

Key Performance Indicators

TOOL FOR AUDIT COMMITTEES

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Preface

The Corporate Oversight and Governance Board (COGB) of the Chartered Professional Accountants of Canada (CPA Canada) has commissioned this publication *Key Performance Indicators—Tool for Audit Committees*.

Key Performance Indicators (KPIs) can help meet the informational needs of stakeholders by providing insights into an issuer's overall strategic and operational performance that cannot always be gained from reading a company's financial statements. Given the reliance stakeholders may place on disclosed KPIs, it is important that audit committees effectively oversee the issuer's KPI selection process and disclosure practices in this area.

The non-authoritative guidance in this publication will help audit committee members develop a robust process to deliver effective oversight of KPIs presented in an issuer's MD&A and earnings press releases.

It provides:

1. a description of each of the four KPI categories often presented in MD&A and earnings press releases
2. a summary of the particular responsibilities the audit committee, board, management and external auditors have in selecting, calculating and presenting KPIs
3. six characteristics to help them review the appropriateness of management-selected KPIs
4. a customizable tool intended to help deliver effective oversight of the KPIs presented in the MD&A and earnings press releases.

The customizable tool is a key element of this publication, and is organized into two distinct components: the KPI Review Matrix, and the Subsequent Review Questionnaire. Together they provide audit committees with an overall inventory of KPIs presented and an understanding of the issuer's policies, controls, and disclosure practices in this area.

The COGB acknowledges and thanks the members of CPA Canada's Key Performance Indicators Advisory Group for their invaluable advice and support throughout this project.

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Introduction

Most Canadian public companies include key performance indicators (KPIs) in their Management Discussion and Analysis (MD&A) and earnings press releases. They may also be found in other information sources, such as investor presentations. A KPI is a broad term that can include a measure in any one of the following four categories: generally accepted accounting principles (GAAP) financial measure, non-GAAP financial measure, other financial KPI, or non-financial/operational KPI.

Management, investors and other stakeholders can all benefit from the use and disclosure of KPIs. These measures provide additional insight into multiple aspects of an issuer's overall performance, such as strategic and operational efficiency and other areas that cannot always be described in a company's financial statements. Therefore, entities prepare and disclose KPIs to meet the informational needs of these stakeholders.

Although KPIs serve multiple purposes for different stakeholder groups, questions are being raised about the transparency and adequacy of disclosure around these measures. Canadian and international regulators such as the Canadian Securities Administrators (CSA) and the U.S. Securities and Exchange Commission (SEC), have disclosure guidance relating specifically to non-GAAP financial measures (a key subset of KPIs) to help issuers ensure their presentation and disclosure of such measures are not misleading. A selection of these guidance documents can be found as links in [Appendix A](#).

Given the increased focus on KPIs and the broad oversight responsibilities of audit committees for certain regulatory filings, it is important that, as part of their numerous duties, audit committees have a robust discussion about an issuer's disclosure practices in this area. Many audit committees may benefit from guidance on how best to approach this topic.

Purpose

This publication focuses on the role of audit committees and provides guidance on how they can help develop a robust process to deliver effective oversight of KPIs presented in an issuer's MD&A and earnings press releases. However, audit committees may also use this publication to understand and oversee KPIs presented in other information sources. The tool attached to this publication will help audit committees achieve this goal. Since management will likely be responsible for the initial completion of the tool, they may also find it useful in fulfilling some of their other duties as well.

This publication provides guidance to the audit committee by:

- outlining the role of key stakeholders in respect to the development and disclosure of KPIs, including the audit committee, board, management, and external auditors
- describing different categories of KPIs, including their desired characteristics
- providing a customizable tool, which can be tailored to an issuer's unique situation.

Description of Key Performance Indicators

As stated in the introduction, this tool describes the following four categories of KPI: GAAP financial measure, non-GAAP financial measure, other financial KPI, and non-financial/operational KPI. Essentially, any figure that measures the performance of an issuer's business, be it historical or future, can be described as a KPI.

