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Governance in  
times of transition  
Issues for audit  
committees

# About the authors

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Jim was a partner and Vice-Chairman of Deloitte Canada prior to his retirement on May 31, 2008 and was a member of the Canadian Firm's Board of Directors.

Mr. Goodfellow is a past Chairman of the Canadian Institute of Chartered Accountant's (CICA) Accounting Standards Board and is also a past chairman of the CICA's Canadian Performance Reporting Board. Jim has authored, or co-authored, several CICA publications including, "Integrity in the Spotlight; Audit Committees in a High Risk World", and three publications dealing with CEO/CFO certification.

Mr. Goodfellow is a member of the board of directors of Discovery Air Inc. and chairs the audit committee. He also serves on the audit committee of the federal government's Department of Foreign Affairs and International Trade.

Last year Messrs. Goodfellow and Wilkinson worked with the Institute of Corporate Directors (ICD) to assess how the global financial crisis and recession were impacting boards of directors. The results of this research were covered in two articles in *Director* published by the ICD in their August and October issues entitled, "Stress Testing Governance: The Impact of the Recession On Governance Practices" and "Stress Testing Governance, Part 2: Developing Risk Intelligent Governance."

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Don Wilkinson has over 25 years of public accounting experience providing assurance and special services to investment and pension funds, institutional asset managers, telecommunications and real estate industries in Canada and the United Kingdom.

He is the Chairman of the Deloitte National Asset Management Group and a member of our Global Financial Services Industry Steering Committee for the Asset Management Industry.

Mr. Wilkinson leads Deloitte's Centre for Corporate Governance, which conducts research and develops service offerings, publications and supporting materials for directors that are distributed through our dedicated Web site, [www.CorpGov.deloitte.ca](http://www.CorpGov.deloitte.ca), and in hard copy. He is a frequent speaker at conferences on corporate governance matters.

Mr. Wilkinson also hosts our Directors' Series program, a two-hour satellite broadcast delivered in over 15 locations across the country. Recent sessions focused on the following topics: Risk intelligent governance, Governing through a recession, Market uncertainty: what boards need to know, and Strategy and risk: asking the right questions.

The session replays are accessible online at [www.deloitte.com/ca/DirectorsSeries](http://www.deloitte.com/ca/DirectorsSeries); alternatively, a DVD including the past two-year sessions can be obtained from your Deloitte partner.

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# A time of transition

When CFOs closed out fiscal 2008 and audit committees met to approve the year-end financial statements, business conditions were grim. The stock market was racing downhill towards a March low. Credit was contracting, or vaporizing. Customers were retreating and management was fighting for survival through cost-cutting, deferring capital expenditures and chopping payrolls. Investors, governments and the public believed they were entering an economic downturn rivalled only by the Great Depression of the 1930s. Not surprisingly, most audit committee agendas were focused on going concern, financial viability and goodwill and asset impairment issues.

Today, much has changed. In 2009, stock markets made amazing recoveries. The Dow Jones once again broke through 10,000 and the TSX recorded its best year in three decades, which has helped investors reboot their portfolios, mitigate some of the stresses in pension plans and enabled banks and companies to recapitalize. The “real” economy has also begun to recover, though at a much slower and lesser rate than the stock markets. Economic stimulus programs are beginning to take effect and credit markets have eased. Investors, however, are now wary of the U.S. dollar, and government deficits have ballooned. Amidst this uncertainty and mixed signals, however, a cautious optimism has returned to many corporate boardrooms.

While asset impairment issues continue to be problematic and a valuation issue for some companies, for many others testing for asset impairment has returned to its rightful place as part of the routine accounting estimates that must be made when preparing financial statements.





### So, what are the priorities for audit committees?

Three factors are impacting investor information needs, which in turn impact the priorities of audit committees:

- 1 The transition of investor attitudes from a crash to recovery mentality
- 2 The transformation of the real economy
- 3 The conversion of Canadian GAAP to International Financial Reporting Standards

This publication explores how these factors can be addressed by audit committees and is organized in three sections – meeting investor information needs, keeping an eye on compliance and International Financial Reporting Standards (IFRS).

# 1 Meeting investor information needs

In 2008, when many companies were fighting for their financial survival, recording asset impairments and goodwill write-offs and booking restructuring charges, the key issues for investors were financial condition and solvency. Now, investor attention is moving beyond a focus on financial condition to assessing the company's strategy and performance. Investors want to know whether the restructuring and cost containment programs embarked upon a year ago have improved operating performance. Investors are also focused on quality of earnings and future earnings prospects.

The recession has also increased investors' caution and scepticism about the information provided to them. They quickly become cynical when disclosures appear to have been prepared by corporate "spin doctors" or contain excessive technical and legal jargon.

