IIA TORONTO CHAPTER

Fall Newsletter - Fresh updates delivered straight to your inbox

IN THIS DIGEST:

- President's Message
- 2019 AGM Highlights
- Farm Volunteering Event
- Upcoming Professional Development Events
- Learning Resources
- Social Media Updates and more!
FROM THE PRESIDENT

by Margaret Pacheco

The Toronto Chapter is celebrating its 75th anniversary this year. The chapter continues to celebrate with member events for volunteers, training on hot topics and CAE roundtables.

The National IIA conference was held in Toronto this year. The conference was rich with insights for internal auditors at every level and across all industries. The theme for the 2019 National Conference was “Risks of the Future - Stronger Together”. Risk: it is at the forefront of challenges in all industries as we navigate an era of change and disruption. Participants explored with us existing and emerging tools and methodologies that Internal Auditors need to help their stakeholders meet risk head on and succeed!

By leveraging insights from this year’s Pulse, CAEs can better inform stakeholders about potential underperformance in four key risk areas and take advantage of recommended strategies for identifying and addressing any areas of weakness or misalignment that may exist in their organizations. By having the discussion with the audit committee, concerns are put on the record for action. As in previous years, the survey results also offer valuable benchmarking information on audit plans, staffing, and outsourcing. The report this year also features three-year audit plan trends with breakouts by organization types.

We will continue to support our members in ensuring they have the tools they need to address the emerging and continued changing risk landscape. As businesses are using emerging technologies to disrupt and innovate, Internal Audit functions have the opportunity to deliver value added advice that allows their clients to take advantage of these disruptive technologies.

A special thank you to all our volunteers! Our continued success is a direct result of your continued support to our members. Without your dedication to the chapter and the profession, what we do would not be possible. I would also like to thank all past volunteers and Presidents which have ensured the success of our chapter.

Please also take note of some key upcoming events including development and networking opportunities noted on our website.

Thank you to all our sponsors who have supported our chapter throughout the year; KPMG, MNP, Protiviti, PwC, Deloitte, Wolters Kluwer, EY, CaseWare and Economical.

I would like to thank our executive team, Alan Tsang (Chapter Senior Vice President), Marina Qureshi (Chapter Secretary), Troy Purvis (Chapter Vice President - Administration), Neil Power (Chapter Vice President – Programs) and Cheng Cheng (Chapter Treasurer) for all your support and dedication to the Chapter.

I would also like to thank our governors for their dedication to the chapter and the professionStay engaged. Stay connected.

Margaret Pacheco
President, IIA Toronto Chapter
president@iia.toronto.org
Hello and Goodbye!

2019-2020 Slate of Officers:
Treasurer Cheng Cheng, CIA MNP LLP

Second year of term Officers:
President Margaret Pacheco Baywall Consulting
Senior Vice President Alan Tsang Onex Corporation
Vice President Programs Neil Power, CIA Hydro One
Vice President Administration Troy Purvis, CIA, CRMA, Toronto Hydro
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Retiring Governors & Officers

OFFICER: Sohail Choksy, MNP
GOVERNORS:
Scott Page
Craig Pattinson
Jeff McIlravey
The AGM & 75th Annual Awards dinner was held at the Omni King Edward Hotel in Toronto on Thursday, May 9, 2019.

The event was a great evening of celebration, recognition and networking with fellow members of the IIA Toronto Chapter community. Members came together to relish the chapter’s accomplishments and commemorate this historic milestone for the Chapter!

Richard Arthurs, Chair of the IIA Canada Board and Partner, National Leader - Data and Information Dynamics, Enterprise Risk Services at MNP, addressed our Chapter on Innovative Ways to Disrupt Internal Audit.

Arun Gupta, PWC Partner was the keynote speaker of the evening. Arun spoke about Large Transformations and the Role of Internal Auditors.

The volunteer of the year award recipient was Jennifer Chêw, GTA Programs Chair.
UPCOMING CHAPTER EVENTS

The Future of Cybersecurity and Data Privacy
The Albany Club, 91 King Street East
Toronto, ON, M5C 1G3
3/4/2020 8:00 AM - 3/4/2020 10:00 AM
Speakers – Michael Kostanecki, Protiviti

Dynamic Audit Planning
PwC Office – 18 York Street, Suite 2600
Toronto ON M5H 0B2
5/13/2020 8:00 AM - 5/13/2020 10:00 AM
Speaker - Robin Taylor and Pedro Medeiros, PwC

Chapter Seminars
CIA Learning System Comprehensive Instructor-led Course – Part 3
Global Knowledge, 595 Bay St. Suite 302
Toronto, ON, M5G 2C2
10/2/2019 8:30 AM - 10/3/2019 4:30 PM

