



2011 annual financial reporting document review guide

An all-in-one disclosure assessment tool

2011 was a year that continued to be dominated by uncertainty in the global economic and capital markets. Throughout the year, organizations and their boards faced an environment of rapid change and considerable uncertainty. At the same time, many faced their first full year of reporting under a new financial reporting framework, while others continue to work through their transition.

During such turbulent times, it may sometimes be difficult for directors and management to analyze all of the regulatory standards and guidance issued and to develop an action plan to ensure that they fulfill all of their responsibilities.

To this end, Deloitte has prepared a comprehensive assessment package to help you determine whether or not your organization's financial statements and other financial filings meet the continuous disclosure obligations as established by the Canadian Securities Administrators (CSA). Correspondingly, using these tools to analyze your organization's financial filings may assist you in performing your due diligence responsibilities. The assessment package is comprised of four parts:

1. **Review of the 2011 financial statements**

This document will allow you to specifically address the impact of the adoption of a new financial reporting framework as well as the impact of new accounting developments in your review of your organization's financial statements. For those few entities still applying Canadian generally accepted accounting principles (GAAP), this document will help you to ensure you properly address the potential impact of adopting a new framework in the near future. A series of suggested questions has been included to assist you in ascertaining whether the standards were appropriately applied and whether all of the options/alternatives available, as well as the impact on the financial statements, were considered prior to the selection of an accounting treatment.

2. **MD&A evaluation**

An assessment tool to evaluate your organization's Management's Discussion & Analysis (MD&A). The requirements, as set out in National Instrument 51-102, Continuous Disclosure Obligations, are included, along with an area for you to include commentary specific to your organization.

3. **AIF evaluation**

An assessment tool to evaluate your organization's Annual Information Form (AIF). The requirements, as set out in National Instrument 51-102, Continuous Disclosure Obligations, are included, along with an area for you to include commentary specific to your organization.

4. **Statement of Executive Compensation evaluation**

An assessment tool to evaluate your organization's Statement of Executive Compensation. The requirements, as set out in National Instrument 51-102, Continuous Disclosure Obligations, are included, along with an area for you to include commentary specific to your organization.

The information which follows provides an overview of the assessment tools described above. The full assessment package may be accessed through our Centre for Corporate Governance (www.corpgov.deloitte.ca/Self-assessments).

Annual financial statement review tool

Questions to ask

It is not possible to anticipate all of the questions that may be required to ensure a proper and full due diligence for accounting developments which arose throughout the year. Therefore, these questions provide the director with a starting point from which a full and complete due diligence of material issues may be conducted. The questions to be asked always depend on the materiality of the impact on your organization's public filings which are subject to board approval. Material items often require more due diligence by the board of directors. The following questions have been proposed assuming that each issue is material to the shareholder. The director must use judgment in determining to what extent each of the questions should be raised.

The following questions should be considered by directors and management to ascertain whether the accounting standards were appropriately applied, and whether all of the options/alternatives available, as well as the impact on the financial statements were considered, prior to the selection of an accounting treatment.

Newly adopted financial reporting framework	Comments
When compared to the current year's balance sheet, does the opening balance sheet provide the same level of detail as required to provide consistent information to users?	
Do the reconciliations between the historical financial information and that reported under the new financial reporting framework properly explain the identified differences?	
Do the accounting practices clearly explain the policies adopted and significant judgments and estimates made by the organization's management?	
What alternatives were considered and what was the impact of these alternatives on the financial statement results and/or disclosures?	
Why were the selected new accounting policies adopted over the available alternatives?	
Why do you believe your organization's set of adopted accounting policies present fairly its financial position/condition, results of operations and cash flows?	
Where non-GAAP measures are reported in the financial statements, does management explain in sufficient detail differences from the corresponding GAAP measures?	
Where financial information is provided for the first time, was sufficient comfort obtained by the organization's management to ensure reliability of the supporting data?	
How has it been ensured that all of the disclosure and other requirements relating to the new framework recommendations have been properly included in the notes to the financial statements?	
Did any of the required disclosure changes cause difficulty and why?	
Were there any disagreements with the external auditors as to the appropriate accounting treatment to be applied and, if so, please describe them?	
What comments do the external auditors have in respect of your organization's answers to the above questions?	

