CEO round table

What do the leaders of the top-seven CA firms think about key issues?

A unified approach for import taxes? 36

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No quick fix for fraud risk 42

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The great CA roundup

In the age of globalization and IFRS, great challenges and changes are afoot. What will they mean for the profession?

This has been a time of momentous changes and challenges in the CA profession. It is the age of globalization and IFRS, of growing numbers of women in the profession, of accountants from around the world seeking access to the CA profession, and of various other important matters. What do these changes mean to the profession? In December 2010, Kevin Dancey, president and CEO of the CICA, hosted a round-table conference with the CEOs of the top-seven CA firms to discuss issues of burning relevance to CAs. Present were Chris Clark of PricewaterhouseCoopers, Keith Farlinger of BDO Canada, Trent Henry of Ernst & Young, Alan MacGibbon of Deloitte, Phil Noble of Grant Thornton, Daryl Ritchie of Meyers Norris Penny and Bill Thomas of KPMG. Bill MacKinnon, chairman of the CICA, was also present. Marcel Côté, regular columnist for CAmagazine and founding partner at SECOR Consulting in Montreal, was the moderator.

“The discussion,” said Dancey, “is really a good opportunity to find out what the seven largest firms think about various issues. The discussion will give the membership a large good perspective on these issues facing the profession.”

The lively discussion that followed probed questions such as: did Canada act precipitously in implementing IFRS before the US? How have the big firms made things more attractive to the millennial generation? Are the firms ready for the age of work/life balance and what have they done in this area? What made things more attractive to the millennial generation? Are the firms ready for the age of work/life balance and what have they done in this area? What made things more attractive to the millennial generation? Are the firms ready for the age of work/life balance and what have they done in this area? What made things more attractive to the millennial generation? Are the firms ready for the age of work/life balance and what have they done in this area? What made things more attractive to the millennial generation? Are the firms ready for the age of work/life balance and what have they done in this area? What made things more attractive to the millennial generation? Are the firms ready for the age of work/life balance and what have they done in this area?

The rest of the magazine contains the usual package of informative and insightful articles. In Netwatch, Jim Carroll tells us that we live in a time of thinking big and we should look at what innovative organizations do to move forward. See “Think and act big,” p. 12. In Outlook, Marcel Côté reminds us that greed got us into the financial mess we are in today and Canadian financial institutions should learn the lessons of the US example. See “Greed is bad,” p. 52.

This issue also has regulars on taxation (p. 36), standards (p. 40), assurance (p. 42) and fraud (p. 45). Both assurance and fraud deal with different aspects of fraudulent activity and its prevention, highlighting the growth of such activities today.
feature

20 CEO round table

In December, CICA president and CEO Kevin Dancey hosted a round-table discussion with the CEOs of the top-seven accounting firms and the CICA chairman. The discussion included issues such as access to the profession, effects of IFRS on firms, portability of designations, work/life balance and roles of women. Read what the participants had to say on topics of interest to the profession

EDITED BY OKEY CHIGBO
regulars

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No cause for panic: forming a plan for NFPO audits under CAS and a few other steps will help improve service to clients and reduce audit risks
By Phil Cowperthwaite + Chi Ho Ng

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No quick fix: when it comes to managing fraud risk in an organization, there’s no easy solution. It’s all about being on guard
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Breaking news, tax updates, job postings, archives, more articles: you’ll find them all at www.CAmagazine.com
Marcel Côté’s article “Are future generations short-changed?” (Outlook, January/February) is short on facts and long on baseless platitudes.

According to Côté, my generation should not be concerned with increasing government debt and higher taxes because it will be invested in infrastructure and human capital, from which we will supposedly benefit. Following this logic, why not jack up government spending and taxes by a further 100% to realize even more benefits? Where is the point of diminishing returns?

In fact, government investments in infrastructure and human capital are some of the most wasteful and inefficient investments made because politicians make these decisions based on politics, not good business. Brian Lee Crowley (managing director of a public policy think tank and book author) estimates government spending could be reduced anywhere from 30% to 40% without any noticeable change in services, citing privatization of Crown corporations as proof. Ironically, in the same issue, *CAmagazine* provided a perfect example illustrating the wasteful nature of the government investment Côté advocates: the 1976 Olympic Games in Montreal. (See “Numbers Game,” Up-front, p. 6.)

Perhaps Côté is unaware of the debate in the US and Europe over the real dangers of unrestrained government spending. Or maybe he’s ignorant of the painful effects of enormous public debt in countries such as New Zealand and Ireland. It’s possible he’s oblivious to the massive demographic sea change on Canada’s horizon that will make maintaining current levels of government spending unsustainable.

Côté also recites the wrong assertion that tax cuts contribute to government deficits. Perhaps he is unfamiliar with the 10-year economic boom that was unleashed in the US due to the tax cuts enacted by Ronald Reagan, which also had the curious effect of increasing tax revenues to the government. Or maybe he should ask President Barack Obama why he extended the George W. Bush tax cuts that Côté believes will penalize future generations.

Some public spending, such as the military and police service, is required. The problem arises when government intrudes into areas where the private sector is able to provide better-quality goods and services to the consumer for a lower price. Often this government intrusion is justified under the guise of investments in infrastructure and human capital.

Côté’s sentiment that “social capital is the principal legacy we will bequeath to future generations” will bring my generation cold comfort when we bear the burden of the enormous cost of this legacy.

Michelle Kraft (CA student)
Saskatoon

In the “olden days” when I was learning to be a CA, we were taught a balance sheet had two sides: assets on the left and liabilities on the right. Marcel Côté’s version of the “new accounting” eliminates the liabilities — a modern version of the alchemist’s desire to turn lead into gold.

