



MINING

CPAB Mining Industry Forum Highlights

CPAB held roundtables on September 24, 2019 in Toronto and October 3, 2019 in Vancouver for audit committee chairs and CFOs of Canadian mining reporting issuers.

Moderated in Toronto by **Richard Graff**, audit committee chair of Alacer Gold Corporation and Yamana Gold Inc. and in Vancouver by **Dale Peniuk**, audit committee chair of Lundin Mining, Capstone Mining, and Argonaut Gold, the forums featured discussions about matters top of mind for audit committees and management.

What's top of mind

Investor focus on non-GAAP measures

Investors are relying more and more on key performance indicators (KPIs) and non-GAAP measures reported by mining companies to inform their decisions. At the same time, there is a gap between capital market expectations of auditors and what audit standards actually require. Specifically, CAS 720, *the auditor's responsibilities relating to other information in documents containing audited financial statements*, only requires that the auditor read and consider the other information, including management's discussion and analysis.

Many gold mining companies have adopted the World Gold Council's non-authoritative guidance for disclosure of all-in sustaining production costs (AISC) and all-in costs (AIC) to provide greater transparency of the full cost to produce and sell an ounce of gold, reconciled to generally accepted accounting principles (GAAP).

Participants emphasized that auditor involvement in reviewing AISC and AIC disclosures is valuable, having witnessed companies that needed to correct reporting errors in this area. Best practices were shared, including benchmarking AISC and AIC cost classifications with other companies.

In September 2019 the World Gold Council released the **Responsible Gold Mining Principles**. Implementing companies will be required to publicly disclose their conformance with the

Principles and the external assurance on this disclosure. The World Gold Council has developed an **Assurance Framework** to support a consistent approach to assurance. Participants commented that boards and audit committees are discussing adoption of the **Framework**.

Many audit committee chairs have seen value in auditors performing some procedures and/or providing feedback to the audit committee on KPIs and non-GAAP measures, as stakeholders rely on these disclosures (such as free cash flow). Participants also encouraged the industry to consider using measures that foster elevated consistency, industry-wide.

Expanded auditors report – key audit matters coming to Canada

Effective June 2019, auditors of large US registrants (including many large dual-listed Canadian reporting issuers) are required to include a discussion of critical audit matters in their audit reports. Reporting key audit matters for TSX-listed reporting issuers starts in December 2020. The UK and other parts of the world adopted expanded reporting of key audit matters in 2016.

Audit committee chairs and management commented that Canadian mining companies are preparing for this expanded reporting this year, with the expectation that key audit matters will cover more challenging areas such as mine valuation.

Audit committee chairs noted the importance of their

oversight role that to date has included commenting on draft expanded reporting and adopting oversight practices suggested under the US Public Company Accounting Oversight Board's (PCAOB) staff guidance.

Participants observed auditor reports outside North America where key audit matters were articulated in greater depth in comparison to US critical audit matters. Canadian companies will benefit from learnings from both approaches and adopting reporting best suited to the Canadian landscape.

Certain Canadian audit firms are implementing rigorous industry-focused quality assurance processes, with the concurrent support of their US audit practice. Some participants raised the matter that to derive value it will be important that these processes produce disclosures that are specific as opposed to boilerplate.

Cyber risk protection for audit firms and reporting issuers

Data protection is a key focus area for audit firms. Best practices were shared from an audit firm perspective, including bolstered data protection and data scrubbing techniques.

Cybersecurity remains a high priority for most reporting issuers, with oversight provided by the audit committee or the entire board. To help mitigate cybersecurity risk, audit committee chairs shared a range of best practices, including presentations from information technology leaders, use of outside experts and regular reporting of cybersecurity metrics to the audit committee. Obtaining assurance on information technology general controls and cybersecurity controls through the annual audit was also viewed as paramount, particularly for non-PCAOB audits that are not subject to controls testing. It is also important that audit committees understand the information technology controls environment and how it impacts financial reporting.

What's new at CPAB

Quality management systems

Increased focus on quality management systems at the firm level is important to improving the consistency of audit quality. While most audits CPAB inspects comply with the required standards, recurring file inspection themes indicate that weaknesses in quality management systems persist, leading to inconsistent audit execution. Firm policies and processes – at both the leadership and engagement team levels – that manage risk and get the right people working on the right things at the right time are essential to delivering high quality audits, consistently.

In 2018, CPAB implemented a new methodology to assess existing audit quality management systems to help accelerate improvements. It is our perspective that when firms place greater focus on strong quality management systems, this better supports engagement teams to drive more consistent quality audits. When evaluating firm processes, CPAB expects that firms demonstrate and evidence the effectiveness of the underlying processes. Participants discussed their experiences with certain quality management systems criteria, such as firm resource management, as areas they were interested in exploring with a direct link to audit quality results.

CPAB will report findings from our assessment of Canada's four largest public accounting firms' quality management systems in March 2020.

CPAB explores going concern and fraud

Recent global corporate collapses have turned the spotlight on auditors and whether they are thinking enough about forward-looking trends and risks to the future performance of public companies.

There are companies that have regularly disclosed uncertainties related to going concern, such as companies involved in exploration or at a start-up phase of their development. In both cases, qualitative assessment of performance progress or degradation is beneficial. Audit committee chairs observed that going concern reported only one year in advance of company collapse, where industry conditions were present for more than one year, may limit the relevance and timeliness of going concern disclosure.

CPAB is reviewing going concern and fraud - areas that have critical impact on the investing public. We're looking at the work performed with respect to the auditor's responsibility related to fraud and the auditor's responsibility relating to management's going concern disclosure. In the area of going concern, we are also carefully assessing proposed new going concern standards in other jurisdictions.

On the global stage

CPAB is looking at how Canada might be impacted by several global developments.

Market concentration

Amid increasing scrutiny from politicians and regulators in the wake of high-profile corporate collapses, structural change of Big Four firms in the UK is being considered. Discussions continue in the UK around steps to increase competition for large audits and to reduce the potential for conflicts of interest.

Auditor selection and appointment

Mandatory auditor tendering has been introduced in jurisdictions such as the UK where it was thought that rotation would improve competition among firms and improve audit quality.

Separation of audit and non-audit services

Functional or operational separation of the audit and non-audit businesses at the large audit firms is being considered in other jurisdictions. While audit firms across the globe continue to explore this, all agree that implementing internal controls at the firm level and a greater focus on quality processes and systems and the key players in the audit ecosystem (auditors, audit committees and management) is required.

Audit firm governance and organizational culture

A strong organizational culture keeps company core values at the forefront of all aspects of operations, propels performance and drives stakeholder value. In the audit firm context, this value ultimately supports audit quality.

Equally important to protect stakeholder value is sound corporate governance. How the cultural dynamics and good governance practices of audit firms are modeled is being explored as an area that can improve audit quality.

Thank you

CPAB thanks everyone for their participation. We encourage ongoing dialogue and look forward to continuing the audit quality discussion at future events across Canada.

Have a view?

CPAB would appreciate hearing from you. Please reach out to us at stakeholderengagement@cpab-ccrc.ca.

Learn More

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