20 Questions
Directors Should Ask about
Management’s Discussion And Analysis
How to use this publication

Each “20 Questions” publication is designed to be a concise, easy-to-read introduction to an issue of importance to directors. The question format reflects the oversight role of directors which includes asking management - and themselves - tough questions.

The questions are not intended to be a precise checklist, but rather a way to provide insight and stimulate discussion on important topics. In some cases, boards will not want to ask the questions directly but they may wish to ask management to prepare briefings that address the points raised by the questions.

The comments that accompany the questions provide directors with a basis for critically assessing the answers they get and digging deeper if necessary. The comments summarize current thinking on the issues and the practices of leading organizations. They may not be the best answer for every organization.

Thus, although the questions apply to any organization, the answers will vary according to the size, complexity and sophistication of each individual organization.

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The responsibilities of boards of directors and audit committees for the integrity of financial reporting, including Management’s Discussion and Analysis (MD&A), are more demanding than ever. The expected advent of civil liability for secondary market disclosures will make the consequences of failure to exercise due diligence in this matter far more serious than before. The Risk Management and Governance Board (the Board) of the Canadian Institute of Chartered Accountants (CICA) therefore commissioned this publication to help members of boards of directors and audit committees in discharging their oversight responsibility for MD&A disclosures. The publication is intended to be useful both to individual directors and to boards and audit committees as a whole in their review of MD&A, a key element of financial reporting.

In November 2002, the Canadian Performance Reporting Board of the Canadian Institute of Chartered Accountants issued Management’s Discussion and Analysis: Guidance on Preparation and Disclosure (the CICA Guidance) to help companies in preparing MD&As. The CICA Guidance provides 20 questions for audit committees and boards of directors to ask in discharging their MD&A oversight responsibility. This publication discusses those 20 questions in greater detail, as well as providing important information for directors about developments in MD&A reporting.

The CICA Guidance is revised from time to time in the light of changes in securities regulators’ MD&A disclosure requirements, changes in accounting standards and trends in business reporting practices. In addition, corporate governance requirements, trends and practices may, over time, indicate the need for revisions to those parts of the CICA Guidance that address management’s responsibility for and the board’s oversight of the integrity of disclosures. Such revisions, may in turn trigger the need for revisions to this 20 Questions publication from time to time.

This publication is one in a series of CICA’s "20 Questions" briefings. Other titles are noted elsewhere in this publication.

The Board acknowledges and thanks the members of the Directors Advisory Group and the Canadian Performance Reporting Board for their invaluable advice; Alan Willis, CA, who wrote this briefing under their guidance; and the CICA staff who provided support to the project.
“At its heart the Guidance is about improving an important part of corporate governance and delivering clear financial reporting.”

David Smith, FCA, CICA president and CEO
What directors need to know about MD&A

The crisis in investor confidence in capital markets following several unprecedented corporate collapses and scandals in 2001 and 2002 caused tough new governance and financial disclosure requirements to be introduced in the USA. These, and developments in Canadian regulations, affect MD&As as well as the responsibilities and duties of management and boards of directors.

The MD&A was originally devised by the Securities and Exchange Commission (SEC) in the United States as part of a regulatory filing to provide disclosures that supplement financial statements. The MD&A was first introduced by Canadian securities regulators in 1989 (Ontario). Since then, the Canadian Securities Administrators have made MD&A a requirement in all Canadian securities jurisdictions. The MD&A and the financial statements together – annual and interim – are becoming recognized as the core business reporting package.

Further, the role and responsibilities of audit committees for overseeing the integrity of corporate disclosures – financial statements and MD&As alike – are becoming more rigorous and demanding than ever. Concerning the MD&A, the Canadian Securities Administrators are proposing in all jurisdictions across Canada, that boards of directors or, where delegated, audit committees, are to review both annual and interim MD&As. This is already called for in Ontario and British Columbia. The expected advent of civil liability for secondary market disclosures means that the consequences of failure to exercise due diligence in this regard will become significantly more serious.