He fails to mention the unfunded or underfunded pension funds; the underfunded liabilities for healthcare costs; the
depreciation and depletion of our natural resources and the depreciation of our infrastructure. He does not note the assets bequeathed to us from past generations, nor does he mention the damage we have done to the environment and the costs to put it right for future generations. Yes, this new accounting makes us feel good, but it is dishonest and misleading.

Derek Taylor, CA (retired)
Guelph, Ont.

Marcel Côté doesn’t believe future generations are being short-changed as they prepare to inherit high levels of public debt. He argues they will inherit public assets that more than offset these debts. I agree, and it’s refreshing to hear this point made.

But what about the off-balance-sheet stuff, the things we accountants have not been very successful at measuring? In our enthusiasm for growth at all costs we are eroding Canada’s natural capital and passing on environmental deficits that will threaten future generations with, at a minimum, significant financial costs.

Walter Ross, FCA
Toronto

Marcel Côté’s reply:
My point was not to condone deficits and wasteful government spending; I was pointing out that on the left side of Canada’s ledger there are more assets than commonly perceived. These assets trump the liabilities side, leaving significant net worth that is passed to the next generation. A large part of these assets is made up of public capital, not only the physical one, but the intangible social capital as well. This includes protection of property rights, educated citizens, unspoiled parkland, etc. — things taken for granted by many but which are the result of social investments made by past generations. There are also some intangible liabilities, such as too much CO2 in the air, but on the whole the net public assets are worth significantly more than whatever public debt we have in our books.
Listen to this

Music fans come to CA Greg Davis’ Soundscapes store in Toronto for the eclectic selection and personal service

From high school to Big Four for Brits

Some of Britain’s largest accounting firms are recruiting students straight out of high school.

Deloitte announced late last year it would hire 100 secondary-school students after the British government increased university tuition to up to £9,000 ($14,400) a year. The move is intended to target talented students who may not be able to afford a university education following the fee hike. The new recruits will study while they work, obtaining their UK CA designations within five years.

PricewaterhouseCoopers, which has had a high-school direct-entry program for 10 years, opened recruitment for about 70 spaces in early October, with the number of applications up nearly 400% this year.

KPMG is considering plans for its own high-school recruitment plan.

Résumé

1993 joins Deloitte and Touche, Toronto
1995 obtains CA designation (Ont.)
1999 opens Soundscapes, Toronto

John Shoesmith

It’s an early Sunday morning in December, a few weeks before Christmas, and Soundscapes, the music store founded by CA Greg Davis, is the only retail shop open on the Toronto strip known as Little Italy. More important, there are already a handful of people browsing the shelves. These are what Davis, 39, calls his core customers, and upon which Soundscapes’ survivability and success hinge: the music fanatic who buys CDs every week.

When he first opened Soundscapes in 1999 after five years as an auditor with Deloitte & Touche, he set out to open what he envisioned as the “ideal music store”: one that catered to true music aficionados, yet without the arrogance often associated with music snobs. “A store that reflected my personality,” says the unassuming, soft-spoken Davis.

He started small: for the first year he was the sole employee and the store carried about 2,000 CD titles. He differentiated from larger music retailers by offering a more eclectic selection and specializing in Canadian independent bands. The timing was perfect: the Canadian music scene was on the verge of exploding. Today, the store employs a dozen people and carries more than 20,000 titles in all genres of music. More important, revenue has grown every year.

Davis recognizes the challenges ahead as the music industry shifts from the physical CD to the digital download. He’s adopted new lines of business: concert ticket sales, for example, are an increasing source of revenue, and he’s diversified by offering DVDs, books, even LPs. He feels if the store continues to offer something different and unique — listening posts, for example, that play music not heard on commercial radio and free in-store concerts — customers will come. “The hunger for music is stronger than ever,” he says. “And consumers still look for guidance and advice when searching for new music. People still need a filter to find good music.”
THE WHYS BEHIND SUSTAINABILITY

Compliance with legal and regulatory requirements is the most frequently cited driver of sustainability initiatives at Canadian companies, according to a survey of CAs working in industry. The survey, conducted jointly by the CICA, Chartered Institute of Management Accountants and American Institute of Certified Public Accountants among accountants in Canada, the UK and the US, also found that although compliance was the top driver of sustainability, several other factors were driving sustainability for many companies.

Managing risk to the reputation of the company brand was the next most likely response, with 21% citing it as a critical driver of sustainability initiatives, followed by achieving competitive advantage and long-term profitability at 19%. Value set of company and/or its leaders and efficiency and cost savings, both at 17%, were next.

The survey found larger companies are much more likely to have a formal sustainability strategy than smaller companies (79% versus 33%) though 23% of smaller companies have plans to formulate a strategy within the next two years.

The survey also found that the finance function's contributions to sustainability programs are highly valued yet underdeveloped. More than half (56%) of respondents said finance plays a role in business case/investment analysis and 33% are tracking sustainability-related performance measures. UK-based organizations appear to be ahead of the curve in terms of implementing sustainability practices and finance-function involvement compared to North American organizations. The full study is available online at www.cica.ca/sustainability.

John Tabone is CICA’s manager of member value and research services.