Communication Skills for Auditors
Global Knowledge, 595 Bay St. Suite 302
Toronto, ON, M5G 2C2
11/18/2019 8:30 AM - 11/21/2019 4:30 PM

Other Professional Development Events:

CONFERENCE

Financial Statement Fraud - Understanding and Investigating Fraud Perpetrated by Management organized by Association of Certified Fraud Examiners (ACFE)
Toronto reference library – Beeton hall – 789 Yonge St., Toronto, ON, M4W 2G8
9/17/2019 7:45 AM - 9/18/2019 4:25 PM
Speakers – Janet McHard and Beth A. Mohr
The IIA Toronto Chapter Volunteer Event held on Friday, June 21, 2019 was a huge success!!

We saw an impressive turnout and the volunteers, who came to serve their community in fighting food insecurity, thoroughly enjoyed the socializing, networking and team building experience.

This event was generously sponsored by MNP, KPMG, Economical, E&Y, Protiviti. In addition, Ram (Protiviti) generously sponsored each attendee with a Nike Protiviti cap and Geoff (MNP) generously provided lots of gift swag for our lucky draw. Sincere thanks to Margaret, Claire, Sohail, Joan, Troy and other volunteers organizers who helped organize this event.

THANK YOU!

If you have not had an opportunity to attend this event, you are strongly encourage to attend next year!
2019 Hot Topics for IT Internal Audit in Financial Services

The paper is informed by a survey across UK financial service organisations and our discussions over the past 12 months with Chief Internal Auditors, Heads of IT Audit and IT Audit professionals, who have openly discussed their areas of focus and the organisational challenges in relation to their firms' technology control environment.

Download a copy here

New Practice Guide by IIA : Auditing Culture Recommended Guidance

Culture can be difficult to define, including individual belief systems and preferences of each employee — from line workers to the corner office. Culture captures the complexity of defining and then assessing intangible organization-wide qualities or aspects that comprise human belief systems, social norms, and other psychological factors.

This guidance will enable internal auditors to:
Understand the business significance of culture and conduct risk in an organization's control environment.
Identify the key components of culture and conduct risk.
Understand key stakeholder concerns and expectations related to culture and conduct risk.
Recognize internal audit's role in assessing and reporting on organizational culture.
Understand, based on example tools/guidance, possible approaches to assess and report on an organization's culture and management of conduct risk.

Download your copy here

Seasoned reflections on relevant issues. Read the latest blogs by Richard Chambers

Richard F. Chambers, CIA, QIAL, CGAP, CCSA, CRMA, is president and CEO of The IIA. In Chambers on the Profession, he shares his personal reflections and insights based on his 40 years of experience in the internal audit profession.

https://iaonline.theiia.org/blogs/chambers

New Position Paper Released: Fraud and Internal Audit - Download it now:

Each year, billions of dollars are lost to fraud and corruption. Put your organization in the best position to support anti-fraud management efforts by providing necessary assurance services over internal controls designed to detect and prevent fraud.

https://na.theiia.org/about-ia/PublicDocuments/Fraud-and-Internal-Audit.pdf
Controlling the Non-GAAP! A study on how to manage the risks
- by Hashim Ahmed, CA, CIA

Background

Transition to Fair Value Accounting: Over the past few decades, the International Accounting Standards Board (IASB) has been slowly transitioning the International Financial Reporting Standards (*IFRS*) towards the concept of fair value Accounting. Under the fair value measurement principles, assets and liabilities are re-measured periodically to reflect changes in their value, with the resulting change impacting either income statement or other comprehensive income for the period. The result is a balance sheet that aims to better reflect the current value of assets and liabilities. However, at times this comes at the expense of greater volatility in the reported information caused by changes in fair values. This also gives rise to increased number of non-cash line items in the income statement.

Rising Gap in the Non-GAAP Measures: Most of the Non-GAAP financial measures are derived from an Issuers’ GAAP/IFRS based income statements and are generally calculated by omission or addition of selected items, which, according to the Issuer, present a more relevant picture of financial performance. Such non-GAAP financial measures may include “adjusted earnings”, “cash margins”, “free cash flow”, “adjusted EBITDA”, “adjusted income/(loss)”, “earnings before non-recurring or unusual items”. Historically, users of the financial statements (mainly the investors and stock analysts), either adjust the sub-totals, or recalculate financial measures using alternative methods that are not used by the IFRS. Over the past fifteen years, there has been a growing trend where Issuers of financial statements have increased the use of Non-GAAP financial measures and other non-financial measures in disclosure documents.

