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Audit Committees on Canada's "Big Board" Fall Into Line; Little Guys Continue to Lag

After a rough introduction to the post-Sarbanes Oxley era, Canadian audit committees for TSX listed firms have mostly fallen into line with the reforms enacted by the Canadian Securities Administrators in 2004. A new study just completed shows that for a sample of over 450 Canadian companies that 90% or more complied with the regulatory requirements for Audit Committee member independence and financial literacy, assigned responsibilities acknowledged and audit firm fee disclosures.

All is not good news however. The study also found:

- TSX Venture companies continue to significantly lag TSX companies in required audit committee disclosures and in overall audit committee disclosures.
- Over 10% of TSX and TSX Venture companies have incomplete audit firm fee required disclosures.
- Nearly 10% of TSX Venture companies have a majority of non-independent directors on the audit committee in apparent violation of regulatory requirements.
- Nearly 10% of TSX companies do not provide support for the assertion that their audit committees are staffed with financially literate members as required.
- A majority of TSX Venture issues (57%) have a senior management member on the audit committee – an extremely poor governance practice as shown by realms of research studies and other regulator's rulings as it leads to a significantly less effective committee. [Note: This is not a regulatory requirement for Venture issuers.]

The 'made in Canada' approach of providing 'daylight' by requiring disclosure of poor governance practices hoping that it would lead to substantive changes quickly does not seem to be born out given the predominance of Venture firms having management members on Audit Committees despite several years of disclosure of this departure from 'best practice'. The lack of compliance in the area of mandated audit committee financial literacy disclosures among TSX companies is also problematic. 'Negotiations' among Canada's thirteen regulators lead to the requirement for a financial expert on the audit committee to be dropped and replaced with this disclosure - yet even that disclosure is not being uniformly followed. Compounding this is the practice of nearly 90% of Venture companies voluntarily disclosing they have financially literate audit committees but with almost a third not providing any information about how they support that assertion.

Nonetheless, the study concludes that the overall story is a good news one for Canadian regulators. In one of the rare cases where regulators went public with a strong statement of disapproval of the level of noncompliance in their first study and kept their promise to carry out the follow up study in the next fiscal year, corporate Canada as represented by those listed on the "Big Board" seemed to be convinced that the regulators were serious about enforcement of this regulation.

About the CA-Queen's Centre for Governance at Queen's School of Business

CA-Queen's Centre for Governance (business.queensu.ca/centres/CA-QCG/) goal is to raise the bar on Canadian governance research and convey that research's implications to fellow academics, students and the public at large. Situated at Queen's School of Business (business.queensu.ca), one of the world's premier business schools, the Centre conducts cutting edge basic and applied research on corporate governance issues dealing with such issues as fraud prevention through better internal control and improving Canadian securities regulation. The Centre is also actively involved in the not for profit sector through the associated Fundamental of Governance for Boards of municipal, provincial and federal agencies, and not-for-profit organizations executive development course, case writing, applied research and now the Voluntary Sector Reporting Awards.