The MD&A is written primarily for current and prospective investors, at the same time recognizing that there is a wide range of other readers. The purpose of MD&A, as originally stated by the regulators, is to give a reader the ability to look at the issuer through the eyes of management. The MD&A is intended by the regulators to supplement financial statements by providing historical and prospective analysis and discussion of the business of the issuer as a context for better understanding its results and future outlook. Certain MD&A requirements are specific to particular industry sectors, notably mining, oil and gas companies.

The MD&A is now, in the eyes of the regulators, a key element of the continuous disclosure regimen for reporting issuers in Canada. The quality and reliability of MD&A reporting and its consistency with other elements of corporate disclosure is monitored and reported on periodically by Canadian regulatory bodies as part of their oversight of continuous disclosure practices.
What directors need to know about the CICA Guidance on MD&A

Management’s Discussion and Analysis: Guidance on Preparation and Disclosure (the CICA Guidance) was developed and issued in November 2002 by the CICA’s Canadian Performance Reporting (CPR) Board. That board is authorized by the Board of Directors of the CICA to issue guidance documents for boards of directors and senior management about issues in performance measurement and reporting that it considers to be in the public interest. Key features of the CICA Guidance are set out below as important background and context for addressing the 20 questions.

The purpose of the CICA Guidance is to enable management and boards of directors of all reporting issuers to prepare and present effective MD&As so that investors, acting reasonably, have the relevant and material information they need in making decisions to invest or continue to invest in the company.

The CICA Guidance emphasizes that an effective MD&A is one that integrates historical and prospective information and financial statement and business analyses so that, together with the financial statements, useful knowledge is imparted to investors and other readers.

The MD&A, like financial statements, provides the opportunity for a company to demonstrate its accountability to investors for effective stewardship of resources, and, further, for meeting stated strategic objectives. Also, the discipline required to prepare an effective MD&A can strengthen internal management focus. The CICA Guidance document provides six principles and a five-part framework for fact-based MD&A disclosures.

These features add dimensions that go beyond existing regulations, and emphasize aspects of the regulations that may not currently be implemented in the most effective manner.

The CICA Guidance is written primarily for use by reporting issuers that are subject to Canadian securities regulation. Reporting issuers subject to US securities and listing requirements may also find the CICA Guidance helpful. Reporting issuers that use the CICA Guidance do so at their own discretion, while following applicable regulatory requirements.

General Disclosure Principles

The CICA Guidance offers six principles that provide the foundation underpinning MD&A disclosures. The first principle emphasizes what regulators have stated: that MD&As should enable readers to view the company through the eyes of management. The other five principles are that MD&As should:

- complement as well as supplement financial statements;
- be reliable, complete, fair and balanced, providing material information – that is, information important to an investor, acting reasonably, in making a decision to invest or continue to invest in the company;
- have a forward-looking orientation;
- focus on management’s strategy for generating value for investors over time; and
- be written in plain language, with candour and without exaggeration, and embody the qualities of clarity, relevance, comparability and consistency over reporting periods.
The Disclosure Framework

The CICA Guidance advocates that companies structure and integrate their MD&A disclosures within a broad disclosure framework. This approach is not a feature of existing regulatory requirements. Much of the information called for under this approach may already be available within a company but it is rarely presented in a single, succinct disclosure document.

The analysis of past results and discussion of future prospects should be framed within the context of the five key elements of the disclosure framework. These are:

- the company’s vision, core businesses and strategy;
- key performance drivers;
- capabilities (capital and other resources) to achieve desired results;
- results – historical and prospective analysis; and
- the risks that shape strategy and may affect the achievement of results.

The CICA Guidance points out that useful MD&As explain the "why" behind both past performance and future prospects by "connecting the dots" between otherwise separate pieces of internal and external information.

MD&As should communicate not only financial information but also relevant and material non-financial information. Any disclosure and discussion of targets should be presented within a longer term strategic context and, in subsequent periods, be compared to actual results achieved.

Continuous Disclosure

The CICA Guidance indicates that MD&As – annual and interim – need to be seen as integral elements of the continuous disclosure regimen. A company should use MD&A reporting to gather, integrate and present information significant to investors, including information that has previously been communicated through other channels.