In this environment, companies that focus on investor needs and provide fact-based, clearly presented disclosures of critical issues will be the ones that achieve the advantages that come from building trust with their investor community.

# Reporting performance

## Some questions audit committees might ask

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**Does the MD&A contain** information on the success, or failure, of the restructuring and cost containment initiatives undertaken last year?

**Are the most important** financial and non-financial performance measures clearly identified and discussed in the MD&A? Are there any significant omissions?

**Conversely, does the MD&A contain** so many financial and non-financial performance measures that it is impossible to understand the company's performance and what drives it?

**Is there adequate disclosure** of these performance measures, individually and in the aggregate, to enable readers to understand and assess the company's performance?

**Is there a consistency** to explanations and messages on performance across the financial statements, the MD&A and earnings press release?

Investors are seeking a clear understanding of a company's performance, including how this performance was generated and what the prospects are for earnings in the future.<sup>1</sup>

Many investors are trying to assess whether the economic recovery is "real," whether an individual company's performance is "real," or whether it is dependent on government-funded stimulus programs and low interest rates that will fizzle when the stimulus funding runs out and interest rates rise.

In their review of the financial statements, the MD&A and earnings press release, audit committees should "stand back" and assess whether the company's performance is fairly and consistently presented across all of these documents. Audit committees should also assess whether the disclosure documents they approve individually, and when they are taken together, contain meaningful information on critical performance issues and don't suggest that the company's performance is better than it really was.

A particular challenge for audit committees will be to ensure consistency in the reporting of performance not just across the annual financial statements, the MD&A and earnings press release, but also with the Compensation Discussion and Analysis (CD&A) in which the company discusses "pay for performance." This challenge is compounded by the fact that the CD&A is disclosed in the management information circular, which often is not drafted at the time when the financial statements and MD&A are approved by the board.

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<sup>1</sup> For a discussion of the transforming nature of this recession see "Stress Testing Governance: The Impact of the Recession On Governance Practices" by Jim Goodfellow and Don Wilkinson in the August issue of *Director*, published by the Institute of Corporate Directors.

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Many investors are trying to assess whether the economic recovery is “real,” whether an individual company’s performance is “real,” or whether it is dependent on government-funded stimulus programs and low interest rates that will fizzle when the stimulus funding runs out and interest rates rise.

### Some questions audit committees might ask

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**Do the disclosures address** the company’s performance in generating, protecting and utilizing its intellectual capital and intangible assets? (Note, many intangible assets may have been written off in 2008.)

**Do the disclosures discuss** the company’s performance vis-à-vis the environment and other social responsibilities?

**Is there an over reliance** on innovative non-GAAP performance measures or other measures that are unique to the company that might lead investors to conclude that the company’s performance is better than it really is?

**Is the discussion of performance** in the MD&A consistent with, or likely to be consistent with, the discussion of “pay for performance” in the executive compensation disclosures?

**Are areas of poor performance** and the reasons for them fairly presented and discussed?

**Do investors and analysts have** the information and metrics they need to compare the company’s performance with major competitors?

# Improving risk disclosures

## Some questions audit committees might ask

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**Do the risk disclosures focus** on the company's principal business risks, or are they a laundry list of all conceivable risks?

**Are risk disclosures** fairly and consistently presented in all disclosure documents (e.g., financial statements, the MD&A, earnings press release, Annual Information Form)?

**Do the disclosures provide** information about how the risks are being managed?

**Has the company adequately addressed** the new or increased exposures to the risk of fraud that were created by the recession?

**Do the disclosures provide** information on the roles of the board and its various committees in the oversight of risk management?

**Does the audit committee understand** the risks of a low interest rate environment, including the impact on financing and funding long-term obligations (for instance, pension plans)? What impact will an increase in interest rates have?

Although stock markets have recovered and there has been some easing of credit markets, investors want to better understand a company's principal business risks. Simply disclosing long laundry lists of all possible risks, often expressed in generic terms, is neither very informative nor helpful. Similarly, spreading risk disclosures over a variety of regulatory filings is also not very helpful. Companies should not only enhance their disclosure of principal business risks, but also provide information to help investors understand how these risks are being managed.

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## Investors want information about the way the board exercises effective risk governance and about the effectiveness of management's risk management practices.