The figure below is designed to provide audit committees with a general understanding of the KPI categories discussed in this tool. The descriptions are for information purposes and are not a substitute for definitions of KPIs included in relevant securities regulatory materials, to which reference should be made.

FIGURE 1¹

Key Performance Indicators (KPIs)				
	GAAP Financial Measures	Non GAAP Financial Measures	Other Financial KPIs	Non Financial/Operational KPIs
Example	Earnings Per Share	Adjusted Earnings	Dollars of Order Backlog	Barrels of Oil Equivalent per Day
Description	a financial measure presented in the financial statements	a financial measure not presented in the financial statements, that is an adjustment to a GAAP financial measure*	a financial measure that is not a GAAP, or non GAAP financial measure	a non financial measure

¹ The "Descriptions" in Figure 1 are not authoritative, and should not be viewed as complete or as a substitute for securities regulators' materials or professional advice.

*The definition of a non-GAAP financial measure and the related guidance on presentation and disclosure of non-GAAP financial measures for securities regulatory purposes can be found in Canadian Securities Administrators Staff Notice 52-306.

Audit committees should be aware of the distinction among these four categories. Depending on the category of each KPI, the relevant securities requirements and guidance may vary, as can the level of involvement by external auditors or other third-party experts.

The focus of the enclosed tool is on non-GAAP financial measures, other financial KPIs, and non-financial/operational KPIs. Special attention has not been given to GAAP financial measures; there are existing accounting frameworks for the presentation and disclosure of such measures for financial statement purposes. In addition, financial statements are required to be audited.

Different Roles

When it comes to an issuer's MD&A and earnings press releases, the audit committee, board of directors, management, and the issuer's external auditors all have specific responsibilities.

The following summarizes the different roles each plays in relation to these documents. Further details may be found in the resources provided in [Appendix B](#).

Role of Audit Committee

The audit committee is required by National Instrument (NI) 52-110, *Audit Committees*, to, among other responsibilities, "review the issuer's financial statements, MD&A and annual and interim profit or loss press releases before the issuer publicly discloses this information."² Given that MD&A and earnings press releases often contain KPIs, the review of these metrics fall within the audit committee's function.

Although beyond the scope and purpose of this publication, there is another important responsibility of the audit committee that should be noted. Specifically, audit committees must be satisfied that adequate procedures are in place for the review of the issuer's public disclosure of financial information extracted or derived from financial statements and presented in documents other than the MD&A and earnings press releases.³ Examples of such information include:

- analyst information packages
- investor presentation packages
- material change reports
- information contained on websites
- other press releases and forms of public reporting (e.g., annual information form).

² National Instrument 52-110, "Audit Committees," subsection 2.3(5), January 2011 ("NI 52-110").

³ NI 52-110, subsection 2.3(6).

Role of Board of Directors

As outlined in NI 51-102, *Continuous Disclosure Obligations*, the board is responsible for approving the MD&A prior to it being filed.⁴ As part of the MD&A's approval process (including approval of the KPIs contained therein), the board may find it useful to consider the six desirable KPI characteristics outlined in the coming pages:

1. relevance
2. transparency
3. consistency
4. comparability
5. reliability
6. completeness

If KPIs have these characteristics, they can support management's goal of providing useful KPIs that are relevant to a stakeholder. Furthermore, the attached tool may help the board ensure management's KPIs meet regulatory requirements or disclosure guidance.

Under NI 51-102, the board may delegate the responsibility of approving interim MD&As to the audit committee.⁵

Role of Management

Reporting issuers are responsible for preparing and filing the MD&A annually and for each interim financial reporting period. There is no obligation for reporting issuers to issue earnings press releases; however, if one is issued, then there is a requirement to file it. These responsibilities are outlined in NI 51-102.⁶

Within the MD&A, management may include forward-looking and other information (e.g., KPIs) that can provide insights into an issuer's current and potential future strategic and operational performance. These KPIs are used not only by external stakeholders but also by management themselves to track targets, strategic and operational milestones and other objectives. Thus KPIs provide critical information about how well the issuer is benchmarking itself over time, and/or against peers.

