



## CPAB Oil & Gas Industry Forum Highlights

On September 22, 2016 CPAB held its first invitation-only Oil & Gas Industry Forum for audit committee chairs serving on the boards of publicly traded oil and gas companies in Canada.

Co-hosted by Art Korpach, Director, the lunch session featured issues audit committees are facing, CPAB's recent inspection findings, audit quality matters including changes to auditor reporting and evaluation, and audit partner perspectives from Leontine Atkins, Partner, KPMG. Read on for highlights from the two-part event.

## Developments in Audit Quality

### CPAB Overview

- CPAB has a risk-based file selection; focus on industry and reporting issuer risks.
- Oil & Gas industry inspections focus on transactions cycles, PPE and goodwill, business combinations, decommissioning liabilities, debt/debt covenants, going concern, commodity derivatives, and statement of cash flows.
- Continued need for audit firms to improve consistency of execution as many files show a high level of audit quality but others require significant improvement; audit committees can assist.
- Audit firm provides CPAB's significant inspection findings in writing to audit committees under the Protocol for Sharing Inspection Findings with Audit Committees (Protocol).
- Audit committee chairs want more inspections results information directly from CPAB.
- CPAB seeks to increase awareness of audit quality matters among audit committees through 1:1 meetings, presentations and publications to assist in their oversight role.

### Audit Quality Indicators

- What is the most useful information that can be shared with audit committees to improve the dialogue on key issues and assist the audit committee in their oversight of audit quality?
- Audit committees want to ensure this information is tailored to their company size and operations.

### Expanded Auditor's Report

- There is an expectation that the expanded auditor's report will be required in Canada at some point over the next few years.
- Participants indicated a strong desire for the Canadian Auditing and Assurance Standards Board to ensure the US will have similar requirements for expanded auditor reporting before it becomes mandatory in Canada.

## Audit Quality Issues in the Oil & Gas Industry

### Impairment

- Participants discussed challenges in calculating fair values where there may be differences across the price decks prepared by the major engineering firms and where there are few comparable market transactions.
- Audit committee chairs agreed on the need to use judgment and the benefit of experience in calculating fair value.
- An open, honest dialogue among the CFO, audit committee chair and auditor is essential.

### Going Concern

- Participants agreed this is a challenging area, especially forecasting cash flows for 12 or 15 months.
- Companies need to consider the terms of bank facilities and other financing arrangements in an environment where the borrowing base is reviewed and potentially changed at least two times a year; this makes it difficult to assert with confidence to the availability of liquidity for 12 or 15 months.

### Non-GAAP Measures / Key Performance Indicators

- Consensus this may be more of a focus for investors than the audited financial statements.
- Audit committee chairs prefer ensuring clarity (in the MD&A) in how the measures and indicators are calculated but did not agree on whether it makes sense to standardize these definitions.
- Some indicated the importance of consistency year to year, including the impact on executive compensation. Sometimes audit committee chairs ask auditors to review key amounts in the MD&A and to indicate what assurance they could provide to underwriters in the future.

### Unusual Financing Arrangements

- Companies needing cash have been involved in unusual financing arrangements, including transactions with downstream assets; these transactions may lead to gains or losses in the income statement and could be accounted for as borrowings, sales, or leases depending on the terms.

### Extractive Sector Transparency Measures Act (ESTMA)

- Reporting requirements under this Act are subject to judgment; concern about penalties for non-compliance.
- Audit committees need to clarify their role and management's and determine who will attest to the accuracy of the information. Some audit committee chairs indicated management, internal audit, or the external auditor would attest, while others expect the audit committee to have involvement. The area continues to evolve; first reporting begins in 2017.

### Other Top of Mind Items

- Impact of the current downturn and cost cutting efforts on the quality of accounting and finance departments.
- Cybersecurity risks.

## Thank You

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

### Learn More

Visit us at [www.cpub-ccrc.ca](http://www.cpub-ccrc.ca) and join our mailing list. Follow us on Twitter — @CPAB-CCRC

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