



OIL & GAS

CPAB Oil and Gas Industry Forum Highlights

CPAB held a roundtable on October 1, 2019 in Calgary for audit committee chairs and CFOs of Canadian oil and gas reporting issuers.

Moderated by **John Gordon**, audit committee chair of TORC Oil & Gas Ltd., the forum featured a roundtable discussion about matters top of mind for audit committees and management.

What's top of mind

Liquidity and access to capital

It has become increasingly challenging for Canada's oil and gas industry to manage syndicate financing arrangements where multiple parties are involved in extending financing.

Participants noted that these arrangements are difficult to amend as they require unanimous approval. To overcome this, participants shared good practices including building strong relationships with syndicate members and ensuring timely awareness of proposed changes and potential debt covenant issues.

Impairment evaluations

With signs of a softening oil and gas industry, there is increased focus on impairment evaluation. Participants commented on these areas, focusing on impairment model assumptions, consistency and oil and gas price forecasts. It was suggested that a significant best practice is to complete impairment models in the third quarter to allow timely identification and discussion regarding possible impairment.

Impact of environmental regulations and societal perspectives

Oil and gas companies are facing increased environmental scrutiny from government, regulators and investors. Notably, institutional investors have begun to consider these disclosures more seriously when deciding to invest in a reporting issuer. As a result, reporting issuers are increasingly adopting recommendations of the Task Force on Climate-related Financial Disclosure.

Several participants noted that companies should focus on releasing more balanced disclosures in order to articulate their achievements and areas for improvement. There was also a consensus that foreign jurisdictions like Europe are well ahead of North America in advanced disclosures in this area.

Investor focus on non-GAAP measures

More and more investors are relying on non-generally accepted accounting principles (non-GAAP) measures reported by oil and gas companies to inform investment decisions.

Participants commented that it is critical that non-GAAP measures disclosure includes sufficient information to allow the reader to understand how measures are calculated, and the importance of audit committee governance in this area.

Expanded auditors report – key audit matters coming to Canada

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 of key audit matters for TSX-listed reporting issuers starts in 2020. The UK and other parts of the world adopted expanded reporting of key audit matters in 2016.

Key audit matters, or KAMs, are matters deemed most significant in the financial statement audit in the auditor's professional judgment. Critical audit matters are matters communicated to the audit committee relating to accounts or disclosures that are material to the financial statements or involved challenging, subjective, or complex auditor judgment.

Participants plan to conduct KAM reporting dry-runs prior to the 2020 effective date.

What's new at CPAB

Quality management systems

Increased focus on quality management systems at the firm level is important to improve 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 the firm to 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.

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.

Participants commented that there should be an increased strategic focus on fraud at the audit committee level and that they would benefit from insights and good practices in this area.

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 rotation 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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