New accounting policies	Comments
<p><i>Note to reader: review this section as well as the “Conversion to a new financial reporting framework” section below if your organization benefits from an IFRS adoption deferral (for example, rate-regulated entities and investment enterprises) and has not yet converted to either IFRS or U.S. GAAP or will adopt another framework in the near future.</i></p>	
<p>What, if any, changes in accounting policies, procedures or disclosures were required as a result of the recommendations made by the Canadian Accounting Standards Board (AcSB) or the International Accounting Standards Board (IASB)?</p>	
<p>What alternatives were considered and what was the impact of these alternatives on the financial statement results and/or disclosures?</p>	
<p>Why were the selected new accounting policies adopted over the available alternatives?</p>	
<p>What, if any, voluntary changes in accounting policies, procedures or disclosures were made this year that were not related to the issuance of new accounting recommendations made by the AcSB or the IASB?</p>	
<p>What was the rationale for any voluntary changes in accounting policies? <i>For example, did your organization appropriately document that any voluntary change in accounting policy resulted in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on its financial position, financial performance or cash flows as required by accounting changes (CICA 1506) and accounting policies, changes in accounting estimates and errors (IAS 8)?</i></p>	
<p>What was the overall impact on the financial information of adopting the new recommendations?</p>	
<p>How has it been ensured that all of the disclosure and other requirements relating to the recommendations have been properly included in the notes to the financial statements?</p>	
<p>How was it decided whether to apply these changes prospectively or retrospectively and why?</p>	
<p>What were the required changes to prior years’ and interim periods’ financial statements as a result of applying the change retrospectively?</p>	
<p>How was it ensured that subsidiaries, interests in joint ventures and investments in associates have properly adopted accounting policy changes in their financial statements that were used for consolidation purposes?</p>	
<p>Did any of the required disclosure changes cause difficulty and why?</p>	
<p>Why do you believe your organization’s set of adopted accounting policies presents fairly its financial position/condition, results of operations and cash flows?</p>	
<p>Were there any disagreements with the external auditors as to the appropriate accounting treatment to be applied and, if so, please describe them?</p>	
<p>What comments do the external auditors have in respect of your organization’s answers to the above questions?</p>	

Conversion to a new financial reporting framework	Comments
Has the conversion plan been reviewed and updated for current progress on a regular basis? Have any unforeseen obstacles been identified?	
Is a communication strategy in place for investors, analysts and other stakeholders to address reporting under the new financial reporting framework?	
<p>What is the status of the following key elements of the conversion plan:</p> <ul style="list-style-type: none"> • Selection of all accounting policies (including first time adoption choices); • Preparation of the opening balance sheet; • Restatement of Q1, Q2 and Q3 interim information; and • Preparation of interim and annual financial statement drafts 	
Should an agreed-upon level of assurance be obtained from the external auditors on your organization's opening balance sheet?	
Do your organization's year-end financial filings meet the standard-setter requirements with regards to communications regarding its conversion?	

Where management believes that the adoption of a new accounting recommendation does not result in fair presentation, management must explain the alternative presentation in your organization's MD&A in order for the CEO and CFO to be able to properly certify the financial statements in conformity with National Instrument 52-109 Certification of disclosure in issuers' annual and interim filings. In these circumstances it is very important that the board of directors conduct a thorough due diligence of the matter.

Next steps

Now that you have completed the analysis of your organization's 2011 financial statements, listed below are some suggested next steps in performing your due diligence.

Evaluate your results	Comments
Discuss your findings with the other members of the board of directors, management and your external auditors.	
Establish your action plan	
Identify what needs to be done to ensure the financial statements are compliant, relevant and transparent.	
Review with your external auditors their GAAP/IFRS quality assessment of the financial statements.	
Inquire as to the processes put in place to enable the CEO and CFO to fulfill their certification obligations for 2011.	
Ensure the audit committee minutes document your review process and conclusions regarding the financial statements and other financial filings.	
Ensure you understand the external auditors' summary of unadjusted misstatements – both quantitative misstatements and disclosure deficiencies, and the impact on controls.	