Findings

Critical sustainability drivers for Canadian companies

<table>
<thead>
<tr>
<th>Driver</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Compliance with legal and regulatory requirements</td>
<td>26%</td>
</tr>
<tr>
<td>Managing risk to the reputation of the company brand</td>
<td>21%</td>
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<tr>
<td>Achieving competitive advantage and long-term profitability</td>
<td>19%</td>
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<tr>
<td>Value set of company and/or its leaders</td>
<td>17%</td>
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<tr>
<td>Efficiency and cost savings</td>
<td>17%</td>
</tr>
<tr>
<td>Customer demand for green/sustainable products</td>
<td>14%</td>
</tr>
<tr>
<td>Public scrutiny over labour, sourcing or other business practices</td>
<td>10%</td>
</tr>
<tr>
<td>Employee attraction and retention</td>
<td>5%</td>
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<tr>
<td>Government grants or other incentives</td>
<td>4%</td>
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<tr>
<td>Supply chain vendor requirements</td>
<td>4%</td>
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The urge to merge  In June, CIBC will celebrate the 50th anniversary of the merger between the Canadian Bank of Commerce and the Imperial Bank of Canada. Banking unions through the years:

3 Months after the January 1998 proposed merger of Royal Bank and BMO that CIBC and TD Bank announced they would combine operations. The unsuccessful union would have created a $47-billion company.

4.1 Billions of dollars in a share swap that saw BMO Financial Group buy Milwaukee-based bank Marshall & Ilsley Corp. in December 2010.

29 Bank combinations in Canada between 1900 and 1931. The number of banks tumbled to 11 from 35.

134 Pages in a government report that improved the prospect of mergers in 2008. “Bank mergers have not been a priority for our government,” said Finance Minister Jim Flaherty afterwards. “And that remains the case.”

1955 Year The Bank of Toronto and The Dominion Bank joined. “It is more burdensome for a small bank to keep pace with the development of our country than for a large bank,” noted the new bank.

2000 Year Canada’s federal government legislated that any bank merger must satisfy benchmarks for competition, public interests and financial viability. Within two years there are rumours BMO and the Bank of Nova Scotia are asking the feds to bless a deal.

9,200 Jobs potentially lost at BMO and Royal Bank in the aftermath of a successful 1998 merger. The finance ministry nixed the $50-billion deal 11 months after it was announced.

Steve Brearton

Going Concern

CAROLLE BRABANT, CA
EXECUTIVE DIRECTOR,
TELEFILM CANADA

COMPANY PROFILE: A Crown corporation reporting to the Minister of Canadian Heritage, Telefilm Canada is committed to developing and promoting Canadian content for the audiovisual industry here and abroad. Each year, the corporation funds about 60 productions, which include feature films, low-budget films and documentaries. With a staff of 207 in Vancouver, Toronto, Montreal and Halifax, Telefilm is responsible for delivering programs worth a total of close to $450 million, administering the Canada Feature Film Fund ($100 million) and the Canada Media Fund ($350 million). In 2009-2010, through its participation in international markets, Telefilm facilitated sales and agreements worth almost $152 million.

HOT FACTOR: Besides sponsoring several Canadian film festivals, Telefilm Canada is active on the international stage, participating in the Berlin, Cannes and Venice film festivals. In 2009, Telefilm-funded Canadian feature films won 107 awards worldwide. The corporation also funds special projects such as the Telefilm Canada Features Comedy Lab, a professional development program that helps producers, writers and directors develop feature comedies.

COOL PROJECTS: In Telefilm’s new corporate plan, the corporation wants to focus on stimulating demand. Brabant believes that current platforms (ebooks, the iPad, the tout.tv website, etc.) offer new business opportunities. She is also seeking a better measure of success, which includes DVDs, video-on-demand, cultural achievements such as awards, critical acclaim and success on the international market.

IN HER OWN WORDS: “The film business is a major industry in Canada. The entrepreneurs I talk to are enthusiastic, committed to excellence and confident in themselves and their productions. I’m inspired by them and eager to contribute to their projects.” Marie-Josée Boucher
THE NAME GAME
Here’s one more way employers are trying to keep their best people on board when money is tight: a promotion in name only.

Training, telecommuting are most popular perks
As the economy improves, companies that want to keep their top performers and attract new ones may be sweetening the pot with nonmonetary benefits, according to a survey by financial professional staffing firm Accountemps.

TIME TO ADVANCE
This could be your lucky month. April is among the top-three months of the year for professionals in Canada to get promoted, according to data from online business networking site LinkedIn. January is the most likely month for employees to be promoted, followed by September.

COST OF CONTENTMENT
Three-quarters of retirees with US$1 million are highly satisfied in their retirement, finds a survey for US office supply and equipment company OfficeMax.

Bits & Bites
In Sight, news + reports at a glance

Don’t clutter up your career
Your messy desk might be holding you back at work, in more ways than you might think, finds a survey for US office supply and equipment company OfficeMax.

A survey for US recruiter CareerBuilder, 13% of hiring managers said they will be offering higher titles this year, but without any pay increases. Ouch.
Happiness is owning a small business

Small-business owners in Canada are a happy group. In fact, 62% of Canadian small-business owners would describe themselves as “very happy,” with only 1% saying they are “very unhappy.”

This is just one of the findings from TD’s Small Business Happiness Index, which examined the attitudes and behaviour of Canadian small-business owners in seven urban centres. It revealed that nearly nine in 10 Canadian small-business owners are happier owning and running their own business than they would be if working for someone else.

“What the TD Small Business Happiness Index demonstrates is that small-business owners enjoy a sense of control and freedom that they don’t generally realize when working for someone else,” says Alec Morley, senior vice-president, small business banking, TD Canada Trust. “Despite the recent economic downturn and the ongoing challenges of managing and growing a business, the personal satisfaction small-business owners report illustrates one of the key advantages of owning your own company.”

There are several reasons for Canadian small-business owners’ high satisfaction levels. These include a sense of pride and accomplishment (97%) plus a deep personal connection to their employees (91%) and their customers (84%). In addition, 86% say owning a small business gives them the opportunity to volunteer their time or make donations to charities, sports teams and events.

As rewarding as it is, small-business ownership also has its difficulties. The top three cited were managing, recruiting and training staff (24%), coping with stress and risk (23%) and financing and cash flow (22%).