In addition, companies should update, as necessary, previous MD&A disclosures about strategy, key performance drivers, capabilities, risks and results. Failure to update MD&As may result in investors being misled if they rely upon out-dated information.

Analyses of actual results in MD&As should include a discussion of progress against previously disclosed goals, objectives or targets. In this way, all significant information is disclosed and updated, as necessary, through the MD&As.

Integrity of Disclosure

The CICA Guidance recommends that reporting issuers provide a statement about the responsibility of management for the existence of appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete and reliable. The MD&A should include a statement about the oversight role of the board of directors and audit committee to ensure the integrity of the reported information. Recent pronouncements by US law makers and the SEC, and similar proposals by Canadian lawmakers and securities regulators, strongly emphasize the importance of that oversight role and the serious consequences of failing to discharge it effectively.

The CICA Guidance provides the 20 questions discussed in the following pages, in order to assist boards and audit committees in their oversight role and review of MD&As.

The CICA Guidance and an on-line MD&A Resource Centre are accessible on the CICA web site, www.cica.ca.
First individually and then collectively, members of audit committees and/or boards of directors will need to reach judgements about the matters addressed in the following questions in order to carry out their review of the MD&A.

For most questions it will be necessary for management to provide information, explanations and representations in order for the audit committee or board to be able to form a judgement. For a few broad overall questions, it will then be necessary for the audit committee or board to take into consideration the entirety as well as the specifics of the information, explanations and representations provided by management in order to reach a comprehensive judgement about the integrity and usefulness of the MD&A.

The process adopted by the audit committee or board for obtaining, evaluating and recording answers to and judgements formed about the questions will be an important aspect of exercising due diligence.

The following 20 questions are from Section 520 of the CICA Guidance.

Other excerpts from the CICA Guidance are referenced by paragraph numbers in parentheses.
1. Do the MD&A disclosures comply with regulatory requirements?

This question is essentially one of fact, though certain regulatory requirements call for subjective judgements to be made by management in order to decide on appropriate disclosure. Management should be asked to indicate such instances and explain the rationale for the chosen form and extent of disclosure in question.

Legal counsel may have been asked by management to review the MD&A for compliance with regulatory requirements (see also Question 14). The audit committee would then ask for the opinion of counsel regarding regulatory compliance.

2. To what extent has the CICA Guidance on MD&A been followed in preparing the MD&A? If any significant aspects of that guidance have not been followed, have the reasons been satisfactorily explained to us?

The decision to follow the CICA Guidance in part or in its entirety is one that senior management makes, having regard for the company’s corporate disclosure policy (approved by the board), its financing needs and its goals for relations with capital markets. The basis for management’s decision regarding the use of the CICA Guidance should be explained. The audit committee or board will also want to be informed as to the extent, if any, to which the regulators are encouraging or expecting reporting issuers to follow the CICA Guidance.

3. Has management provided a representation about the reliability of the underlying systems and processes on which information in the MD&A is based?

MD&A disclosures of performance measures not derived from the accounting systems underlying the financial statements should be based on measurement and reporting systems appropriate for the subject matter in question. Management information systems used in providing operational information and reports to management and for management reporting to the board of directors or to external authorities should also be the basis for factual MD&A disclosures.

Systems and processes for tracking consistency and comparability of MD&A disclosures from period to period are also important.

Management should be expected to provide a representation about the integrity and reliability of systems and processes underlying MD&A disclosures, providing, where appropriate, summary reports on any relevant work and findings of internal auditors.

Disclosure controls and related systems may also have been the subject of engagements carried out by the external auditor, whose report/s would then be reviewed with the audit committee.

4. What has been management’s approach to determining materiality in preparing the MD&A?

The CICA Guidance advocates a test based on significance to investor decision making when considering the materiality of matters, quantitative or qualitative, to be included in MD&A disclosures. This test is increasingly favoured by the regulators. Impact on market prices, it is argued, follows investor decision making based upon what is disclosed to them.