4 National Instrument 51-102, "Continuous Disclosure Obligations," subsection 5.5, Oct. 31, 2011 ("NI 51-102").

5 NI 51-102, subsection 5.5(3).

6 NI 51-102, subsections 5.1, and 11.4.

National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*, also requires a certifying officer to make certifications regarding misrepresentations and fair presentation.⁷ For non-venture issuers, certifications regarding responsibilities for establishing and maintaining disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR), and the design of DC&P and ICFR are also required. These certifications pertain to annual and interim filings which include the financial statements, MD&A and the annual information form.

Management may establish a disclosure committee to assist in fulfilling these significant requirements. This committee is typically comprised of staff from the issuer's finance team (e.g., CFO, controller) but could include legal counsel, the COO or even internal audit. The role of this committee will be to oversee the draft reporting deliverables, including KPIs and the related disclosure controls and procedures relied upon in producing and presenting the data. The efforts of the disclosure committee support the audit committee's review of these deliverables.

Disclosure committees can assist the audit committee by helping to ensure that disclosures in the MD&A or earnings press releases are appropriate and accurate, before they are presented to the board and made public. However, not all entities have a disclosure committee. In such instances, management will simply continue to perform these duties.

To assist in completing the enclosed tool, audit committees may choose to delegate the initial preparation to management (through the disclosure committee, if there is one).

Role of External Auditors

In auditing a reporting issuer's financial statements, external auditors have responsibilities under Canadian Auditing Standard (CAS) 720, *The Auditor's Responsibilities Relating to Other Information*.⁸ These responsibilities relate to other information, whether financial or non-financial, included in an issuer's annual report. The MD&A falls within the scope of CAS 720, but earnings press releases do not. The auditor's opinion on the financial statements does not cover the other information, nor is the auditor required to obtain audit

7 The term "certifying officer" is defined in National Instrument 52-109 as: "each chief executive officer and each chief financial officer of an issuer, or in the case of an issuer that does not have a chief executive officer or a chief financial officer, each individual performing similar functions to those of a chief executive officer or chief financial officer".

8 CAS 720 was issued in June 2017 and is effective for audits of financial statements for periods ended on or after December 15, 2018. Earlier application is permitted.

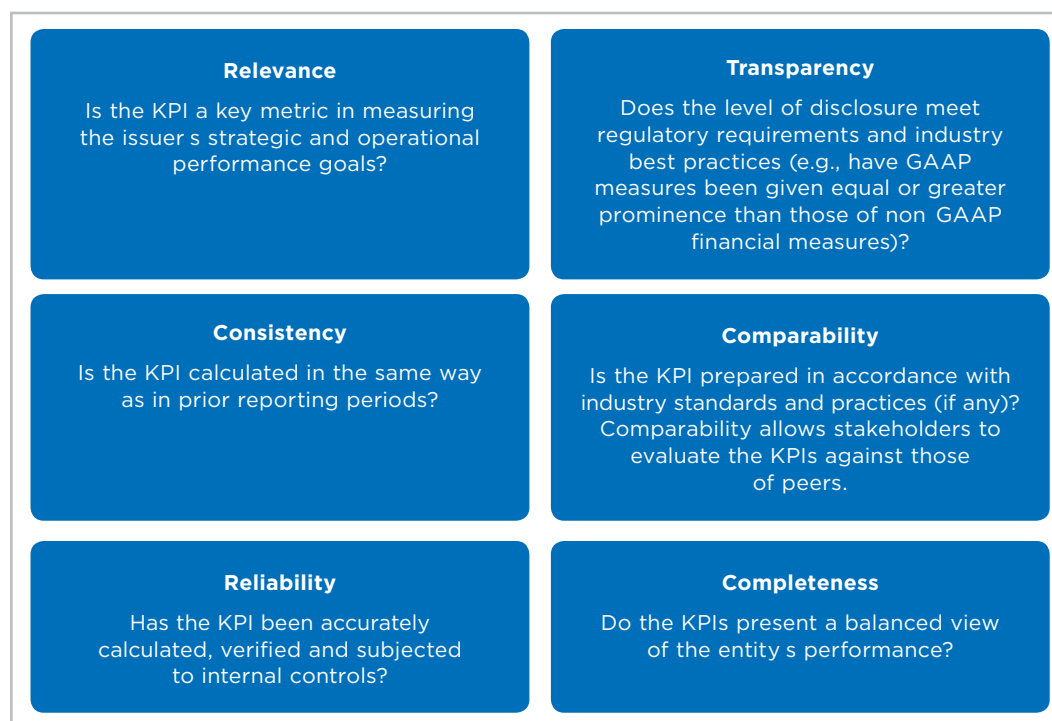
evidence beyond that required to form an opinion on the financial statements. The auditor's objective is to consider whether there is a material inconsistency between the other information and the financial statements, and the auditor's knowledge obtained in the audit. The auditor is required to respond appropriately when material inconsistencies appear to exist, or when the auditor becomes aware that the other information appears to be materially misstated. The auditor's report includes a section on the auditor's work related to other information.