Keep current with the new accounting and regulatory pronouncements affecting your financial reporting.

Please consider subscribing to the following Deloitte periodicals as sources of information that have been developed to help you to stay abreast of accounting and regulatory developments:

- **Centre for Corporate Governance**
A web site 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)
- **Deloitte Learning Academy**
The Deloitte Learning Academy offers a range of courses targeted to accounting professionals which can be selected a la carte, bundled into a specific learning program, or delivered as a full start-to-finish suite. Our current offerings include International Financial Reporting Standards (IFRS); Accounting Standards for Private Enterprises (ASPE); and Public Sector Standards (PSAS). (www.deloittelearningacademy.ca/welcomecanada)
- **DeloitteLINK**
A weekly e-newsletter that helps you stay on top of standard-setting initiatives.
- **Deloitte Update**
Our new live webcast series featuring our professionals discussing critical issues that affect your business.
- **On the Agenda**
A periodic e-newsletter that advises directors about recent developments affecting their responsibilities, including the points of view of Deloitte specialists.
- **Standard-setting Activities Index**
Provides you with monthly updates on recent developments in standard-setting from a comprehensive list of standard-setting organizations.
- **Audit Committee Brief**
An e-newsletter of key U.S. regulatory, technical and professional developments in corporate governance and accounting.

You may subscribe to our periodicals by completing this online form on our Web site:
<https://events.deloitte-canada.12hna.com/preferences/>

MD&A review tool

In performing your review of the MD&A, we suggest you consider the following steps as a guide (these questions have been developed for non-venture issuers. Venture issuers are not required to make disclosures regarding disclosure controls and procedures (DC&P) or internal control over financial reporting (ICFR)).

Procedure	Comments
Understand any new or amended disclosure requirements issued by the CSA for the current year.	
Read the complete MD&A and ensure that:	
<ul style="list-style-type: none">• There is no contradiction with what you know.	
<ul style="list-style-type: none">• There are no significant omissions based on what you know.	
<ul style="list-style-type: none">• The discussion is well balanced between the positive and negative news.	
<ul style="list-style-type: none">• The discussion between GAAP/IFRS and non-GAAP/non-IFRS measures is balanced and meets regulatory requirements.	
<ul style="list-style-type: none">• The document is written in plain language.	
<ul style="list-style-type: none">• The document focuses on material information.	
<ul style="list-style-type: none">• The document improves your organization's overall financial disclosure by providing a balanced discussion of the results of operations and financial condition.	
<ul style="list-style-type: none">• The document helps investors understand what the financial statements show and do not show.	
<ul style="list-style-type: none">• The document discusses in further details material transactions giving rise to items such as contingent liabilities, defaults under debt, off-balance sheet financing arrangements, or other contractual obligations.	
<ul style="list-style-type: none">• The document discusses important trends and risks that have affected the financial statements, and trends and risks that are reasonably likely to affect them in the future.	
<ul style="list-style-type: none">• The document provides information about the quality, and potential variability, of your organization's earnings and cash flow, to assist investors in determining if past performance is indicative of future performance.	
<ul style="list-style-type: none">• The document explains how new regulatory and financial reporting requirements may affect your organization.	
<ul style="list-style-type: none">• The DC&P worked as designed and that the evaluation of their effectiveness is fairly described.	
<ul style="list-style-type: none">• The ICFR worked as designed, and the evaluation of their effectiveness is fairly described.	
<ul style="list-style-type: none">• The name of the framework used in the design of ICFR is disclosed.	
<ul style="list-style-type: none">• If any material weakness in the design or operation of ICFR was identified, and exists at the end of the annual reporting period, ensure that a description of the weakness is disclosed along with the impact of the weakness on the financial reporting and ICFR, and the current plans, or any actions already taken, to remediate the weakness.	
<ul style="list-style-type: none">• If there were any limitations imposed on the scope of design of either DC&P or ICFR to exclude controls, policies and procedures, this fact is disclosed.	

