



MINING

CPAB Mining Industry Forum Highlights

CPAB held Mining Industry Forums on October 3, 2018 in Vancouver and October 11, 2018 in Toronto for audit committee chairs of Canadian mining companies.

Moderated in Toronto by **Richard Graff**, audit committee chair of Yamana Gold Inc. and in Vancouver by **Dale Peniuk**, audit committee chair of Lundin Mining Corporation, Capstone Mining Corp. Argonaut Gold and Miramont Resources, the Forums featured roundtable discussions about matters that are top of mind for audit committees of Canadian mining companies.

Issues facing audit committees of mining companies in Canada

Adopting new standards

Management and audit committees face increased responsibility when implementing new standards. IFRS 15, *Revenue from contracts with customers* and IFRS 16, *Leases* were issued by the International Accounting Standards Board and are effective for fiscal years starting on or after January 1, 2018 and 2019, respectively. When reviewing audit strategy and implementing these standards, mining companies may need to change certain revenue recognition and lease accounting practices.

Participants agreed that they were able to successfully work with management to implement IFRS 15. Implementation of IFRS 16 has been a more significant task. Implementation is largely underway with audit committees and management focusing on technical and control issues, including the risk of using Excel to keep a record of leases and whether there is sufficient time to test controls and identify deficiencies.

Key Performance Indicators (KPIs)

Investors rely on KPIs and non-GAAP measures reported by mining companies to inform investment decisions. While some standardization guidance exists in this area, KPIs are often defined differently across companies. Participants discussed and compared current oversight of the MD&A and non-GAAP measures and acknowledged that disclosures

could largely improve. Participants also noted the importance of knowing whether their company was in line with others in the industry and suggested that the auditor could provide insight in this area. Since audit firms have a unique perspective and access to multiple mining companies, their expertise can be leveraged to help support sustained, consistent quality within the industry. Audit committees should consider how they can work with management and the auditor to improve the reliability of information used by investors.

Auditor oversight practices

Audit quality can be enhanced through effective oversight of the external auditor. Comprehensive reviews and the use of audit quality indicators (AQIs) are practices that can help audit committees oversee the work of their auditor. Participants discussed whether an annual review was perfunctory and what additional practices can be implemented to ensure continuous auditor evaluation. One participant performed quarterly reviews of the auditor along with their annual assessment. Another selected annual AQIs and received quarterly reports from management to review and measure their performance.

Participants agreed that these types of regular touchpoints allowed for an open conversation between auditor and audit committee and a better overall understanding of how the auditor is performing at any given point during the year.

Emerging technology and innovation

Today's audit industry is facing a great deal of disruption. Auditor use of data analytics and other emerging technologies is growing and cybersecurity continues to be a top of mind issue for all companies. As firms leverage technology with the aim of performing a more robust audit, participants discussed

firm data security and oversight including who owns the data and what controls are established to ensure protection. Participants agreed that new technology will need to undergo trial and error but will ultimately have the potential to track and monitor audit quality from a centralized data source and allow for improved data monitoring over time.

Developments in audit quality

Trust in audit

When international regulators asked CEOs of the world's largest public accounting firms what is currently top of mind, trust and integrity were at the forefront. In today's global audit community, there is no shortage of examples where audit quality has been questioned. Discussions are continuing in some jurisdictions such as the UK around changes that can improve audit quality including steps to increase competition for large audits and reduce the potential for conflicts of interest.

Audit quality management systems

CPAB believes increased focus on centralized quality control systems at the firm level is important to improve the consistency of audit quality. While most audits we inspect comply with the required standards, recurring 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.

Audit quality indicators

Audit quality is a challenge for audit committees to measure and evaluate. Audit Quality Indicators (AQIs) are a response to this and provide quantitative measures about the external audit process. They facilitate collaboration among key stakeholders (auditors, management and the audit committee), and provide more in-depth information to assist in evaluating and achieving sustained audit quality. CPAB believes that AQIs have significant potential to positively impact audit quality.

CPAB recently wrapped up a two-year pilot project with audit committees and management exploring the value of audit quality indicators (AQIs). We recently published a [final report](#) on our findings and launched an [AQI Network](#) to enable information sharing and support for current and future AQI users

Emerging industries and disruptive enablers

CPAB is keeping an eye on emerging industries, including cryptocurrency and cannabis, with great interest and believes there is an urgent need for guidance on how auditors should be responding to typical audit risks associated with these clients. We recently published [our perspectives](#) on auditing in the crypto-asset sector to help address some of these risks.

Auditor use of data analytics and technology is also a growing area of change. CPAB will continue to watch the development and implementation of new tools and procedures and provide our perspective on how they can enable better quality over time.

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.

Learn More

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