If management or the audit committee sees value in requesting additional procedures be performed by the auditor in respect of the MD&A or earnings press releases, then a separate engagement with the auditor can be considered. Auditors can also provide additional insights to the audit committee and management around disclosure best practices on these documents, based on their exposure to other reporting issuers and their overall knowledge of the particular industry.

Characteristics of Key Performance Indicators

The following **six characteristics** may help audit committees review the appropriateness of management-selected KPIs and how they have been disclosed. If the audit committee is not comfortable with the appropriateness or disclosure of KPIs presented in the MD&A and earnings press releases, it is important for their concerns to be addressed prior to releasing such documents to the public. The following figure summarizes six desirable characteristics that may help audit committees in their KPI review:

FIGURE 2



The Tool

Audit committee members are encouraged to adapt the questions in the following tool to the needs of their particular entity. This could include adding, removing or revising questions, or tailoring the format and process described here.

The tool is organized into two distinct components:

1. KPI Review Matrix
2. Subsequent Review Questionnaire.

Both are described in detail below.

The questions in the KPI Review Matrix are categorized into the six characteristics outlined in [Figure 2](#). This approach is intended to help audit committee members apply a robust process to their review of KPIs in the MD&A and earnings press releases.

KPI Review Matrix

The KPI Review Matrix is designed to help audit committees assess the reporting issuer's policies, controls, and the appropriateness of disclosures for all relevant KPIs. The Matrix is intended to be maintained throughout future reporting periods and updated as needed. It will provide a comprehensive evaluation of the issuer's KPIs, and a handy way to track KPI completeness and continuity period over period. Unless significant changes to KPIs take place, it may only need to be completed the first time this exercise is followed.

The KPI Review Matrix will be comprised of:

- management's description of its policy on KPIs
- a list of select KPIs reported in the MD&A and earnings press releases
- an analysis of each KPI selected.

Once the KPI Review Matrix is completed by management (through the disclosure committee, if there is one) audit committee members may review the answers to determine whether additional work is needed.

The questions outlined herein are illustrative. It is suggested that management and the audit committee discuss how best to tailor these questions for relevance to their particular organization. Such a discussion may include identifying the nature and extent to which KPIs are presented in the MD&A, earnings press releases and in other information sources over which the audit committee may have oversight responsibility. The list of questions can then be completed in full by management and/or the disclosure committee prior to being submitted to the audit committee for final review and approval. Once the Matrix is completed, it may be helpful for management and/or the disclosure committee to walk through the answers with members of the audit committee to help them gain a more complete understanding of the various facets of the presented KPIs.

