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matters can be too readily ignored. Companies can sometimes look too hard for opportunities to report higher earnings but not also look with sufficient care to identify matters that might be unfavourable to earnings.

- 2.38 We note also that materiality considerations are not driven solely by the size of an adjustment or transaction. CICA Assurance and Related Services guideline AuG 41 – Applying the Concept of Materiality, indicates:

Para 24: *"In evaluating the effect of misstatements, qualitative considerations may result in misstatements of relatively small amounts having a material effect on the financial statements. Qualitative factors the auditor may consider relevant to determining materiality include:*

...

*(d) the potential effect of the misstatement on the entity's compliance with debt covenants, other contractual agreements, and regulatory provisions.*

...

*(l) the motivation of management with respect to the misstatement, for example:*

*(i) an intentional misstatement to "manage" earnings or "smooth" earnings trends;*

*(ii) an indication of a possible pattern of bias by management when developing and accumulating accounting estimates; or*

*(iii) a misstatement precipitated by management's continued unwillingness to correct weaknesses in the financial reporting process;"*

- 2.39 The adjustments that we have investigated at the request of the Audit Committee arose in the context of the preparation of quarter end or year end financial statements. There were a number of other adjustments made at quarter and year end that we have not considered including those in exhibits 5.9, 6.25 and 9.16. The Audit Committee may wish to consider what, if any, further investigative work it requires in relation to accounting adjustments made at quarter and year end or whether MAC should now focus on addressing the financial control issues identified during our review.

- 2.40 Financial control within MAC and MALUK in relation to the areas we have examined is poor and needs to be improved; this need is particularly acute given that MAC is a public company. Examples of poor financial control that we identified during our work include:

(a) Accounting adjustments made with insufficient supporting analysis or documentation;

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- (b) Inadequate understanding or documentation of balance sheet provisions and insufficient documentation of the decision to release certain provisions;
  - (c) A lack of awareness of the program accounting requirements under either Canadian GAAP or UK GAAP. The accounting rules and guidelines are complex and our impression is that the principles are not well understood throughout all of the finance community within the MAC group;
  - (d) Poor control over individual projects from an accounting perspective. Project sales volumes, revenues and costs are not reviewed with sufficient frequency or rigour.
- 2.41 We understand that there has been some discussion as to how financial control might be improved. We would be happy to help the Audit Committee review any plan developed by management of MAC to address these issues.