Principle 3, Completeness and Materiality, in the CICA Guidance states:

To be reliable, MD&As should be complete, fair and balanced, and provide information that is material to the decision-making needs of users. (230)

Completeness calls for management to identify, address, and communicate the quantitative and qualitative information necessary for users to understand and evaluate the company’s nature, business dynamics, risks and prospects. (230.2)

Information is material if it would be considered important by an investor, acting reasonably, in making a decision to invest or continue to
invest in the company. Management’s determination of materiality applies not only to financial results but also to all information, qualitative as well as quantitative, disclosed in the MD&A. Individual qualitative or quantitative items that, in themselves, may not be material, may become so when considered as elements in the larger picture. Management should resolve any doubt about materiality in favour of disclosure. (230.3)

Management should therefore be asked to explain the basis upon which materiality has been judged, and indicate and explain whether there are any matters that were in doubt as to materiality but have not been disclosed.

5. Is there any information that management has omitted from the MD&A due to competitive concerns and if so, what is management’s rationale for such omission and does the board agree?

The CICA Guidance presents a view that concerns about the impact of disclosures on competitive advantage need to be challenged and carefully evaluated. Such concerns may be valid and justifiable for some companies in certain circumstances and industry sectors, including those that are regulated. In many cases, however, experience has shown that such concerns are not only unjustified, but that more disclosure rather than less is more effective in building marketplace understanding of and confidence in a company’s future prospects.

A company should disclose the appropriate level of strategic information to enable an investor to make an informed investment decision. Some companies may hesitate to disclose significant strategic information due to concerns about maintaining competitive advantage. Other companies may have concerns about disclosing information, such as profitability, for fear of offending customers or compromising ongoing discussions with government agencies. These concerns should be challenged to determine the extent to which they are truly justified and balanced against the risk of losing the confidence of the capital markets by not providing key information. Consideration of these factors will influence management’s judgement about the level or degree of detail that can reasonably be provided to satisfy investor information needs. (320.2.2)

Management should therefore be asked to provide and explain its justification for any information that it has withheld from the MD&A on the grounds of competitive concerns, if that information would otherwise be significant and useful to investors. Judgement is needed in weighing two possible courses of action to decide which better serves the best interests of shareholders: disclosure for the sake of transparency and more informed investment decisions versus potential harm to the company and loss of shareholder value that may be caused by inappropriate disclosure.

6. Are there any disclosures presented in previous periods’ MD&As that are not addressed in this draft MD&A, and if so, why?

Principle 6 of the CICA Guidance addresses the issue of consistency in reporting as follows:

To be useful, MD&As should be written in plain language, with candour and without exaggeration, and embody the qualities of understandability, relevance, comparability and consistency over reporting periods. (260)

To be consistent over reporting periods, significant information, once disclosed in an MD&A report, should be updated and explained unless it becomes irrelevant or inappropriate. If the information is no longer relevant or appropriate, why this is so should be explained. Companies should not avoid discussion and update of a previously raised issue by simply omitting it from a subsequent MD&A report. (260.5)

Consistency in reporting also enhances comparability. Comparable information is information about which sufficient commentary and disclosure has been provided so that similarities and differences among time periods and/or companies can be discerned and evaluated.
Management should be asked to provide a clear and factual representation as to whether there are any disclosures in prior periods' MD&As that are not addressed in the current MD&A, indicate what such disclosures were and explain why they are not now addressed.

7. Are the principal business risks disclosed and discussed in the MD&A consistent with those that management has reviewed with us for other purposes?

Recommendation 7 of the Final Report of the Joint Committee on Corporate Governance, November 2001, "Beyond Compliance: Building a Governance Culture", recommended changes to the TSX (then TSE) corporate governance guidelines so as to integrate the board’s responsibilities "for contributing to the development of a strategic direction that takes into account an identification of business opportunities and business risks."

Recommendation 7 continued: "It (the board) should oversee and monitor management’s systems for managing business risk. And it should regularly review, with management, the strategic environment, the emergence of new opportunities and risks, and the implications for the strategic direction of the company."