On December 16, 2009, the U.S. Securities and Exchange Commission (SEC) issued Release 33-9089 requiring SEC registrants to make new or revised disclosures in their next proxy circulars about the board's leadership structure and its role in risk oversight. Canadian companies should also consider making disclosures about the board's role, and the role of board committees, in risk oversight.<sup>2</sup>

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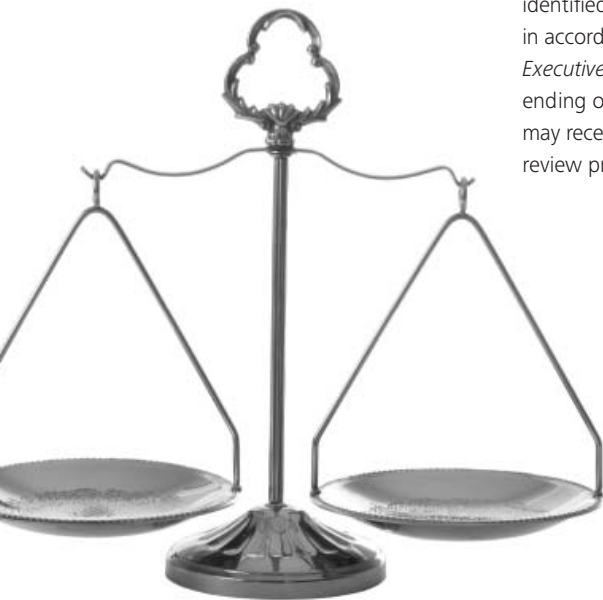
<sup>2</sup> For a discussion on the lessons learned for risk management, and risk governance, from the financial crisis see "Stress Testing Governance Part 2: Developing Risk Intelligent Governance" written by Jim Goodfellow and Don Wilkinson in the October issue of *Director* published by the Institute of Corporate Directors.

# Compensation-related risks

The financial crisis has generated considerable debate about the effect compensation policies may have had in encouraging excessive risk taking. Today, investors and regulators are focusing on companies' risk management practices, their risk governance practices, and whether their compensation policies increase the company's risk profile or encourage excessive risk taking.

The SEC's new proxy enhancement rules are intended to respond to these investor needs and to improve companies' disclosures about their overall compensation policies and those policies' impact on risk taking; stock and option awards to executives and directors; and potential conflicts of interest of compensation consultants that advise companies. The new disclosure requirements are also intended to help investors better understand the extent that risks arising from the company's compensation policies and practices are reasonably likely to have a material adverse effect on the company.

The Canadian Securities Administrators (CSA) has identified disclosures relating to executive compensation in accordance with Form 51-102F6 *Statement of Executive Compensation* (in respect of financial years ending on or after December 31, 2008) as a topic that may receive greater attention in its continuous disclosure review program for fiscal 2010.



## Some questions audit committees might ask

### **Have the audit committee and compensation committee identified**

what might be called "compensation-related risks," those risks which are directly related to compensation philosophy, policies and practices, and reviewed how they are being mitigated?

### **Have the audit committee and compensation committee assessed**

whether the company's compensation policies and practices present any material risks to the company (e.g., encouraging excessive risk taking)? If they do, are those risks fairly presented in the disclosures?

**Is there anything in the executive compensation disclosures** to be provided in the management information circular that should also be addressed in the year-end disclosure documents?

# Impact of the rising Canadian dollar

## Some questions audit committees might ask

**How did the rising Canadian dollar impact** the company's performance and financial condition? Is this discussed in the MD&A?

**Are the company's currency** hedging programs and related risks understood and fairly presented (including the risks related to non-hedged positions)?

**In addition to direct foreign currency** exposure (e.g., exports to U.S. markets), does the company have any indirect exposures (e.g., sales to Canadian companies that export to U.S. markets)? Are these exposures discussed in the MD&A?

**How would an escalating dollar impact** the company's future prospects? Is this disclosed?

In October 2009, the Governor of the Bank of Canada warned that the *"heightened volatility and persistent strength in the Canadian dollar are working to slow growth and subdue inflation pressures. The current strength in the dollar is expected, over time, to more than fully offset the favourable developments since July."*

Many Canadian exporters that hoped to capitalize on resurgence in U.S. manufacturing have instead found themselves challenged by a stronger Canadian dollar, a weaker U.S. dollar and the sluggish recovery of the U.S. economy. Those challenges may increase with rising commodity prices, widening interest rate differentials and a more positive economic outlook in Canada, all of which may power the Canadian dollar to parity with the U.S. dollar and beyond in 2010.

Investors, therefore, want to understand how the appreciation and volatility of the Canadian dollar has affected past performance and will affect company performance in the future.



# Forward-looking information

With continuing high levels of economic uncertainty, financial analysts and investors will likely pressure companies this year for earnings guidance information and for more information about a company's order book, back log information, business outlooks and future prospects.

Future-oriented information and financial outlooks are governed by the continuous disclosure requirements set out in National Instrument 51-102, *Continuous Disclosure Obligations*, which came into effect on December 31, 2007. The instrument sets out these important definitions:

- "Future-oriented financial information" (FOFI) is information about prospective results of operations, financial position or cash flows presented in the form of a historical balance sheet, income statement or statement of cash flows.
- A "financial outlook" is, like FOFI, prospective in nature, but, unlike FOFI, it is not presented in the form of a historical financial statement. Earnings guidance is an example of a financial outlook.

