stage their company was at in their IFRS conversion projects.

| IFRS Implementation Phases | Characteristics |
|----------------------------|---|
| Scoping Phase | Initial phase that involved designating resources to the project, raising awareness, and performing high level diagnostic assessments of accounting differences. |
| Detailed Assessment Phase | Performance of systematic and detailed analysis of gaps between the application of current accounting policies and IFRS, and assessment of impacts on systems and processes, business activities, and people. |
| Design Phase | Development of implementation requirements and building processes. |
| Implementation Phase | Production of IFRS results. |

The Results

On average, survey respondents feel they are three-quarters of the way through the completion of the “Scoping Phase”, which includes activities such as designating resources to the project, raising awareness, and performing a high level diagnostic assessment of accounting differences. The organizations surveyed with annual revenue in excess of \$500 million believe that they have completed 80 percent of the activities in this phase compared to 66 percent of companies under the \$500 million threshold. Similarly, in the “Detailed Assessment Phase”, companies surveyed with over \$500 million in revenue consider themselves to be further along compared to the perception of companies with less than \$500 million in revenue (43 percent completion versus 26 percent, respectively).



Very few respondents believe that they have completed the “Design Phase” of their IFRS conversions (with progress being only 13 percent), although they will need to become immersed in such tasks over the next few months. The “Implementation Phase” is expected to be completed later on in the project when companies are actually producing IFRS results. When publicly accountable enterprises convert in 2011, prior year IFRS comparable financial statements must be available; therefore, IFRS reporting systems need to be in place as early as January 1, 2010, for organizations that report on a calendar year basis.

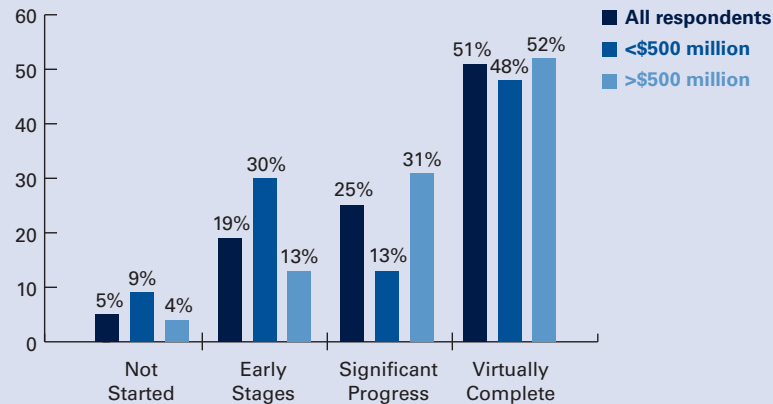
Phase Assessment

IFRS conversion is a major enterprise-wide undertaking in the eyes of two-thirds of respondents, who told KPMG their project constitutes a large, complex endeavour. With this large undertaking, 80 percent of the organizations that participated in this survey have at least one full-time person devoted to this effort.

For instance, 77 percent of all firms reported having either virtually completed or made significant progress (defined as between 40 to 80 percent complete) in the task of selecting a dedicated team and resources to complete their IFRS project. However, there was a discrepancy based on size, as 84 percent of larger firms over \$500 million in annual revenue were in this category, compared to only 60 percent under that threshold.

Another important task involves obtaining enterprise-wide acceptance for IFRS by, for instance, providing awareness sessions to the firm’s major stakeholders, such as its management, executives, Board of Directors, Audit Committee, and various departments. Seventy-six percent of respondents told KPMG that they had made significant progress towards this task, though only 51 percent of respondents said this task was more than 80 percent complete; the remaining 24 percent indicated work was either in the early stages or had not yet begun. Firms with over \$500 million in revenue fared better, with only 17 percent reporting they were at early stages, compared to 39 percent of smaller companies.

Level of Stakeholder Awareness



The requirement to perform a high level diagnostic of primary differences between the organization’s current accounting policies and IFRS generally yielded very positive results for all-sized companies. Eighty-nine percent of respondents reported that they had either made significant progress or virtually completed the task. Ninety-four percent of large respondents and 78 percent of smaller participants with less than \$500 million in annual revenue fit into one of these two categories.

Progress was less pronounced through various key stages of the “Detailed Assessment Phase”, which most respondent firms are currently working through.

For example, only 48 percent of companies reported significant progress or virtual completion in terms of having performed a systematic and detailed analysis of the gaps between the application of their current accounting policies and IFRS. This is necessary to determine how, for example, IFRS will affect accounting and disclosure reporting requirements. Firms with more than \$500 million in annual revenue were well ahead of those under that threshold by a margin of 52 percent to 39 percent.

Even fewer companies reported having analyzed their IFRS 1 options and the impact such choices will have on their accounting and financial reporting going forward. Only 44 percent of all respondents said they had made significant progress or better. But the gap between firms over and under \$500 million in annual revenue was double: 52 percent versus 26 percent, respectively.



When asked whether firms have assessed their current information technology systems to determine whether they are suitable for accounting and reporting purposes under IFRS, 28 percent of respondents said they hadn't even begun this step (including 25 percent of firms over \$500 million in annual revenue and 35 percent under). Another 48 percent were only at the early stages (54 percent of larger firms, compared to 35 percent).

Even fewer companies have identified key internal controls that may change or potentially be at risk under IFRS. More than half the companies surveyed (52 percent) had not started. Another 36 percent are only in the early stages of performing this task. Results for all sized firms were virtually identical.

Another key concern highlighted by this survey was that only 24 percent of companies reported having made significant progress or better towards developing a strategy for parallel financial reporting under both Canadian GAAP and IFRS in 2010.

Even fewer participants (13 percent) reported having made at least significant progress with respect to determining how IFRS will impact normal operational activities, such as existing business or financial contracts, and budgeting and performance metrics. In this instance, however, firms with less than \$500 million in annual revenue were ahead of their larger counterparts at 22 percent, compared to 10 percent.

IFRS training that is specific and relevant to one's company and industry is an important activity that needs to be undertaken. However, to date, only 33 percent of respondents reported that they were at least significantly engaged in developing a training strategy to assist their staff in understanding the major technical issues associated with IFRS.

Fifty-nine percent of respondents had at least made significant progress towards developing a mechanism to track IFRS project issues and establish communications between key corporate stakeholders, such as the project team and Audit Committee. There was a significant difference based on size, however, with 67 percent of firms over \$500 million in annual revenue having made significant progress, but only 39 percent of companies under such a threshold reporting they were in that position.



KPMG's Perspective

These survey results indicate several key tasks many enterprises still need to focus on before completing the "Detailed Assessment Phase" of their IFRS conversion. Such tasks, in work stream areas such as accounting and reporting, system and processes, business, people, and project management, will form important building blocks as organizations move forward into the "Design and Implementation Phases" of their conversion exercise.

Canadian public enterprises are putting forth great efforts to prepare accounting and information technology systems and processes, along with myriad other resources, to contend with impending IFRS conversion deadlines. This effort would be demanding at the best of times, but the fact that it coincides with a severe recession and credit crunch that has strained financial and human resources has compounded the difficulty many organizations face.

KPMG will launch the next *IFRS Readiness Survey* in summer 2009 to track the continuing progress of publicly listed firms. This will provide respondents with a further opportunity to assess their own IFRS readiness, as well as benchmark against their peers'.



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