In other words, there are circumstances throughout the year when the board of directors is engaged in consideration of business risks as well as opportunities. Risk disclosures in the MD&A should therefore be consistent with what has previously been presented to and reviewed with the board by management concerning business risks and their implications for strategy and results.

The CICA Guidance recommends: A company should disclose its principal risks and describe related risk management systems to enable MD&A report readers to understand and evaluate the company’s risks and its decisions regarding the management of such risks. Such disclosure should include:

- the principal risks and uncertainties facing the company and its core businesses and segments, as appropriate;
- the strategies and processes employed for managing these risks;
- the potential specific impact of these risks on results and capabilities, including capital resources and liquidity.

There should be continuity and consistency from one period to another regarding risk disclosures and how the risks impact on results.

8. Have previous disclosures to the markets in any form (websites, previous MD&As, press releases) been reviewed in the light of intervening events and up-dated as necessary in the current MD&A to ensure that investors are not misled?

MD&As, annual and interim, play a key role in Canada’s continuous disclosure system. The CICA Guidance states:

A company should use MD&A reporting, annual and interim, to gather, integrate and present information significant to investors, including information that has previously been communicated through other channels. In addition, companies should update, as necessary, previous disclosures about strategy, key performance drivers, capabilities, risks and results. In this way, all significant information is disclosed and kept current through the MD&As.

Where a company has determined that a change has occurred and has disclosed this to the market place and/or regulators, its subsequent MD&A report (annual or interim) should incorporate and reflect that disclosure and provide appropriate further analysis, as necessary, as to the effect of the change on the company’s view going forward.

Note the references to updating previous disclosures. Further:
Companies should ensure that forward-looking disclosures in previous MD&As are updated as necessary to reflect subsequent events or changes. This is important to maintain reliability and credibility in MD&A reporting. (420.2.2) The Canadian Securities Administrators proposals, NI 51-102, address the need for updating earlier disclosures that would otherwise be misleading to investors.

The above recommendations are all intended to assist MD&A preparers in ensuring that the MD&A is used effectively in integrating disclosures to the market and that earlier disclosures to the market are updated as necessary in subsequent MD&As. Management should therefore be asked to make an explicit representation to the audit committee or board on this issue.

9. Are there any ways in which the MD&A disclosures are inconsistent with information provided in the financial statements or notes thereto and further, are the MD&A disclosures consistent with the company’s disclosure policy and with other disclosures and releases made to the public, including prior periods’ MD&As?

Concerning the first part of this question, Principle 2, Integration with Financial Statements, in the CICA Guidance states:

MD&As should complement as well as supplement financial statements. (220)

In supplementing financial statements (an existing regulatory requirement), disclosure in the MD&A should (1) explain the conditions and events that shaped the information contained in the financial statements and (2) help in understanding how past conditions and events may give rise to future financial consequences. MD&As should provide insight, not make statements that are obvious from reading the financial statements, including the notes thereto. (220.2)

In complementing financial statements, the principle of providing information "to give a reader the ability to look at the issuer through the eyes of management" should drive disclosure. MD&A disclosures are not necessarily driven solely by discussion of line item disclosures in the financial statements. For example, "Sales are up by 10% over last year" is readily apparent from the financial statements, and provides no meaningful insight or context about the dynamics of the business.

Rather, the MD&A should provide useful financial and non-financial information about the business and its performance that is not reported in financial statements but which is relevant to the evaluation of past results and assessment of future prospects. In this way, it is expected that MD&As will impart knowledge, as well as communicate information and data. (220.3)

It should also be noted that the external auditors have a responsibility to ensure that information, including the MD&A, provided in reports that contain financial statements upon which they are expressing an opinion is not inconsistent with those financial statements. (see question 15 below).

The issue of consistency is partially addressed in questions 6 and 8 above, but this question addresses the issue in a broader, more comprehensive context. It calls for consideration of consistency of the MD&A within the company’s overall corporate disclosure policy, which should provide the framework for ensuring integrity and usefulness, including timeliness and consistency, in all aspects and vehicles of a company’s disclosures to the market, both voluntary and mandatory. It calls for an additional level of due diligence and information risk management to ensure that reporting is both useful to investors and also does not confuse or, worse, mislead them.