Morley offers three essential strategies to help small-business owners meet some of these challenges:

• keep a close eye on the key metrics;
• understand how to read an income statement and balance sheet; and
• forget the static five-year business plan — your business plan should be a living document.

For an expanded version of this summary, please visit www.camagazine.com/smallbusinesshappiness.

Standing out with personal branding

What better way to take charge of your career than to become your own brand? According to a new survey from Kelly Services, that’s exactly what a growing number of Canadians are doing.

The Kelly Global Workforce Index garnered the views of approximately 134,000 people in 29 countries, including more than 15,000 in Canada. It showed personal marketing, or branding, has become a feature of the modern workplace. Respondents consider verbal communication skills most important in building an identity (70%), followed by résumés (64%), technical knowledge (63%), written communications (63%), personal attire (52%) and use of social media (39%).

Survey findings also show 70% of respondents are prepared to invest their own money to upgrade their skills, not waiting on their employers to do so. More than half believe they will change careers and reinvent themselves at some point.

Some highlights from the survey in Canada:

• 78% of gen Y are “very optimistic” about their ability to keep pace with technological and other changes, higher than gen X (74%) and baby boomers (67%);
• 74% of baby boomers cite verbal communication skills among the most important elements in personal branding;
• 58% of respondents expect to change their careers in the future, with baby boomers (60%) more likely than gen X and gen Y (both 58%); and
• 25% of respondents describe themselves as “very active” in their use of social media for personal marketing.

Industries where employees are most willing to invest their own money to upgrade their skills include engineering, information technology, manufacturing, financial services and education.

“Many employers offer training and other benefits to assist their employees with career change or advancement. But with job tenure shortening and greater workforce mobility, employees are taking the initiative to manage their careers,” says Karin French, Kelly Services VP and managing director of Canadian operations.

For an expanded article in which French expands on the survey findings, visit www.camagazine.com/personalbranding.
SYSPRO ERP Boosts Productivity 30% at Higginson Equipment

Higginson Equipment was founded in 1945 as a manufacturer of pneumatic and hydraulic NFPA-style cylinders, and as a distributor of fluid power and industrial product lines. In addition, the company manufactures “Economax” corrosion-resistant cylinders for the trucking industry, custom designs and builds special cylinders for a variety of uses, and leverages its expertise in pneumatics to create C-frame air presses.

In 2009, Higginson decided to part ways with its 15-year-old business software. “There were three factors motivating our decision,” says company President Bill Allan. “First off, we’d been with our old system for 15 years. It was simplistic, and it didn’t have a materials resource planning (MRP) component. The writing was on the wall. Secondly, the recession – we needed to increase our productivity without increasing our manpower. Finally, we received funding, in the form of two government grants, one through the Yves Landry Foundation, and the other through the Canadian Manufacturers & Exporters’ SMART Program. I was already a big believer in ERP. With government assistance I couldn’t say no.”

A 20-person company, with revenues in the seven-million-dollar range, Higginson recognized the necessity of optimizing itself for the future. “We’ve been steadily growing,” says Allan, “but we needed something to help us get to the next level. We wanted to eliminate the inefficiencies and bottlenecks in our processes, and in doing so, we wanted to build a solid base for improvement and growth.”

To facilitate its strategy, Higginson engaged its long-time VAR to perform an assessment and recommend an approach. “Our company-wide processes were analyzed in detail,” says Allan. “As a result we were advised to implement a new, more advanced ERP system. After doing due diligence, and on their recommendation, we chose SYSPRO.”

When it came time for implementation, Higginson did it with alacrity. “We took what is usually a six-month process,” says Allan, “and did it in two months. We spent late nights, inventing on the fly, even made some rash decisions. Fortunately, the VAR that sold us SYSPRO gave us amazing support, and at the end of the day we got what we wanted.”

As Higginson implemented its new ERP, says Allan, most of the old, inefficient processes were funnelled into one of the following categories:

• Automated functions available in SYSPRO (e.g., automated work order creation from Sales Order; automatic serial numbers generation for manufactured parts)
• Product Configuration (to automatically define product specifications, Bill of Materials and cost at the time of quotation)
• Integration with office productivity tools (such as Microsoft Office)
• Electronic faxing and remote connectivity.

“SYSPRO has made us much more efficient,” says Allan, “especially as far as the Bill of Materials (BOM) and work orders are concerned. We used to have to do an excel spread sheet for every job, and then more spreadsheets to calculate cut-lengths of different materials. Now we just put the model number in and SYSPRO calculates everything for us.”

Before SYSPRO, adds Allan, Higginson’s system supervisor, a highly skilled machine operator, sat at his desk three hours a day doing repetitive calculations. “Thanks to SYSPRO,” says Allan, “he’s now gained three hours a day in production time. We’ve also managed to eliminate a good number of mistakes. Occasionally, in the past, we’d cut a batch of tie rods incorrectly - not anymore.”

Because of SYSPRO’s modular nature, one can add efficiencies to workflow as time and energy allows. “One thing we want to do more of is load leveling,” says Allan. (Load levelling is the process of evenly distributing demand, in terms of orders or schedule, over a given period of time.) “We haven’t quite figured out how to take advantage of it, but load levelling will give us a bird’s-eye view of production. That will help us smooth things out, and see problems that might be coming down the road. It’s a nice feature that we still have to leverage completely.”

Asked to consider SYSPRO’s ROI, Allan gives thanks again to the government-sponsored grants. “The grants considered,” says Allan, “SYSPRO is going to pay for itself in a year. The company is out-of-pocket approximately one person’s yearly salary. For a relatively small amount of money, we automated our business processes and removed the repetitive paperwork. But the real money-saving consequence of SYSPRO is that we can now do more with fewer people – and that makes us more competitive. I would definitely recommend SYSPRO to any manufacturer.”