Some issuers may find it useful to include and track all KPIs presented in the MD&A and earnings press releases while others may choose to focus only on a subset (e.g., those considered to be most relevant to stakeholders). This decision may be made by audit committee members in conjunction with management, with the goal of providing effective KPI oversight to fulfill the varying needs of stakeholders. Many issuers present a table in the MD&A, which reconciles KPIs such as non-GAAP financial measures with the most directly comparable measure calculated in accordance with the issuer's GAAP and presented in its financial statements. If available, the measures in this table are a reasonable starting point for deciding which KPIs to include in the attached tool.

After the initial implementation of the KPI Review Matrix, ongoing maintenance (e.g., keeping necessary changes up to date to complete the document in future periods) will be far less onerous. Audit committees need to discuss with management whether the update and Subsequent Review Questionnaire should be completed annually or at the end of each quarter.

It is also important to identify the category to which the KPI being reviewed belongs, since there may be regulatory requirements or guidance (e.g., for non-GAAP financial measures) which may not necessarily be required for other financial KPIs or non-financial/operational KPIs.

Click [here](#) for a downloadable and customizable version of the Tool (KPI Review Matrix and Subsequent Review Questionnaire), which can be tailored to an issuer's unique situation. (www.cpacanada.ca/KPITool)

KPI Review Matrix		
Questions (For the KPIs selected, please tailor the sample questions below, as needed)	Overall	
Overall: <ol style="list-style-type: none"> Does the entity have a formal policy, and/or a set of controls regarding KPIs? Have any of these controls or procedures been tested by internal or external auditors? Has the issuer received a letter from a regulatory body indicating that KPIs are not relevant, consistent, comparable, reliable, or complete, or that the related disclosure is not transparent? 		
	KPI #1 KPI Category CY, PY1, PY2	KPI #2 KPI Category CY, PY1, PY2
Title, Value and Summary: <ol style="list-style-type: none"> Outline the KPI's title, category (GAAP, non-GAAP, other financial, or non-financial/operational) and presented value in the current year (CY), and prior two periods (e.g., prior year 1 (PY1), prior year 2 (PY2)). Describe how the KPI is calculated. Identify the party responsible for this KPI in the organization? Does management have internal targets for this KPI? If so, what are they? Has management provided guidance targets for this KPI? If so, what amount is included in the guidance? 		
Relevance: <ol style="list-style-type: none"> Is this KPI used internally to measure the entity's strategic and operational performance? How did management decide that this is the most appropriate/effective measure? Is this KPI commonly used in the industry? If so, has it been calculated according to a recognized industry standard (if one exists) and has that standard been disclosed? How does this KPI align with management's performance and executive compensation plan? Is the KPI based on a contractual term or covenant (e.g., debt covenant) which prescribes a method of calculating? 		

KPI Review Matrix		
<p>Transparent:</p> <ol style="list-style-type: none"> 1. Is there disclosure explaining how the KPI is calculated, including any key assumptions or estimates? 2. If the KPI differs from a commonly used industry standard, are the differences disclosed and explained? <p><i>Highlighted for non-GAAP financial measures (NGFM) but may also be relevant for other classes of KPIs as well:</i></p> <ol style="list-style-type: none"> 3. Does the disclosure clearly indicate that the NGFM does not have any standardized meaning under the issuer's GAAP and therefore may not be comparable to similar measures presented by other issuers? 4. Does the name of the NGFM distinguish it from disclosure items specified, defined or determined under an issuer's GAAP and in a way that is not misleading? 5. Is there disclosure explaining why the NGFM provides useful information to investors, and the additional purposes, if any, for which management uses the NGFM? 6. Has the most directly comparable measure specified, defined or determined under the issuer's GAAP been presented with equal or greater prominence than that of the NGFM? 7. Is there a clear quantitative reconciliation of the NGFM and the most directly comparable measure specified, defined or determined under the issuer's GAAP and presented in its financial statements? Is the reconciliation referenced when the NGFM first appears in the document or in the case of content on a website, in a manner that meets this objective (e.g., by providing a link to the reconciliation)? 8. Has the disclosure of the NGFM inappropriately described adjustments as non-recurring, infrequent or unusual, when a similar loss or gain is reasonably likely to occur within the next two years or occurred during the prior two years? 9. Has the NGFM been presented on a consistent basis from period to period? However, where there is a change in the composition of the NGFM, has the reason for the change been explained, and have any comparative periods presented been restated? 		