Regulator Concerns: The increasing prominence, extensive use and highlighted commentary around Non-GAAP financial measures and other non-financial measures (jointly referred as Alternative Performance Measures) is a big concern for most regulators. Since 2001, Securities and Exchange Commission (SEC) has been issuing various guidance documents and cautionary statements to Issuers and users of financial statements on this subject. In January 2016, the Ontario Securities Commission published staff notice 52-306 on the use of Non-GAAP or (Non-IFRS measures). The notice outlined general disclosure and reconciliation guidelines. The notice also provides guidance on additional subtotals presented in the Financial and Cash Flow Statements. In September 2018, the Canadian Securities Administrator (CSA) issued CSA Staff Notice 52-306 (Revised) Non-GAAP Financial Measures. The intention of the various guidance issued by regulators is to help ensure that the users of the financial statements are not misled by the extensive use of Non-GAAP terms that often lack standard meanings.

Purpose

Need for a framework: Professionals across Canada have been part of various focused group and panel on the increasing use of Alternative Performance Measures (“APM”). These discussions highlight the need for such measures, while at the same time addressing the concern of regulators. An ongoing theme underlying these discussions is the need of an enterprise-wide approach to the use of APMs. While some regulators have laid out specific guidelines and rules around such disclosures, there is still a void to be filled in terms of a governance framework that can oversee the process end to end and better manage the use and disclosures of APMs. Participants in the focused group discussions continually highlighted the risks associated with the extensive use of APMs. Some examples of potential risk areas include: APMs tied to executive compensation, the use of certain non-financial measures used by organizations to obtain permits or licences to operate, etc. With the increased automation and the use of AI in processing data, these risks cast a wider and more pervasive impact then often perceived.

Objective of this document: The objective of this document is to recommend guidelines for an APM Control framework that addresses enterprise-wide risks associated with the increased use of APMs. An implementation of a sound control framework around APMs will increase regulators’ and users’ confidence on the disclosures. For the scope of this document, Alternative Performance Measures include:

1. Non-GAAP or Non-IFRS financial measures
2. Hybrid measures (which include both Non-GAAP financial and operational data)
3. Operational measures

This document does not address GAAP or IFRS financial measures, as those areas are generally addressed by existing internal controls over financial reporting. The framework recommended in this document addresses three key components:

- Control environment and governance
- Oversight and monitoring
- Scope and measurement
- Change management
- Information and communication

We acknowledge that there are many differing regulatory, stakeholder and industry requirements relating to the use of APMs. Therefore, it is incumbent on management to determine if and how to adopt the APM Control framework to enhance the organization’s ability to create, use and report value added information. This document is drafted for a diverse audience depending on their management roles and responsibilities. The scope of the document is to address key risk areas for board level oversight and executive management audience with the intent of summarizing the importance and benefits of APM Controls.

Components of APM Control Framework:

Control Environment and Governance: The control environment is the basis for all other components of an internal control framework. The board of directors and executive management are responsible for establishing the tone at the top regarding the importance of internal control around APMs. The control environment provides discipline, process, and structure. Any non-compliance with the APM Controls must be addressed with the same level of rigour and scrutiny as GAAP or IFRS measures. The board should also maintain its independence when assessing management’s compliance with the APM controls. Furthermore, compliance with the APM controls should be part of the Code of Ethics program.
**Oversight and Monitoring:** In recent years, many of the boards have worked diligently improving their effectiveness. This includes strengthening their mandates and policies, reassessing their roles and establishing board-level risk committees. Concurrently, management teams have committed resources to enhancing governance frameworks. Governance frameworks set the tone at the top. By the same token, all performance measures either cascade down or roll up. The most effective tool to enforce a strong control framework around APMs also starts from the top. This includes but is not limited to: Audit & Risk Committee Mandate, including clear roles and responsibilities on the oversight and governance role of an APM Control framework. Additionally, the review and approval of APMs should be a regular part of quarterly Audit and Risk Committee meeting agenda. Board need to ensure that the following principles of reporting are built into the APM framework: Discipline: a defined framework exists, which is governed by an APM Policy and Procedure document Transparency: the ease with which an outsider can understand and interpret the APMs.Fairness: management is not biased in giving prominence to one measure over another; acknowledgement of, respect for and balance between the rights and interests of the organisation’s various stakeholders (internal and external)Accountability and responsibility: each APM cascades down and are linked to a position of trust in the organization; the officer in the position of trust must be responsible for validating and signing off on the APM.Independence: Board’s remuneration should be kept independent from the APMs. The Audit & Risk Committee should ensure the management as an APM Policy and Procedure. This document should capture the principles and detailed controls that management has put in place to oversee the APMs. The Compensation Committee should also ensure that any APMs used for the Executive Compensation Plan should be subject to the control framework. In addition, a review of all APMs should become part of the Disclosure Committee mandate, prior to review by the Board and the Audit Committee. CEO and CFO Certification should specifically include a statement of fair presentation of Alternative Performance Measures.