NI 51-102 prohibits companies from disclosing any kind of forward-looking information without a reasonable basis, whether it is FOFI, a financial outlook or any other forward-looking information. These rules apply to forward-looking information wherever it is published, including in prospectuses, rights offering circulars or offering memoranda (including those of non-reporting issuers); continuous disclosure or other regulatory filings; and news releases and websites. Forward-looking information provided orally is not captured by the disclosure rules in NI 51-102; however such information may still give rise to civil liability under provincial securities laws.

Multilateral Instrument 52-110, *Audit Committees*, requires audit committees to be satisfied that adequate procedures are in place for reviewing the public disclosure of financial information extracted or derived from the issuer's financial statements. MI 52-110 also requires audit committees to periodically assess the adequacy of those procedures. This rule applies to financial information extracted from the financial statements that is used for analyst calls or investor days and likely includes financial information used as the basis for developing forward-looking information. It may, therefore, be prudent for audit committees to review forward-looking information, such as earnings guidance, prior to their release.

## Some questions audit committees might ask

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**What is the company's position** on earnings guidance? Has this position been reviewed recently? Is it still appropriate?

**What procedures are in place** for reviewing information extracted from the financial statements? When were these procedures last reviewed by the audit committee? When should they be reviewed again?

**Does the audit committee review** forward-looking information that is based on information extracted from the financial statements, which is provided to investors?

# 2 Keeping an eye on compliance

The Canadian and global regulatory environments underwent considerable changes after an array of new rules were introduced in the wake of the accounting scandals that occurred in the early years of the past decade. Unfortunately, the pace of change is likely to continue, therefore, companies need to monitor the robustness of their compliance processes to ensure that they are meeting all of the applicable regulations while they manage the transition and changes that occur in the capital markets, the economy and their operating environments.

For many investors, a key lesson coming out of the global financial crisis is the importance of transparency, and the risks that are assumed when investing in products or companies that provide inadequate, confusing or incomprehensible disclosures. As the real economy transitions from recession to recovery, the challenge for all public companies will be to strengthen or rebuild investors' trust in their public disclosures and regulatory filings.

The corporate reporting process requires compliance with a large and growing number of accounting and regulatory requirements. One way audit committees can satisfy themselves that management is in compliance with all of these requirements is to rely on reports and assurances provided by the external and internal auditors. Other important sources of assurance for audit committees are reports from the company's disclosure committee and the CEO/CFO certification process.

This section examines some key compliance issues for audit committees to address in their 2009 year-end meetings. It focuses on the compliance issues identified by the Canadian securities regulators and two important internal processes (the disclosure committee and CEO/CFO certification) that, when working effectively, can provide assurance and comfort to the audit committee.

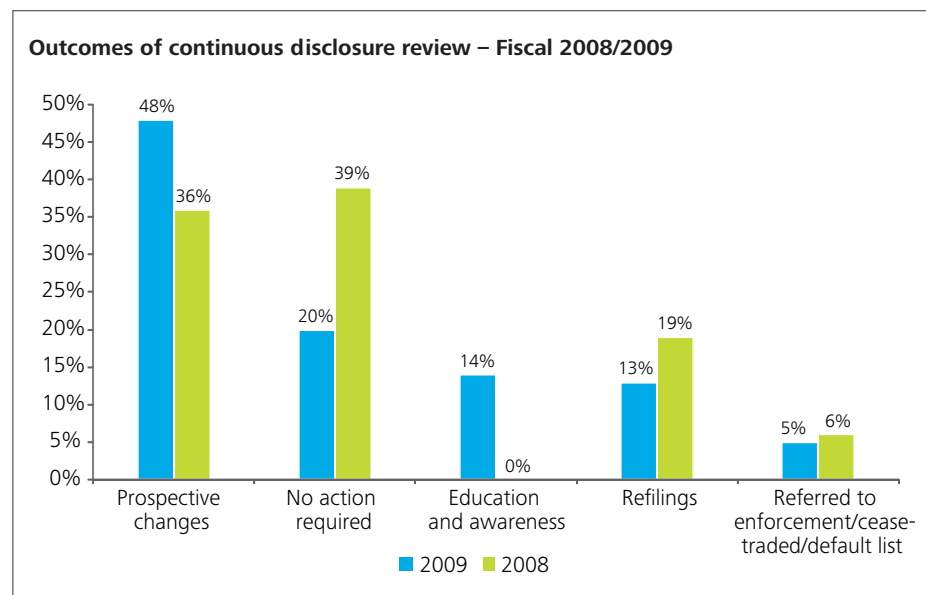
In conducting their reviews of the company's regulatory filings, audit committees may wish to move beyond technical compliance as their overriding objective. Instead, they may prefer to focus on creating and sustaining investors' trust through the provision of meaningful, relevant and timely information that addresses the issues identified in the preceding section and assists investors in making their investment or voting decisions.