10. If alternative financial performance measures have been disclosed, has their relevance been satisfactorily explained? Where such measures are derived from GAAP financial statements, have reconciliations to the financial statements been provided?

The CICA Guidance states: To the extent that non-GAAP measures of financial performance are reported in the MD&A, companies should define the non-GAAP measures, explain their significance, and, for measures provided as GAAP-based alternatives, provide a reconciliation
of these to related measures disclosed in the financial statements. (220.4)

Management uses its discretion in deciding the most useful way of communicating results to the marketplace. Investors are entitled, however, to understand how alternative financial performance measures relate to GAAP financial statements, audited or otherwise, and why such alternative measures are relevant to an adequate understanding of the company’s performance and prospects.

11. How does the company’s MD&A compare with MD&As of other companies within the same industry sector and/or other relevant benchmarks?

In the interests of continually improving the usefulness of its own MD&A disclosures, management of a reporting issuer may monitor the MD&As of other companies in the same industry sector or monitor other companies’ disclosures on specific issues such as risk or key performance drivers and measures.

Members of audit committees and boards of directors typically serve on other boards, and therefore may be able to bring the benefit of their own knowledge of reporting practices in other companies.

The combination of management’s and board members’ knowledge of MD&A reporting practices by other companies can be a useful resource for enhancing the quality and usefulness of a given company’s MD&As.

12. What feedback, if any, has been received from regulators about the adequacy of the company’s MD&A and/or other disclosures such as press releases and financial statements?

Provincial member bodies of Canada’s Securities Administrators (and, for US registered companies, the SEC) monitor companies’ financial statements and other filings under the requirements of the continuous disclosure system, as well as monitoring how these compare with press releases, webcasts etc. Sometimes companies receive communications from regulators enquiring about or expressing concern about a particular filing, MD&A or otherwise.

Management should be required to inform the audit committee about any such communications received from regulatory bodies, what action has been taken or is proposed in response, and where the matter currently stands.

13. What feedback, if any, has been received from institutional or other significant investors or their proxies about the adequacy of the company’s MD&A and other disclosures?

Management should also be required to bring to the attention of the audit committee any communication from institutional or other investors or analysts (as proxies for investors) about the MD&A. This is especially important if such communication expressed concern or misunderstanding about an MD&A report or some other disclosure. The degree of significance of the concern should be explained by management, as well as what action has been taken or is proposed in response, and where the matter currently stands.

14. Have legal counsel reviewed the MD&A and if so, what comments do they have?

Legal counsel typically review a company’s MD&A before release, usually in order to advise management regarding the appropriateness of any forward-looking information and related cautionary language, and also to identify any disclosures that have implications regarding potential harm to the company’s competitive advantage. Legal counsel may also advise regarding expected or possible future legal and regulatory matters that may significantly affect the company in terms of strategy and/or risk and should therefore be disclosed and discussed in the MD&A.

Many companies have in-house counsel with appropriate knowledge of securities law and practice to review MD&As, but some may need to retain external counsel for such purposes. In the latter case, counsel’s comments will normally be provided to management in writing. Depending upon the nature of the comments provided and any serious
reservations, the audit committee may wish to meet with legal counsel, as well as reviewing their written comments.

Proposed changes in Canadian law to introduce secondary market civil liability for directors increase the importance to the board of directors of a review of the MD&A (and other disclosures) by legal counsel.

15. Have the external auditors reviewed the MD&A and if so, what comments do they have?

This is a question that audit committees may wish to ask the company’s external auditors directly rather than asking management. This approach may be particularly appropriate where the audit committee’s review and approval of the MD&A is done in conjunction with its review and approval of the related financial statements and the auditor’s report thereon.

External auditors read information such as MD&As published in reports that contain financial statements upon which they are expressing an audit opinion, in order to ensure that there are no inconsistencies between the financial statements and that other information.

The audit committee may consider engaging the external auditor to carry out specified audit procedures regarding particular parts of the MD&A to assist the audit committee in satisfying itself about the reliability of MD&A disclosures.