**Scope and Measurement:** The list of Alternative Performance Measures varies from industry to geography. While cash measures may be more preferable among the investor community in one country or sector, other jurisdictions may focus on earnings-based data. Use of a same set of APMs is a pretty common practice within certain sectors of the industry, especially where companies are competing in the same capital markets. One common grievance from the investor and regulatory community is that one may expect differentiation in the use of an APM across sectors, but the same APMs should not use different formulas or calculation methods within the same sector.

While some not for profit organizations such as the World Gold Council have defined certain APMs, it is still mostly up to the entity’s management on how they define and calculate an APM. The following controls may help the entity create more validity, relevance and reliability around its APMs:

- The inclusion of a new APM in the disclosure document must be made only if it incrementally provides useful information and does not create confusion in the mind of the reader.
- The management must describe the criteria according to which a new measure will be included.
- Such criteria may include change in underlying standards, regulations, change in business conditions, and so on.

Management should also document a list or inventory of approved Alternative Performance Measures. This inventory should include the reportable APMs (externally disclosed to the users of the financial statements) and non-reportable APMs (that are calculated or monitored by the organization and roll up into an APM). Any changes (additions, deletions, or changes in formulas) to the APMs included in the approved inventory list should be approved by the Audit Committee. Management should conduct an annual risk assessment on the approved list of APMs, which should outline the likelihood and impact of a negative result for each measure, and what controls management has put in place to mitigate risks outlined. All APMs should be clearly defined in the disclosure documents along with the formula used to calculate the APM (if applicable). In order to avoid confusion by the user of the information, the disclosure should refer to the APM with a single title, instead of using multiple titles for the same measure. Examples of using multiple titles include: Net free cash flow, free cash flow, cash operating costs and cash costs. Where an APM refers to an external benchmark that is pre-defined by a third-party definition or formula, this fact should be cross referenced in the disclosure to improve validity. All disclosure documents should either include reconciliation or should reference to a publicly available document that contains the reconciliation. The reconciliation should include:
- Non-GAAP Financial APMs reconciled to a GAAP/IFRS measures (e.g. EBITDA to Net Income).
- Hybrid APMs that contain both non-GAAP financial and operational data (e.g. cash costs per unit) reconcile the non-GAAP financial data to a GAAP measure.
- Operational APMs should be reviewed and certified as fair and true by an internal qualified person (QP), such as Chief Operating Officer or VP Operations.

**Change Management:** A key area of concern for regulators and users of financial statements is the frequency of change in the APMs. Performance measures are tied to the strategic direction of the company. While in long term review of APMs to ensure relevancy may be encouraged, short term, frequent changes in APMs may mislead the user. According to a recent survey conducted by an audit firm, quite a few issuers selectively added or omitted APMs from quarter to quarter. Furthermore, there was also a high frequency of changes in method of calculation or formula on a prospective basis, making the financial information non-comparable with prior quarters. The following steps will ensure that changes to APMs are made in a controlled manner.

- Any changes in the approved list of disclosed APMs or changes in method /formula should only be made in the beginning of the year (first quarter).
- Once a change is made in an APM, the company should not change the list or the formula for a period of two subsequent financial years (stand-still period).

Exceptions to the two rules above are acceptable only in rare circumstances, which include: A business combination (merger, acquisition, divestment) Change in accounting policy or an accounting pronouncement Any changes made in the list or the method/formula should be approved by the Audit & Risk Committee. In case of a formula change, management should present to the Audit & Risk Committee a summary of impact of the change for the past four quarters and an estimate of impact for future quarters.

**Information and Communication – Disclosure of the Framework:** Comprehensive, timely and transparent disclosures are a key pillar of good governance. Frameworks that support such pillars should themselves be disclosed and discussed at least on an annual basis. Such disclosures are critical to allowing shareholders to evaluate the extent to which management and the board is aligned with concerns and needs of the users. As an example, Glass Lewis recognizes performance metrics must vary depending on the entity and sector, among other factors and may include a wide variety of measures as well as industry-specific performance indicators. Glass Lewis believes companies should disclose why the specific performance metrics are used in determining executive compensation, were selected. Management needs to discuss this control framework around its APMs in the Annual Information Form under the risk and uncertainties section as well. Management’s control over APMs that are tied to executive compensation in the Management Information Circular. This will provide additional comfort to regulators, users and independent third party assessment entities. As part of good governance, management may also consider preparing proforma disclosures when introducing changes to the APMs as a measure to enhance understanding of the changes and the implications for the readers. The pro forma disclosures should describe past and current changes.