# Compliance problems identified by regulators

In July 2009, the CSA released Staff Notice 51-329, which reports the findings of its continuous disclosure review program activities for the fiscal year ended March 31, 2009. The CSA completed 1,094 continuous disclosure reviews in 2008/09 – a significant number given that there are approximately 4,300 reporting issuers other than investment funds in Canada. The CSA's reviews covered disclosures made in the financial statements, the MD&A and other continuous disclosure documents.

The disclosure deficiencies identified by the CSA in its reviews are grouped in three categories. They are deficiencies in the MD&A; in meeting the continuous disclosure obligations; and in the financial statements. (This booklet presents common deficiencies in appendix I, in the form of a checklist.)

The following chart provided by the CSA in the Staff Notice summarizes the results of the reviews.



## Some questions audit committees might ask

**Has management reviewed** the findings of the CSA reviews? Is management confident that the company does not have any of the deficiencies noted in the review? If it does, what steps has management taken to remediate them?

**Has management completed** the checklist provided in Appendix I of this booklet? Is the audit committee satisfied with the explanations provided by management on the checklist?

In its review program, the CSA also conducted over 250 specific reviews to assess the transparency and completeness of disclosures. Areas of particular focus of these reviews included financial services sector issuers and highly-leveraged issuers at risk of liquidity problems. The findings from these specific reviews have led the CSA to request that issuers include disclosures in their future filings on:

- specific exposures to credit risk
- the methodology used to determine the allowance for credit losses
- the policies for managing capital in the current environment
- the assumptions used to determine fair value for financial instruments, including the process for assessing impairment
- additional disclosures of risks and exposures to loss related to off-balance sheet entities
- additional discussion related to liquidity and sources of cash.

The CSA also conducted specialized reviews in areas such as asset-backed commercial paper, inventories, forward-looking information, financial instruments and technical disclosures in the mining and oil and gas sectors. (A detailed discussion of these reviews is provided in CSA Staff Notice 51-329.)



# Disclosure policies, committees and practices

Since there will likely be a continuing increase in the focus on corporate disclosures in the years ahead, companies may wish to take time now to assess whether their corporate disclosure policy is up-to-date and whether the disclosure committee, if the company has one, is operating effectively.

National Policy 51-201, *Disclosure Standards*, sets out best practices for implementing continuous disclosure policies, which include adopting a corporate disclosure policy and establishing a disclosure committee. Although the CSA does not make disclosure committees mandatory, they have become an important component of the corporate disclosure process in many companies. Rules regarding the membership, mandates and operating procedures of these committees vary from one company to another since the most effective disclosure committees are ones adapted to the company's specific needs.

Disclosure committees help ensure that the information provided to shareholders about the company's operations and financial performance is accurate, complete and presented in a way that not only complies with regulatory requirements but is also clear and understandable. Disclosure committees are also often involved in evaluating the effectiveness of the company's system of disclosure controls and procedures.

Dealing with the pressures of an economy in transition might divert management's attention from the value of an efficient and effective disclosure committee. Many audit committees believe it is important that the company has such a committee in place. An effective disclosure committee can provide the audit committee with an important source of assurance that all important disclosure issues, both good and bad, are evaluated and disclosed promptly in an appropriate manner.

## Some questions audit committees might ask

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**Has the disclosure committee reviewed** and approved the disclosure documents being presented to the audit committee?

**What issues were discussed** at the disclosure committee? Were there differences of opinion and, if so, how were these differences resolved?

**Has the audit committee** recently reviewed the disclosure committee's mandate?

**Who are the members** of the disclosure committee? Are these the right people?

**Have the disclosure committee's** operating practices been curtailed during the recession?

**Has the effectiveness** of the disclosure committee been assessed vis-à-vis its mandate?

# CEO/CFO certification complacency

## Some questions audit committees might ask

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**Have all significant and material weaknesses** in both disclosure controls and internal control over financial reporting been identified and all material weaknesses been disclosed? (For further information, see this booklet's discussions of finance fatigue and disclosure committees.)

**What impact has corporate downsizing, cost containment and head count reduction had** on the effectiveness of disclosure controls or internal control over financial reporting?

**Are there delays** in correcting "significant" but not "material" deficiencies from prior years that might suggest these are really "material" deficiencies?

**Do audit findings or errors detected** by the external auditors and the internal auditors in conducting their audit support or contradict management's conclusion on the effectiveness of internal control?

