On the Agenda

A tool to help you set your agenda

March 2014

Welcome to On the Agenda, where we present important topics for directors to consider adding to their board and committee meeting agendas, along with relevant resources that more fully explore the issues and the effect they may have on your organization.

This issue of On the Agenda focuses on audit quality and financial reporting. Although financial reporting is typically thought of as a year-end issue, in actuality, it is a year round responsibility for audit committees, as public companies in Canada are required to file financial reports on a quarterly basis, and audit committees are required to review and recommend approval of such filings to the board before the reports are made public. As audit committee members prepare to attend their Q1 committee meetings, there are some vital points they should be thinking about, and ensuring appear on their meeting agendas, including:

1) Ensuring disclosures are focused on material information
2) Reviewing the fraud risk and compliance programs in place, and
3) Examining the relationships that exist between the audit committee, senior management, the external auditor, and, where relevant, the internal auditor.

If you have any questions or would like to explore the matter further, do not hesitate to contact your Deloitte partner or one of our corporate governance experts.

Material information

Each year, the Canadian Securities Administrators’ (CSA) Staff conducts a continuous disclosure review program to assess reporting issuers compliance with securities laws related to disclosure obligations. The CSA’s objective is to promote clear and informative disclosure that will allow investors to make informed investment decisions. A recurring deficiency noted year after year by CSA staff is that the disclosures made are often boilerplate and do not focus on material information. In determining what would be considered to be material, CSA staff urges preparers and reviewers of financial filings to consider whether a reasonable investor’s decision whether or not to buy, sell or hold securities in their company would likely be influenced or changed if the information in question was omitted or misstated. If the answer to this question us ‘yes’, the information is likely material. Whether considering year-end or quarterly filings, the concept of materiality as related to required disclosures remains constant.
As the audit committee reviews the financial reports, with the objective of recommending them to the board for approval, audit committee members should consider whether the reports are focused on material information—material from an investor’s perspective. Materiality should not be considered solely from a quantitative aspect but qualitatively as well—for example, revenues from a new business segment in a recently entered foreign market may not be material from a quantitative calculation, but from an investor’s point of view will likely be material due to the fact that this business segment is likely the future growth area of the organization’s operations.

The financial statements, MD&A and other filings should not be thought of simply as a compliance exercise, but rather as communications tool. Thought of in this way, the quality of reporting in the capital markets can be vastly improved, and audit committees are well positioned to take a higher level, holistic view of financial reporting as a communications tool.

**Fraud risk and compliance**

When the Sarbanes-Oxley Act was brought in in 2002, Section 404 of the Act, *Management Assessment of Internal Controls*, introduced the requirement for company management to file an annual report on internal control over financial reporting. The assessment of a company’s internal control over financial reporting should be based on procedures sufficient both to evaluate its design and to test its operating effectiveness, and the controls subject to such assessment include controls related to the prevention, identification, and detection of fraud. Typically, the oversight responsibility for these matters is delegated to the audit committee. The challenge today for audit committees when reviewing fraud risk and compliance programs is to consider whether the programs and processes followed in this area have become stale and perfunctory. Fraud risk and compliance programs are areas that audit committees should revisit to ensure that the areas of their organizations that are susceptible to fraud are identified, understood and controlled. Failure to adequately address this oversight responsibility and the resulting failure to properly safeguard an organization from fraud risk can lead to potentially catastrophic reputational risk events.

**Relationships**

The audit committee should ensure that solid relationships exist between the committee members, senior management, the external auditors, and, where relevant, the internal auditors. Such relationships enable the open, direct and candid communications which are required for these groups to work effectively together. The quality of financial and corporate reporting is ultimately determined by the effectiveness of these groups in working together as a system. These groups of individuals, therefore, must consider their own roles and responsibilities and as well as their interaction and working relationships with each other. Strong, open and candid relationships cannot be forged through simple mechanical or regulated solutions. Instead, the players themselves must develop effective working relationships within their organizations – something that can be done when each player possesses the necessary attributes, expertise, characteristics, and mindset.

**Conclusion**

Financial reporting does not begin and end with the year end filings. The audit committee’s responsibility to ensure their organization produces accurate, high quality, and pertinent information which is in compliance with regulatory requirements and relevant to investors, is a year round concern.