KPI Review Matrix		
Consistent: <ol style="list-style-type: none"> 1. Is this the first time the KPI has been used? Is it replacing a previously used, similar KPI? If so, why? 2. Is this KPI no longer presented? Why? 3. If financial statement reclassifications have been made since the prior period, have these impacted the KPI? If so, has the KPI been restated? 		
Comparable: <ol style="list-style-type: none"> 1. Are there any significant differences in our presented KPIs, KPI calculations or KPI disclosures compared to industry standards or peers? (Although it may be difficult to determine how your peers calculate KPIs, making such comparisons may be useful.) 2. Do analysts' comparability tables indicate significant differences between our KPIs and those of our peers? 		
Reliable: <ol style="list-style-type: none"> 1. What controls are in place to ensure appropriate selection and calculation methods are used for this KPI? 2. What assumptions/estimates are used in the calculation and are they reasonable? 3. Has the KPI been subjected to internal audit procedures? 4. What procedures (if any) has the external auditor performed on the KPI? 5. Have other board members, analysts or other stakeholder groups raised concerns over the reliability, or the current level of internal and/or external auditor involvement in relation to this KPI? 6. Does the level of involvement by internal and/or external auditors appear to be reasonable based on the perceived importance of the disclosed KPI? Or should a higher level of involvement by internal and/or external auditors be considered by the audit committee and management at this time? 		
Complete: <ol style="list-style-type: none"> 1. Does the KPI present a balanced picture of ongoing operations, or is it biased for/against revenue/expense items? (e.g., includes one-time gains, but omits losses?) 2. Are we missing relevant KPIs that our peers are disclosing? 		

Subsequent Review Questionnaire

The Subsequent Review Questionnaire is designed to complement the KPI Review Matrix, and is meant to be tailored and used by the audit committee, in all periods subsequent to the initial completion of the KPI Review Matrix. The goal is to assist the audit committee in fulfilling its duty to review the MD&A and earnings press releases, including the embedded KPIs, and to provide members of the committee with an understanding of any significant changes since their last review.

The questions contained below are meant to be asked of management and the internal and external auditors, by audit committee members in each period. They may find it helpful to use the most current version of the KPI Review Matrix as a supporting document. These questions have been broadly framed to help identify overarching risks and to assist the audit committee in reinforcing the importance of following regulatory guidance and best practices regarding KPI disclosure.

Click [here](http://www.cpacanada.ca/KPITool) for a downloadable and customizable version of the Tool (KPI Review Matrix and Subsequent Review Questionnaire), which can be tailored to an issuer's unique situation. (www.cpacanada.ca/KPITool)

Subsequent Review Questionnaire (Please tailor these sample questions to your entity, as needed)

Are there any new KPIs presented in this period? (If yes, then add to the KPI Review Matrix and complete the questions outlined there)

Have any changes to the way a KPI is calculated been made since the KPI Review Matrix was last completed? If so, why has management decided to change it? Does the change improve the relevance, consistency, comparability, reliability, transparency or completeness of the issuer's presented results, and has that change been appropriately disclosed and reflected in the comparative figures?

Have industry peers changed any of their presented KPIs since the prior period?
Have we made similar changes? Why or why not?

Has anything changed from a strategic, operational or environmental perspective, which may call into question why a particular KPI is used or omitted?

Has management received any communication from securities regulators with regard to the issuer's KPI inclusions, calculations and disclosures? Have new regulatory requirements or guidance been issued? Has guidance been issued by relevant industry associations or regulators?