**Has the CEO/CFO certification program,** including the testing of internal controls, been amended for the transition to IFRS?

**Do both the CEO and CFO** take certification seriously and set the right "tone at the top"?

The CSA first issued Multilateral Instrument 52-109, *Certification of Issuers' Annual and Interim Filings*, in January 2004. Since then, the various certification requirements have been phased in, the most recent one pertaining to the certification of the operating effectiveness of internal controls over financial reporting.

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There are indications that the level of dedication and commitment to the certification process is less than it was when the rules were introduced six years ago.

The CSA has identified the requirements outlined in National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings* as an area that may receive greater attention by its continuous disclosure review program for fiscal 2010.

Audit committees should take steps to ensure that the CEO/CFO certification process is performed effectively for two important reasons. First, the conclusions reached by the CEO and CFO must be presented in the MD&A, which the audit committee is required to review. Second, an effective CEO/CFO certification program can be an important component of a due diligence defence if the directors are sued under provincial civil liability legislation.

# Finance function fatigue

Recent years have been difficult ones of significant transition for finance functions and CFOs. The last decade began with the “tech wreck” and was followed by several accounting scandals that led to the *Sarbanes Oxley Act* in the United States and a variety of instruments and policies issued by the CSA in Canada. Then, just as the finance function had dealt with all the new regulations, the global credit crisis and recession hit. And now there is IFRS!

Audit committees need to be alert to the degree to which finance fatigue has set in their companies, and what mitigating actions need to be taken.



## Some questions audit committees might ask

**What downsizing has occurred** in the company’s finance team? Has there been any deferral or curtailment of investments in resources such as financial systems?

**Are we fully aware** of the stress created by the credit crisis and liquidity pressures on the senior executives in the finance function? How well are they coping with these pressures?

**How well are employees** in the finance function coping with the pressures placed on them? Are there any indications – such as an increase in errors – that might suggest finance employees are becoming burnt out? Are any additional steps being taken to protect against fraud or other problems that might arise when finance employees become fatigued?

**What additional pressures** have been placed on the finance function by the transition to IFRS? How well are employees coping with the additional workload (such as the need to maintain dual accounting systems in certain areas)?

# 3 International Financial Reporting Standards (IFRS)

In addition to an uncertain economic environment, Canadian companies also face a significant transition in accounting standards. Canadian publicly accountable enterprises (PAE) are now entering the “home stretch” in their conversion to IFRS. In 2010, most PAEs will need to establish their opening balance sheets for the conversion to IFRS and throughout the year they will need to develop the comparative figures for their 2011 quarterly financial statements.

How well prepared are companies for this final leg in their journey to convert to IFRS? Based on recent surveys, IFRS readiness varies significantly across the universe of Canadian publicly accountable enterprises. Generally, larger public companies appear to have made further progress than mid- to small-cap companies. Unfortunately, a significant number of companies have yet to make a significant start in the conversion process.

As they enter the transition year in their conversion to IFRS, many PAEs still have a lot of work ahead of them. At the systems level, for example, many companies have yet to either finalize the design of new IT systems or modify their existing IT systems to support the conversion to IFRS. As a result, a lot of companies are looking to short-term, “quick fix” solutions, such as manual workarounds and spreadsheet fixes, which may present control issues when CEO/CFO certifications are required in 2011.

The CSA has identified disclosures of IFRS changeover plans in the MD&A as a topic that may receive greater attention in its continuous disclosure review program for fiscal 2010. (For further information, see CSA Staff Notice 52-320, *Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards*).

### Some questions audit committees might ask

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**Has management prepared** a detailed plan and IFRS program timeline that incorporates key milestone dates between now and December 31, 2011?

**Is management satisfied** that the major accounting policy matters and impacts on the company's financial statements and disclosures have been identified (i.e., chances of surprises in 2011 are minimal)?

**Has management adopted** reasonable solutions for dealing with these transitional differences in 2010, such as manual workarounds or implementing parallel accounting applications?

**Is management in a position to prepare** quarterly financial statements for 2011 in accordance with IFRS for comparative reporting purposes during 2010, beginning with Q1?

**Have management's IFRS changeover plans** been adequately disclosed in the MD&A, including qualitative and quantitative disclosure of the impacts?

**Have the audit committee members developed** or have a plan to develop the knowledge and skills necessary to meet an IFRS financial literacy test in 2011?

**Does management have a plan** to help investors, analysts and other readers of the financial statements understand the impact of the conversion to IFRS in 2011?

**Is there any risk** that differences between the opening IFRS balance sheet and the closing 2009 balance sheet could result in a restatement of the 2009 financial statements?

**Are there any unadjusted differences** (e.g., errors or accounting anomalies) arising during the 2009 closing and audit process that could be problematic when the opening IFRS balance sheet is prepared?