**Assessing Effectiveness:** An effective system of internal control provides reasonable assurances regarding achievement of the underlying objectives. To have an effective system of internal control, each of the components above must be present and operate together in a manner that reduces the risk misuse of APMs by an entity. All entities must include the APM Control Framework as part of their annual certification process, which should be duly audited (externally and/or internally), and the existence of any material weakness (with respect to external financial reporting objectives) or non-conformity (with respect to APMs relevant to operations, or non-financial reporting objectives) should be reported to the Audit Committee on a period by period basis.
The Academics Committee of IIA Toronto Chapter held a Graduate Professional Studies Expo at the York University presenting the CIA designation and other specialty accounting and finance designations to students at the Schulich School of Business on October 29, 2019.
CONGRATULATIONS!

Cheng Cheng, a Consultant with MNP LLP Enterprise Risk Services, is among 15 internal auditors from around the world recently honored as the 2019 Emerging Leaders by Internal Auditor, the award-winning international magazine published by The Institute of Internal Auditors (IIA). Selected for extraordinary demonstration of innovation, integrity, business acumen and passion, Cheng, 28, joins rising stars who are paving the way for expanded influence of internal audit across organizational boundaries.

A Certified Internal Auditor (CIA), Cheng characterizes internal audit as “fun,” but it is the challenge of the profession that lured him away from previous roles in finance and assurance. While the University of Toronto graduate is skilled in the use of advanced tools, such as data analytics, he describes communication as valuable for internal auditors to build relationships with clients and colleagues. Cheng serves as the treasurer for The IIA’s Toronto chapter.

Emerging Leaders must be members of The IIA and have, or be working toward, The IIA’s Certified Internal Auditor (CIA) certification. They are selected by a panel of distinguished internal auditors, including members of The IIA Global Board of Directors, who evaluate nominations detailing each individual’s performance in the areas of business acumen and leadership, service to the profession, community service, and innovative thinking.
THINKING OF CIA CERTIFICATION?

Why Become Certified?

There are many reasons to earn an official IIA certification designation. Whether it's the hallmark designation of internal audit — the Certified Internal Auditor® (CIA®) designation — or one of our four specialty industry certifications, obtaining a certification is professionalism defined. Earning your certification is like having a key to the vast world of opportunities the profession of internal auditing offers placed in the palm of your hand. It can open doors you did not even know existed, as the three or four letters that now follow your name will make one powerful statement about the expertise you bring to the table.

Ultimately, becoming certified will:
Help you earn credibility and respect in your field.
Open more opportunities for advancement.
Increase your earning potential by as much as 51%.*
Prove your willingness to invest in your own development.
Demonstrate your commitment to your profession
Improve your internal audit skills and knowledge.
Build confidence in your knowledge of the profession.

*According to The IIA's 2017 Internal Audit Compensation Study (based on U.S. responses).

The CIA is the only globally accepted designation for internal auditors and the standard by which individuals demonstrate their professionalism in internal auditing. Moreover, earning the CIA designation is more than just proof of what you know and what you've achieved — it's the best way for auditing professionals to communicate to the world that they are prepared to meet today's challenges. Earning the CIA designation is a valuable accomplishment and a professional advantage for auditors at all stages of their careers, including chief audit executives, audit managers, audit staff, and risk management staff, as well as students enrolled in an accounting or other business or financial degree program.
ATTENTION JOB SEEKERS AND EMPLOYERS

DID YOU KNOW THAT THE IIA TORONTO CHAPTER HAS AN EMPLOYMENT SERVICES WEBSITE?

Bringing all employers and job seekers together with the latest opportunties in the industry.

Our chapters website helps employer market their roles to the high talent of local IIA Toronto Membership and Beyond!

Visit us at http://internalauditorjobs.ca
IIA Toronto Chapter is on LinkedIn and Twitter !!!
We have recently refreshed the Twitter and LinkedIn Page!
Our goal is to create an online community to allow Internal Audit professionals and the business community to share information about the profession and business topics relevant to the internal audit profession, especially across Toronto region.
We would love for you to follow our pages on LinkedIn and Twitter to help grow our community and stay up to date with market events and news in the IIA community!

FOLLOW NOW!