Have we received any feedback from board members, investors, analysts or other stakeholders regarding our KPIs?

Did our external auditors have any comments after reading the MD&A?

Appendix A — Selection of Disclosure Guidance and Regulatory Sources

Canada

1. Canadian Securities Administrators, Staff Notice 52-306 (Revised), “Non-GAAP Financial Measures,” January 14, 2016:
www.osc.gov.on.ca/en/SecuritiesLaw_csa_20160114_52-306_non-gaap.htm
2. National Instrument 51-102, “Continuous Disclosure Obligations”:
www.osc.gov.on.ca/en/SecuritiesLaw_51-102.htm
3. National Instrument 51-101, “Standards of Disclosure for Oil and Gas Activities”:
www.osc.gov.on.ca/en/13338.htm
4. Alberta Securities Commission, Financial Reporting Bulletin, “Disclosure of Key Performance Indicators in the Oil and Gas Industry,” December 2016:
www.albertasecurities.com/Publications/OCA_Oil_and_Gas_KPI_Bulletin_web.pdf
5. National Instrument 52-107, “Acceptable Accounting Principles and Auditing Standards”:
www.osc.gov.on.ca/en/13530.htm
6. Canadian Securities Administrators, Staff Notice 51-348, “Staff’s Review of Social Media Used by Reporting Issuers,” March 9, 2017:
www.osc.gov.on.ca/en/SecuritiesLaw_csa_20170309_51-348_staffs-review-of-social-media.htm

7. CPA Canada, “Management’s Discussion and Analysis: Guidance on Preparation and Disclosure,” 2014.

United States

8. U.S. Securities and Exchange Commission, Compliance & Disclosure Interpretations (C&DIs) “Non-GAAP Financial Measures,” May 17, 2016:
www.sec.gov/divisions/corpfin/guidance/nongaapinterp.htm
9. The Center for Audit Quality, “Questions on Non-GAAP Measures: A Tool for Audit Committees,” June 28, 2016:
www.thecaq.org/questions-non-gaap-measures-tool-audit-committees
10. The Center for Audit Quality, “Non-GAAP Financial Measures: Continuing the Conversation,” December 5, 2016:
<http://thecaq.org/non-gaap-financial-measures-continuing-conversation>

International

11. The Institute of Chartered Accountants in Scotland, “Towards Transparency,” June 18, 2015:
www.icas.com/technical-resources/towards-transparency

Appendix B—Selection of Guidance on Roles and Responsibilities

Board of Directors and Audit Committee

1. National Instrument 51-102, “Continuous Disclosure Obligations,” October 2011, Part 5, Section 5.1–5.8 & 11.4:
www.osc.gov.on.ca/documents/en/Securities-Category5/rule_20111031_51-102_unofficial-consolidation-post-ifrs.pdf

Plus amendments through November 5, 2015:

www.osc.gov.on.ca/en/SecuritiesLaw_51-102.htm

2. National Instrument 52-110, “Audit Committees,” January 1, 2011, Part 2, Section 2.1–2.6:
www.osc.gov.on.ca/documents/en/Securities-Category5/rule_20101210_52-110_unofficial-consolidated.pdf

Plus amendments through November 5, 2015:

www.osc.gov.on.ca/en/13550.htm

External Auditor

3. Canadian Auditing Standards (CAS) 720, “The Auditor’s Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements,” for audits of financial statements for periods ended on or after December 14, 2010.
4. CAS 720, “The Auditor’s Responsibilities Relating to Other Information,” for audits of financial statements for periods ended on or after December 15, 2018.

Management

5. Form 51-102F1, “Management’s Discussion & Analysis,” June 30, 2015:
www.bcsc.bc.ca/Securities_Law/Policies/Policy5/PDF/51-102F1__F___June_30__2015
6. National Instrument 52-109, “Certification of Disclosure in Issuers’ Annual and Interim Filings,” amendments through November 5, 2015:
www.osc.gov.on.ca/en/13542.htm



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