**While some advanced companies will have prepared an opening IFRS balance sheet** that has either been audited or is ready for audit as they close out 2009, most companies are probably not in a position to do this.

In such circumstances, is there a plan and program timeline on when the IFRS opening balance sheet will be prepared and audited?

# Conclusion

Audit committees continue to operate with very full agendas. As their companies close out their fiscal years and audit committees complete their regulatory filings, audit committees should take time to assess whether or not they have discharged all responsibilities set out in their charters, which, of course, is publicly disclosed and available for potential plaintiffs and regulators to use as they see fit.

More importantly, however, audit committees should assess their effectiveness in dealing with each item in their charter and identify ways to improve their efficiency – for example, by having better information supplied in advance of meetings, not presenting information at meetings that was distributed in advance, obtaining additional reports from auditors and others that the committee can rely on, and challenging whether all the items on their agendas and charters really need to be there.

Today, audit committees carry an increasingly heavy workload. In part because of their past successes, many people (including fellow board members) continue to add to the audit committee's agenda and workload. Working longer and harder is not an attractive option. Once the year-end work is behind them, audit committees should, therefore, take some time to determine ways to work smarter and more efficiently.

# Appendix I

## Common deficiencies in financial r

This appendix sets out the common deficiencies identified in the Canadian Securities Administrators' Staff Notice 51-329, *Continuous Disclosure Review Program Activities for the fiscal year ended March 31, 2009*.

The following items are presented for the consideration of audit committees as they review their company's fiscal 2009 financial reporting packages (financial statements, MD&A and other continuous disclosure documents).

MD&A	Comments
Has information from the financial statements been repeated without sufficient analysis being provided?	
Is there adequate disclosure of liquidity and capital resources, including disclosure of working capital requirements and circumstances that could affect the company's sources of financing?	
Is there sufficient discussion about the risks and uncertainties expected to affect the company's future performance given the current economic conditions?	
Is there sufficient discussion of critical accounting estimates, including sufficient disclosure of assumptions underlying the accounting estimate?	
Is there sufficient quantitative analysis in the results of operations' discussion?	
Is the disclosure of the adoption of new accounting policies adequate?	
Are related party disclosures adequate?	
Is there disclosure of any non-GAAP financial measures that do not meet the expectations of CSA Staff Notice 52-306 (Revised) <i>Non-GAAP Financial Measures</i> ?	
Financial statements	Comments
Have financial instruments been appropriately measured in accordance with accounting standards (e.g., fair value)?	
Have the credit, liquidity and market risks associated with financial instruments, and the methodology and assumptions used to determine fair value been disclosed?	

# Reporting

Financial statements	Comments
Is there meaningful disclosure of the company's capital and how it is managed?	
Is the revenue recognition adequate? Is there sufficient disclosure of the company's accounting policies on this topic?	
Is the company's financial reporting in compliance with Section 3870 of the CICA Handbook, <i>Stock-based Compensation and Other Stock-based Payments</i> ?	
Is the financial reporting in compliance with segments disclosure, including the requirement to disclose the revenue allocation method? Has the company inappropriately aggregated or omitted information about major clients?	
Have variable interest entities been properly identified and accounted for?	
Other continuous disclosure documents	Comments
Have CEO/CFO certificates been prepared in accordance with Multilateral Instrument 52-109, <i>Certification of Disclosure in Issuers' Annual and Interim Filings</i> ? Is there sufficient discussion about disclosure controls and procedures in the MD&A?	
Has the disclosure required in National Instrument 52-110, <i>Audit Committees</i> and in National Instrument 58-101, <i>Disclosure of Corporate Governance Practices</i> been provided?	
Have mining and oil and gas technical reports been filed in accordance with National Instrument 43-101, <i>Standards of Disclosure for Mineral Projects</i> (NI 43-101) and National Instrument 51-101, <i>Standards of Disclosure for Oil and Gas Activities</i> (NI 51-101) respectively?	

# Appendix II

## Deloitte resources and authoritative

The following Deloitte resources will assist you in maintaining your financial literacy throughout the year. To obtain more information about any of these resources, please communicate with your Deloitte partner or one of our corporate governance contacts listed at the end of the publication.

### Thought leadership

#### Centre for Corporate Governance

This Web site is 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.

([www.CorpGov.Deloitte.ca](http://www.CorpGov.Deloitte.ca))

#### Deloitte IFRS e-Learning Program for Directors™

This learning program provides the flexibility of individual self-study, with the option of group sessions facilitated by a Deloitte IFRS professional.