For more information on Higginson Equipment, please visit www.higginson.ca.
Think and act big

We are in the era of big thinking, yet a lot of people have a small outlook. As we reassess our role as accounting professionals into the future, we’d do well to consider what leading-edge innovation organizations are doing to move forward, such as: **Make big transformations.** Many organizations realize that corporate structures based on a centuries-old style of thinking can no longer take them into a future that will demand more agility, flexibility and ability to react in real time to shifting demand. They’re pursuing such strategies as building to demand rather than building to inventory, or taking on mass customization projects so they don’t have to compete in markets based on price. They are looking at more corporate and other types of partnerships to get access to much-needed specialized skills.

**Undertake big brand reinforcement.** Realizing the vast scope and impact of social networking on its brand image, one of my client companies made an across-the-board decision to boost its overall advertising and marketing budget by 20%, with much of the increase going to online advertising. A good chunk of existing spending is being diverted as well. Clearly, the organization believes it needs to make big, broad moves to stay up to date with global changes in branding and marketing now underway.

**Anticipate big changes.** There’s a lot of innovative thinking going on with energy, the environment and healthcare. Many global innovation leaders (think GE) have a razor-sharp focus on these three areas, anticipating the rapid emergence of big opportunities at a very rapid pace.

**Pursue big math.** Quite a few financial clients are looking at the opportunities for innovation that come from competing with analytics, which offers new ways of examining risk, understanding markets and drilling down into customer opportunity in different ways. What is the CA’s role in the era of sophisticated analysis driven by data volumes that have never existed?

**Focus on big innovation.** One client company stated its innovation plan in a simple yet highly motivating phrase: “think big, start small, scale fast.” Its key goal is to build its experiential capital in new areas by working on more innovation projects. It wants to identify big business opportunities, test their potential and learn how to roll out new solutions on a tighter, more compact schedule.

**Think big change in scope.** One client became obsessed with the innovation strategy of going “upside down” when it came to product development. Rather than pursuing all ideas in-house, it opened up its innovation engine to outsiders, looking for more partnership-oriented innovation (with suppliers and retailers, for example) and customer-sourced innovation. Can our profession move forward at a faster pace by continuing to ignite its innovation spark through outside sources?

**Align strategies to the big bets.** Many organizations out there are making big bets and linking innovation strategies to those bets. Wal-Mart has bold goals for replacing all standard packaging with “ethical” packaging by 2015. This is forcing a stunning amount of innovation within the packaging sector. Some restaurants aim to reduce food and packaging waste by a factor of dozens; this is requiring similar levels of creativity in the kitchen. Where are the big bets and bold moves that are needed to sustain the accounting profession well into the 21st century?

It’s easy to think small during times of big transition. Innovative people recognize that we live in an extremely fascinating period and are ready to push big ideas in order to move themselves and their organizations ahead.

Jim Carroll, FCA, is a well-known speaker, author and columnist. Reach him at jcarroll@jimcarroll.com or log on to his website at www.jimcarroll.com

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BI, CPM and budgeting survey 2011

Welcome to our 2011 survey on corporate performance management (CPM), budgeting and business intelligence (BI). When we ran our first BI survey back in 2004, it was on its own. But surveys have a way of morphing from year to year, gathering and discarding functions and products as they go. So it is that by 2006, our BI survey had been more or less taken over by CPM. Now, in a further evolution, our roundup encompasses both products, plus budgeting.

Where are the differences? Broadly speaking, CPM includes both BI and budgeting. But there are also many stand-alone systems for budgeting and BI. In terms of separate functions, CPM systems include forecasting, consolidation, financial reporting, strategic planning and budgeting. BI includes dashboards, online analytical processing, predictive modeling, report writing, scorecarding and visualization (graphics).

As with our latest enterprise resource planning survey in September 2010, you can now complete an online survey about your requirements, then view the 10 best systems for your needs based on percentage fit calculations. You can also drill down for more details on each system. For the link to the survey, visit the expanded online version of this article at www.camagazine.com/BIandCPMSurvey11.

Since our last survey in December 2009, a number of trends have emerged. First and foremost, products are becoming easier to use. We have all seen systems that have become prickly to use because of an overabundance of features. They require power users to make them work. But Google changed the way we think about systems. The company’s success is due in part to its ability to keep things simple so that anyone can effectively use its system. Its approach allows end users to generate their own reports or analyze data with drag, drop and drill-down commands — something that in professional circles is called BI for the masses.

Keeping it simple is not just about the user interface; it’s also about the underlying technology. Some vendors offer extensive functionality but they have done this by acquiring new products and gluing the disparate systems together. Although these systems are integrated, they may rely on different databases and have different user interfaces. You will hear some vendors promoting their unified systems, which use the same databases and user interfaces, as a simpler solution.

Another trend is to bump up performance by taking advantage of declining memory prices and low-cost 64-bit computing to provide more addressable memory space. It’s much easier to access data in memory than in a disk.

Some vendors are now offering Google-like information searches that include structured data (organized log-
Confidence is raising the bar in sustainable design

Cushman & Wakefield has been engaged as exclusive leasing agents for AEROCENTRE V, the city of Mississauga’s most sustainable multi-tenant commercial office building. Owned by HOOPP Realty Inc., one of Canada’s largest pension plans, this LEED Gold* certified building opened in September 2010 to critical acclaim.