In deciding upon the need for and nature of any external auditor review of the MD&A, the audit committee will take into account current legal and regulatory requirements regarding the role and responsibilities of management and the audit committee regarding corporate reporting and underlying disclosure systems and controls, and any related needs for independent review or examination.

16. Is the information contained in the MD&A consistent with that which has been previously presented to the audit committee and board of directors?

This question is similar to but broader than question 7, which specifically addressed risk disclosures. Throughout the year, members of audit committees and boards of directors, in the course of carrying out their oversight responsibilities, receive from management a wide range of information regarding matters that include strategic direction, availability of resources, company performance and evaluation of management performance.

The MD&A review by the audit committee should include a step whereby audit committee members individually and collectively review and consider information previously provided to them, and assess whether there are any inconsistencies between such information and any part of the MD&A or the MD&A as a whole. Minutes of previous audit committee and board meetings should also be reviewed for these purposes.

To the extent the audit committee detects or suspects any inconsistency, management should then be asked to confirm or explain the matter, and, if necessary, adjust the MD&A.

17. Does the MD&A report include all significant issues that management has previously raised with us? If not, what is missing and why?

This question is similar in effect to question 16 above, but the focus is on “errors of omission” rather than inconsistencies between actual information items in MD&As compared to earlier presentations of the same information. Minutes of previous audit committee and board meetings should also be reviewed for these purposes.

Again, to the extent that the audit committee detects or suspects any omission of information about an issue that would be significant to an investor, management should then be asked to confirm or explain the matter, and, if necessary, adjust the MD&A.
Overall judgements

The final three questions call for the audit committee in particular, possibly the board as a whole, to step back and consider at an overall level the integrity, completeness and clarity of the MD&A. These questions call for a holistic view of disclosures from the perspective the board members have of the entire business, its markets and environment, and applying the board members’ understanding of what information a reasonable investor needs and has the right to expect.

The questions should be asked by audit committee members individually, then discussed within the audit committee as a whole. An effective audit committee will be open to hearing and accepting the views of its members, including any based on intuition, and holding candid discussions to resolve any concerns that may be expressed. Management will be called in for discussion and explanation as necessary to resolve any concerns not resolved within the audit committee alone.

All three questions reflect principles embedded in the CICA Guidance.

18. Is the MD&A written in clear, plain language and does it present with candour and without exaggeration a fair and balanced picture, including "bad news" as well as "good news"?

If "yes", fine. If "no", then in what way does the MD&A appear inadequate, and what needs to be done to remedy the problem?

19. Does the MD&A provide a complete and integrated view of the company’s historical results, prospective analysis, and financial condition explaining the "why" behind performance and prospects?

If "yes", fine. If "no", then in what way does the MD&A appear inadequate, and what needs to be done to remedy the problem?

20. Does the MD&A, together with the financial statements, provide the necessary information to enable readers of the MD&A to reach an informed judgement about investing or continuing to invest in the company?

If "yes", fine. If "no", then in what way does the MD&A appear inadequate, and what needs to be done to remedy the problem?
Where to find more information

Canadian Institute of Chartered Accountants publications,
The 20 Questions series

- 20 Questions Directors should ask about Executive Compensation
- 20 Questions Directors should ask about IT
- 20 Questions Directors should ask about Management’s Discussion and Analysis
- 20 Questions Directors should ask about Privacy
- 20 Questions Directors should ask about Risk
- 20 Questions Directors should ask about Strategy

Other publications on governance, strategy, risk and disclosure

- CA/CPA Performance View.
- Learning about Risk: Choices, Connections and Competencies, 1998
- Management’s Discussion and Analysis: Guidance on Preparation and Disclosure, 2002
“The new MD&A guidelines are timely, given the movement by regulators in Canada to a continuous disclosure regime. The CICA framework shifts focus from a discussion of recent results to corporate performance in the context of value-creation drivers and strategies. In the end, that’s more useful for investors and it offers a better approach for MD&A writers.”

Joanne Brown, President and Chief Executive Officer, Canadian Investor Relations Institute.