([www.corpgov.deloitte.com/site/CanEng/financial-reporting/ifrs/deloitte-ifrs-e-learning-for-directors](http://www.corpgov.deloitte.com/site/CanEng/financial-reporting/ifrs/deloitte-ifrs-e-learning-for-directors))

#### Stress testing governance articles

The impact of the recession on governance practices  
Developing risk intelligent governance

### Periodicals

#### Audit Committee Brief

An e-newsletter of key U.S. regulatory, technical and professional developments in corporate governance and accounting.

([www.corpgov.deloitte.com/site/CanEng/deloitte-periodicals/audit-committee-brief](http://www.corpgov.deloitte.com/site/CanEng/deloitte-periodicals/audit-committee-brief))

#### DeloitteLINK

A weekly e-newsletter that helps you stay on top of standard-setting initiatives.

([www.corpgov.deloitte.com/site/CanEng/deloitte-periodicals/deloittelink](http://www.corpgov.deloitte.com/site/CanEng/deloitte-periodicals/deloittelink))

#### Deloitte Update

Our new live webcast series featuring our professionals discussing critical issues that affect your business.

([www.corpgov.deloitte.com/site/CanEng/financial-reporting/deloitte-update](http://www.corpgov.deloitte.com/site/CanEng/financial-reporting/deloitte-update))

#### On the Agenda

A bi-monthly e-newsletter that advises directors about recent developments affecting their responsibilities, including the points of view of Deloitte specialists.

([www.corpgov.deloitte.com/site/CanEng/deloitte-periodicals/on-the-agenda](http://www.corpgov.deloitte.com/site/CanEng/deloitte-periodicals/on-the-agenda))

#### Standard-setting Activities Index

Provides you with monthly updates on recent developments in standard-setting from a comprehensive list of standard-setting organizations.

([www.corpgov.deloitte.com/site/CanEng/deloitte-periodicals/standard-setting-activities](http://www.corpgov.deloitte.com/site/CanEng/deloitte-periodicals/standard-setting-activities))

# Guidance

## Selected rulings

The following rulings address issues directly impacting your year-end financial reporting:

National Instrument 43-101, Standards of Disclosure for Mineral Projects  
([www.osc.gov.on.ca/en/15019.htm](http://www.osc.gov.on.ca/en/15019.htm))

National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities  
([www.osc.gov.on.ca/en/13338.htm](http://www.osc.gov.on.ca/en/13338.htm))

National Instrument 51-102, Continuous Disclosure Obligations  
([www.osc.gov.on.ca/en/13342.htm](http://www.osc.gov.on.ca/en/13342.htm))

Form 51-102F6, Statement of Executive Compensation  
([www.osc.gov.on.ca/documents/en/Securities-Category5/rule\\_20081219\\_51-102\\_f6.pdf](http://www.osc.gov.on.ca/documents/en/Securities-Category5/rule_20081219_51-102_f6.pdf))

CSA Staff Notice 51-329, Continuous Disclosure Review Program Activities for the fiscal year ended March 31, 2009  
([www.osc.gov.on.ca/en/22763.htm](http://www.osc.gov.on.ca/en/22763.htm))

CSA Staff Notice 51-330, Guidance Regarding the Application of Forward-looking Information Requirements under NI 51-102 Continuous Disclosure Obligations  
([www.osc.gov.on.ca/en/26319.htm](http://www.osc.gov.on.ca/en/26319.htm))

CSA Staff Notice 51-331, Report on Staff's Review of Executive Compensation Disclosure  
([www.osc.gov.on.ca/en/26323.htm](http://www.osc.gov.on.ca/en/26323.htm))

OSC Staff Notice 51-717, Corporate Governance and Environmental Disclosure  
([www.osc.gov.on.ca/en/26531.htm](http://www.osc.gov.on.ca/en/26531.htm))

Multilateral Instrument 52-109, Certification of issuers' annual and interim filings  
([www.osc.gov.on.ca/en/13542.htm](http://www.osc.gov.on.ca/en/13542.htm))

Multilateral Instrument 52-110, Audit Committees  
([www.osc.gov.on.ca/en/13550.htm](http://www.osc.gov.on.ca/en/13550.htm))

CSA Staff Notice 52-306, Non-GAAP Financial Measures  
([www.osc.gov.on.ca/en/13626.htm](http://www.osc.gov.on.ca/en/13626.htm))

CSA Staff Notice 52-320, Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards  
([www.osc.gov.on.ca/en/13794.htm](http://www.osc.gov.on.ca/en/13794.htm))

National Instrument 58-101, Disclosure of Corporate Governance Practices  
([www.osc.gov.on.ca/en/14198.htm](http://www.osc.gov.on.ca/en/14198.htm))

SEC Release 33-9089, Proxy Disclosure Enhancements  
([www.sec.gov/rules/final/2009/33-9087.pdf](http://www.sec.gov/rules/final/2009/33-9087.pdf))

# Appendix III

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