**Further information**

For further information on the audit committee’s, as well as the full board’s, role and responsibilities with respect to financial reporting, or on governance issues in general, please visit our Centre for Corporate Governance.
### Some Recent Canadian Rulings

#### Released in 2014

**January 2014**

#### Released in 2013

**December 2013**
OSC Staff Notice: 52-722 - Report on Staff's Review of Non-GAAP Financial Measures and Additional GAAP Measures

**October 2013**
CSA Notice and Request for Comment Proposed Repeal and Replacement of National Instrument 52-108 Auditor Oversight
CSA Staff Notice 54-302 Update on CSA Consultation Paper 54-401 Review of the Proxy Voting Infrastructure

**September 2013**

**July 2013**
OSC Staff Consultation Paper 58-401 Disclosure Requirements Regarding Women on Boards and in Senior Management
CSA Staff Notice: 51-339 - Continuous Disclosure Review Program Activities for the fiscal year ended March 31, 2013

**June 2013**
OSC Staff Notice: 51-721 - Forward-Looking Information Disclosure

**April 2013**
OSC Notice: 11-768 - Statement of Priorities - Request for Comments Regarding Statement of Priorities for Financial Year to End March 31, 2014 Comments Received

**March 2013**
Proposed Amendments: MI 62-104 Take-Over Bids and Issuer Bids, NP 62-203 Take-Over Bids and Issuer Bids, and NI 62-103 Early Warning System and Related Take-Over Bid and Insider Reporting Issues

#### Released in 2012

**November 2012**
OSC Staff Notice 51-720 - Issuer Guide for Companies Operating in Emerging Markets

**September 2012**
Republication and Request for Comment: Proposed NI 51-103 - Ongoing Governance and Disclosure Requirements for Venture Issuers and Related Amendments

**July 2012**
CSA Staff Notice: 51-337 - Continuous Disclosure Review Program Activities for the fiscal year ended March 31, 2012

**March 2012**
OSC Staff Notice 51-719 Emerging Markets Issuer review

**February 2012**
CSA Staff Notice 52-306 (Revised) - Non-GAAP Financial Measures and Additional GAAP Measures
In case you missed...

From our weekly **Press Review**:  
(EXTERNAL WEB SITE LINKS - Some sites may require free registration)

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From our weekly Press Review: (cont’d)
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Additional resources

If you are interested in learning more about the issues discussed in this issue of On the Agenda, links to some additional resources are included below.

Centre for Corporate Governance (www.corpgov.deloitte.ca)
A web site specifically designed to help board members with their responsibilities. It provides the latest information on regulatory and legislative developments, accounting and financial reporting, board roles and responsibilities, and best practices.

Deloitte Update (www.deloitte.com/ca/update)
Learning webcasts offered throughout the year featuring our professionals discussing critical issues that affect your business.

Deloitte Learning Academy (http://www.deloitlearningacademy.ca)
The Deloitte Learning Academy offers a range of courses targeted to accounting professionals which can be selected a la carte, bundled into a specific learning program, or delivered as a full start-to-finish suite. Our current offerings include International Financial Reporting Standards (IFRS); Accounting Standards for Private Enterprises (ASPE); and Public Sector Standards (PSAS).

IASPlus web site (www.iasplus.com)
Web site designed by Deloitte Touche Tohmatsu to provide the most comprehensive information on the web about international financial reporting.

Heads Up (www.deloitte.com/us/headsup)
Periodic newsletter that keeps you informed of the latest accounting and regulatory developments.
Deloitte events:

The Directors’ Series - Beyond Compliance

The dates for the sessions in our 2013/2014 series are listed below. Please mark you calendar, and watch you inbox for your invitation.

- Thursday April 10, 2014 - Social license: Issues for boards

In case you missed any of this seasons’ past sessions you may view a replay, access the handout materials or order a copy of the session on DVD to share with your colleagues:

2013/2014 series:
- Focus on the Audit Committee: Issues for year-end (Thursday January 9, 2014)
- CEO transition: Tackling the thorny issues (Thursday October 10, 2013)

2012/2013 series:
- Transformational transactions: The board’s role (Thursday April 11, 2013)
- Audit Committees: Raising the bar on audit and reporting quality (Thursday January 10, 2013)
- Malfeasance, culture and tone-at-the-top (Thursday October 11, 2012)

Review our Deloitte Update Webcasts – topics include financial instruments, periodical technical updates, and U.S. GAAP review.
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