Client: Healthcare of Ontario Pension Plan (HOOPP)
Location: Mississauga
Service: Leasing
Size: 228,860 sf

5550 EXPLORER DRIVE
CICA and the Institute of Chartered Accountants of India (ICAI) have signed a Memorandum of Understanding (MOU) on Reciprocal Membership Arrangements. The MOU specifies the criteria by which members of one body are eligible for membership in the other.

Signed by the CICA on behalf of the provincial and territorial institutes/ordre of chartered accountants of Canada and the Institute of Chartered Accountants of Bermuda, the MOU still requires ratification by these bodies as well as the boards of directors of the CICA and ICAI before coming into effect.

Under the MOU, an ICAI member who holds a recognized university degree will be eligible to become a Canadian CA by passing the Canadian uniform evaluation (UFE) and meeting the profession’s experience requirements. Individuals holding a Canadian CA designation will be eligible to become an ICAI member by passing the ICAI’s examinations in corporate and allied laws and tax. Access to audit rights is not included in the MOU. The provincial institutes/ordre and Institute of Chartered Accountants of Bermuda will individually determine what additional requirements are needed for licensure.

“It is important to forge closer links with our CA colleagues in India with that country emerging as a significant presence in the global marketplace,” said Kevin Dancey, CICA president and CEO. “The Canadian CA profession has considerable expertise in determining substantial equivalency of foreign qualifications in a manner that is fair, consistent, transparent and timely.”

CICA President & CEO Kevin Dancey; ICAI Toronto Chapter Chairman Rajneesh Sapra; ICAI Toronto Chapter Past-Chairman Asger Khambati; and CICA Vice-President, Education, Tim Forristal at the signing of the MOU between CICA and ICAI.
The CICA will continue to provide a robust program of support to help members and the larger business community adapt to new financial reporting and auditing standards.

International financial reporting standards (IFRS) and new accounting standards for private enterprises (ASPE) are in effect for fiscal years beginning on or after January 1, 2011 — marking a new era in financial reporting.

“CICA has played a leadership role in helping entities prepare for the adoption of the new standards,” says Gord Beal, project leader for the CICA’s implementation support strategy for new accounting and auditing standards. “We made the transition to new standards a top priority in the lead up to the changeover dates and ramped up our support to members. It has become clear that the job is far from over. We are committed to responding to emerging needs through the next critical phases of implementation and, in the case of IFRS, in anticipation of the changes still to come.”

Beal says stakeholder communication and establishing sustainable processes are two prime considerations for organizations adopting new accounting standards. “Externally, communicating with stakeholders is the key piece right now. It is important to help users of financial statements understand how the new standards affect the way the company’s financial information is presented. Internally, sustainability is the key. Any temporary measures that may have been put in place in order to meet the adoption timetable should be replaced with processes that will carry the company into the future.”

IFRS adopters are anticipating they will be managing change for the next several years, with significant changes in the standards on the horizon. Eight new IFRSs are expected to be issued in the coming year, bringing significant changes to financial reporting, including how companies recognize revenue, account for financial instruments and record leases.

Most companies adopting ASPE look forward to simplified reporting; the new standards recognize that many private enterprises are limited in their capacity to apply complex accounting standards and have different needs than public companies, with the primary users of their financial statements being owners, managers and lenders, rather than equity investors.

“The expectation that ASPE will require fewer resources and less time is very reasonable — in due course,” says Beal. “In the initial year though, it is important to take time to gain a strong understanding of the standards, consider the available options and alternatives and make the required changes to processes and systems.”

IFRS and ASPE adopters, indeed all entities that require audited financial statements, are also reckoning with new Canadian auditing standards. CAS is in effect for audits of all financial statements for periods ending on or after December 14, 2010, and apply to audits of large and small corporations, public and private, public sector and even not-for-profit organizations regardless of the accounting framework that is applied.

“Auditors will obviously feel the changes the most,” says Beal, “but audit clients, audit committee members and board directors must understand how the new standards will affect them as well.”

A wide range of resources and learning opportunities regarding IFRS, ASPE and CAS are available on the CICA’s Canadian Standards in Transition website: www.cica.ca/transition.
### Standards digest

Want to be kept informed? Log on to www.cica.ca/stds-subscribe

### Recently Issued Pronouncements

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### Watch For

**Documents for Comment**

- AASB proposals regarding Special Considerations in Auditing Complex Financial Instruments
- IASB proposals regarding Consolidation — Investment Companies; Annual Improvements 2009-2011; Three-yearly Public Consultation on Technical Agenda

**Legend**

- ED – Exposure Draft
- DII – IASB Draft Interpretation
- EDI – ED based on IFRS/ISA
- ITC – Invitation to Comment
- RVI – IASB Request for Views

† Refer to each Handbook pronouncement for the effective date and transitional provisions. *The information published above reflects best estimates at press time. Please visit our website for the most recent information.*
After more than two years of research, focus groups, consultation and analysis, CICA’s tax education program is getting a makeover.

The project, which focuses on the implementation of recommendations made by the CICA Tax Education Task Force and the re-engineering of CICA’s In-depth Tax course, is arguably the most significant redevelopment project in decades for CICA continuing education.

“We have a plan to restructure our In-depth Tax course to reflect a competency-based approach, and deliver it at an appropriate pace for optimum learning using today’s learning technologies,” says Frank Colantonio, director, continuing education. “It is the first step toward creating a ‘preferred future’ for CICA tax education.”

That preferred future is made up of four main elements:

1. On-staff subject matter expertise.
2. A clear competency map for the tax community that is supported by major stakeholders and covers entry level through mature-professional level.
3. A robust delivery system that features blended learning delivered through a variety of effective media by qualified individuals.
4. An appropriate assessment mechanism.