Procedure	Comments
<ul style="list-style-type: none"> Any material changes in ICFR that have occurred since the last filing are disclosed. 	
<ul style="list-style-type: none"> With regards to the annual certificates required to be filed as per National Instrument 52-109, review the certificates and ensure the following: <ul style="list-style-type: none"> They are filed in the exact wording prescribed by the required form The representations included are consistent with the disclosure in the MD&A 	
<ul style="list-style-type: none"> Your IFRS transition plan is clearly disclosed. [For details as to specific disclosure requirements regarding the changeover to IFRS, review CSA Staff Notice 52-320 Disclosure of expected changes in accounting policies relating to changeover to IFRS.] <i>Note: this applies only to those organizations who benefit from an IFRS adoption deferral (for example, rate-regulated entities and investment enterprises) and have not yet converted to either IFRS or U.S. GAAP.</i> 	
<ul style="list-style-type: none"> The impact of the transition to IFRS on ICFR and DC&P has been disclosed (i.e., – any material change in ICFR that may occur due to the transition and the ongoing preparation of financial statements in accordance with IFRS must be disclosed). <i>Note: this applies only to those organizations who benefit from an IFRS adoption deferral (for example, rate-regulated entities and investment enterprises) and have not yet converted to either IFRS or U.S. GAAP.</i> 	
<p>Meet with management and discuss any findings arising from your review. You may want to hold discussions with your internal auditors as well.</p>	
<p>Review with your external auditors their assessment of the MD&A.</p>	
<p>Document your review.</p>	

Annual Information Form (AIF) review tool

In performing your review of the AIF, we suggest you consider the following steps as a guide.

Procedure	Comments
Read the full document and ensure that:	
<ul style="list-style-type: none">• There is no contradiction with what you know.	
<ul style="list-style-type: none">• There are no significant omissions based on what you know.	
<ul style="list-style-type: none">• The discussion is well balanced between the positive and negative news.	
<ul style="list-style-type: none">• The document describes your organization, its operations and prospects, risks and other external factors that impact it specifically.	
<ul style="list-style-type: none">• The document focuses on material information; and	
<ul style="list-style-type: none">• The document is written in plain language.	
Meet with management and discuss any findings arising from your review. You may want to hold discussions with your internal auditors as well.	
Review with your external auditors their assessment of the AIF.	
Document your review.	

Statement of Executive Compensation review tool

In performing your review of the Statement of Executive Compensation, we suggest you consider the following steps as a guide.

Procedure	Comments
Read the full document and ensure that:	
<ul style="list-style-type: none">• There is no contradiction with what you know.	
<ul style="list-style-type: none">• There are no significant omissions based on what you know.	
<ul style="list-style-type: none">• The document clearly communicates the compensation the board of directors intended your organization to pay, make payable, award, grant, give or otherwise provide to each Named Executive Officer and director for the financial year.	
<ul style="list-style-type: none">• The disclosures made in the document will help investors understand how decisions about executive compensation are made.	
<ul style="list-style-type: none">• The document focuses on material information; and	
<ul style="list-style-type: none">• The document is written in plain-language.	
Meet with management and discuss any findings arising from your review. You may want to hold discussions with your internal auditors as well.	
Review with your external auditors their assessment of the Statement of Executive Compensation.	
Document your review.	

Conclusion

If you have any questions or require clarification on any of the referenced matters please contact one of the professionals listed hereunder. Deloitte's professionals have a broad range of expertise and are able to offer a range of solutions – whether it be technical accounting, governance or technological skills – that can be customized to meet your organization's specific compliance needs.

Subject to appropriate independence safeguards and service pre-approval, Deloitte can assist you to ensure that your financial filings are in compliance in all respects.

Let us help design a strategy that can turn the continuous disclosure obligations into value generators for your organization.

If you would like further information, please contact a Deloitte professional in your region.

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Disclaimer

This guide is limited in nature, and does not comprehend all matters relating to an organization's financial filings and its' continuous disclosure obligations. We make no representation as to the sufficiency of this guide for your purposes.

This guide should not be viewed as a substitute for other forms of analysis that directors and management should undertake in order to assess whether their financial reporting or corporate governance practices are adequate or appropriate for your purposes. The information in this guide is not intended to constitute legal, accounting, tax, investment, consulting, or other professional advice or services. Before making any decision or taking any action which might affect your personal finances or business, you should consult a qualified professional advisor.

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