“Based on the recommendations of the Tax Education Task Force report, we have a vision of what the new In-depth Tax program should look like. Now we need to do the work to make the vision a reality,” says Vivian Leung, who will spearhead the project as CICA’s newly appointed program director, tax education. “I am confident that once our job is complete, the newly designed In-depth Tax program will better meet the needs of today’s tax practitioners.”

The new CICA In-depth Tax course will be available in the fall of 2012.
Top CA firm chief executives discuss IFRS, women in the profession, globalization and much more

CEO Roundtable

Edited by OKEY CHIGBO  •  Photography by PAUL ORENSTEIN
In December 2010, Kevin Dancey, president and CEO of the CICA, hosted a round-table discussion with the CEOs of the top-seven accounting firms. The discussion covered a wide range of topics of interest to the profession. Participants included Chris Clark of PricewaterhouseCoopers, Keith Farlinger of BDO Canada, Trent Henry of Ernst & Young, Alan MacGibbon of Deloitte, Phil Noble of Grant Thornton, Daryl Ritchie of Meyers Norris Penny and Bill Thomas of KPMG. Also present was Bill MacKinnon, chairman of the CICA. Marcel Côté, regular columnist for CA-magazine and founding partner at SECOR Consulting in Montreal, was the moderator.
Alex Fisher first became involved in auditing professionals. Having multiple sets of standards in a soft economy puts extraordinary stress on the people in the profession. The discussion will give the membership at large a good perspective on the issues facing the profession.

**MacKinnon:** Access to the profession continues to be important. We need to attract the very best people, both in Canada and abroad. Globalization will continue to affect our profession, our brand. We have to deal with that in an appropriate, effective, efficient way. We will end up, sooner or later, having to deal with the fact that we have three, or arguably four, accounting designations in Canada. We also need to have more efficiency built into our training processes and regulatory system. Right now our regulatory and oversight systems are not very productive and, frankly, that’s not very fair to many of our members.

**Farlinger:** I think the biggest issue is dealing with change that seems to be coming more and more quickly. Dealing with the millennial generation is also a big issue. We all have succession issues in our practices, and the kind of practice we grew up in is not acceptable to the millennial generation, so we have to figure out how to keep the millennials in the practice. There is also the question of access: we need to bring in different people to keep the profession going strong.

**MacGibbon:** I agree on the talent issue completely. I think we are in an environment where we’re dealing with multiple sets of GAAP and governments that want more tax revenue. This will put more stress on tax professionals, the accounting and audit professionals. Having multiple sets of standards in a soft economy puts extraordinary stress on the people in the profession. And how do you attract and build really competent professionals when it has become highly technical and you’ve got to have the right skills to serve the clients? This brings up the millennials — they’re impatient and don’t want to spend 15 years to get the experience, they want it in 18 months. I also worry that the country is losing its identity and that we’re not playing a big role on the world stage, and yet our profession is very mature, very respected around the world. Are we as the CA profession going to have a strong voice in that global environment?

**Clark:** In my mind, you have to start with the whole area of people and our ability to attract them to the profession. We need to attract the best and brightest and train them not just as accountants, but as business advisers. Secondly, we have to make sure we are providing the kind of financial information that investors need to make their investment decisions. Otherwise, we’re not going to be relevant as a profession. And my last point has to do with the degree of regulatory oversight, which has the potential to dramatically impact our ability to attract the best and brightest.

**Noble:** We need to ensure our continued relevance to business leaders in the assurance-related services we provide. It’s important to be seen as leaders in the business world in the broadest sense. We need to continue to attract the best of the best by providing world-class training, efficient educational delivery systems, and by providing tremendous career opportunities for CAs. We have to be leaders in addressing the impact of globalization on the accounting profession.

**Thomas:** We need to attract new students and talent. We should assess the relevance of the CICA, given the move to international accounting standards. The increasing complexity of standards challenges the reader’s understanding and potentially undermines the value of what the profession does. A tougher economic climate, increased regulatory intervention and increased competition are challenging our clients to become more flexible and responsive. Our clients tell us complexity is their greatest challenge and they look to us to navigate this complex world. To do this we need to attract high-quality people, people our clients trust and who are capable of deep expertise with a global-local perspective.

**Henry:** If you look at what’s being discussed in the European Union Green Paper, the accounting and auditing professions are under attack around the globe now. What will win the day is for people in the profession to produce thought leadership. Again, what’s going to make the difference is being able to access the best and the brightest. Canada is probably punching above its weight globally, but it’s hard to see us continuing to do so unless we’ve got the best and brightest.

Côté: Let’s talk about IFRS. How has it affected your firms?

**Henry:** Convergence of US GAAP and IFRS is a good thing. Real-
izing the goal of a single set of high-quality standards for use around the world benefits the capital markets more broadly.

Côté: Since Canada is moving to IFRS before the US, does that mean that in three or four years, when the US gets around to adopting global standards, we’ll go through another move? In hindsight, do you think this was the right approach?

Farlinger: I think it’s good. It gives us a voice on the international stage. If we waited till the US came along, we wouldn’t have that voice.

Noble: Moving to IFRS might prove very positive for financial reporting in Canada, assuming the US finally adopts it in the not-too-distant future. However, if the US backs away from IFRS, the early move will end up being problematic for Canadian companies.

Thomas: I don’t believe we moved to IFRS too soon. Canada will be aligned with the rest of the globe, which helps to maintain our solid positioning in the global marketplace. Furthermore, the move to converge IFRS and US GAAP continues.

Côté: So we’re training the rest of the world to follow our point of view?

MacGibbon: I don’t think it’s the rest of the world. Yes, we live next to the US and we trade with the US, but it is not sustainable to run at least three sets of accounting standards — a Canadian GAAP, a US GAAP and IFRS — in a small country such as Canada. So I think it’s a good thing that we put a stake in the ground.

Clark: It also comes down to where Canadian companies are looking to raise capital, and for many of our clients it isn’t in the US. Investors need a consistent measurement to compare Canadian companies with other organizations that are competing for capital — organizations that could be in other parts of the world, such as South America and Europe, and that are using IFRS as their basis of accounting. To get that kind of comparability around the world, it didn’t make sense to stay with Canadian GAAP.

Côté: So we had to move away from Canadian GAAP and going to US GAAP would not have been a solution?

Henry: There were cracks we were going to have to deal with anyway so we needed to move in a different direction. The only question was whether it would be US GAAP or IFRS. I think convergence will happen. I would just caution readers that it is going to go on for four or five years. There are some very significant accounting matters on which the FASB and the IASB do not fundamentally agree, whether it’s accounting for income

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We hear a lot of complaints from our clients that they are going to have to go through two conversions, the one they are doing now and another four years down the road when US GAAP and IFRS converge.

Taxes or financial instruments. Convergence is going to put a lot of strain on our clients and on the profession as we go forward. Hopefully, along with that, there will be a healthy debate about what information is needed to help financial-statement users make better decisions.

Clark: We do hear a lot of complaints from our clients that they’re effectively going to have to go through two conversions — the one they’re doing now and another three or four years down the road when US GAAP and IFRS come together. Many of our larger clients are saying, why didn’t the CICA wait?

MacGibbon: Chris [Clark], you’re so right. Back when the decisions were made, those clients didn’t want to go to US GAAP. They wanted to go to IFRS.

Côté: How about private-entity GAAP?

Noble: It’s really too early to tell. Most privately held companies are not focused on this transition yet, given the timeline for adoption. From a true implementation perspective, I believe it would prove to be relatively smooth for preparers and therefore successful. How users will react will ultimately determine its success.

Thomas: The move is generally proceeding as planned and is viewed in a positive light. We’re seeing similar types of conversion issues as with IFRS — some firms are doing well and others are experiencing difficulties.

Dancey: At least the private-entity GAAP was based on existing Canadian GAAP. The transition challenge, the training challenge, is not as significant for the private-entity GAAP as it would have been if it had gone to IFRS or some IFRS-light for all entities in Canada.

MacKinnon: This is another area where we’re punching above our weight. We could actually have a worldwide standard when we’re finished, so we should take a certain degree of pride in that.

Clark: One final point on IFRS: it is going to change how we as Canadian firms operate in the global context. In the past, for the most part, we interacted directly with the standard setters — the Canadian Accounting Standards Board here in Canada. Now it’s the IASB. We will all be involved with all our global organizations in trying to determine how certain standards and rules are applied within our organizations. We have to make sure we’re doing this on a consistent basis around the world. We are going to have an additional challenge here in Canada, as a smaller country, to influence the US, the UK, Germany and our major European firms in how to respond to new standards that are coming out within the IFRS context.

Côté: Let’s move to the profession. Will there be a global accounting designation? And will there be an interim step involving a North American designation?

MacGibbon: I don’t think we’ll have a global accounting designation. Hopefully we’ll have transportability, where we’ll have lots of mutual recognition. Europe and the US aren’t going to agree on much of anything, so common accounting designations are going to be a long way down the road. Within North America, I think just moving to a simple North American designation will cause Canada to lose its voice because we’ll be absorbed into the US. So I see that as a long way off.

Farlinger: And it doesn’t make sense right now with the different sets of GAAP, either.

Henry: I don’t think we’re anywhere close to talking about a global designation, but we have a real opportunity to make sure our Canadian-trained public accountants are relevant on a global basis. There’s no doubt the CPAs would love to have a CPA designation in Canada. I think it starts within the confines of the Canada-US arrangement.

Thomas: We should be looking to build global alliances and reciprocity with leading professional bodies on a global basis. The notion of a global accounting designation requires clarity as to what this would entail and how differing business environments, etc., would be handled. With clarity would come visibility as to the steps to be taken in recruiting, training, client education, and so on. In the long run, a global designation could be a good thing because it would level the playing field and make migration more attractive. There is an opportunity for the CICA to take the lead in the conversation around a global designation — a proactive rather than a reactive response. Given the current US views and direction on IFRS and international auditing standards, a North American designation may be difficult to accomplish. Even under a North American IFRS and IAS regime, there are still some very profound differences between US and Canadian business, risk and regulatory environments that would need to be understood and considered. Also, if you have a US CPA, it’s not difficult to acquire a Canadian CA and vice versa. A North American designation would seem unnecessary.

Noble: The profession in Canada should not be focusing on alignment with a coming global designation. Rather, we should...
be taking a leadership position in shaping what a global accounting designation should look like. As for a North American designation, once we obtain substantial convergence in accounting and assurance standards, then the concept has merit to be explored.

Côté: So the national societies and designations are here to stay, although there might be some portability from one country to another?

MacKinnon: One of the ways to protect ourselves in Canada might be to have a dual designation that is both a CA and a CPA. There might be something to that effect coming down the line, I don't know. My guess is that the world is going to divide into CAs and CPAs. It's going to take a while but I think those are the two surviving brands. One option is to have them both.

Clark: I tend to agree with Bill's [Thomas] and Phil's [Noble] comments. A harmonized North American designation doesn't seem likely nor does it seem to make sense at this point. That said, if you use NAFTA as an analogy, and with the current talk about the need to ensure the continued flow of goods and services across the border, the need to focus on the reciprocal arrangement between CAs and CPAs in Canada and the US is also highlighted. Aligned with the way our clients' businesses are evolving, we need to be proactive and consider the international implications of reciprocity agreements. Compared with 10 years ago, an increasing amount of our clients' business is global. As a result, we are all increasing the mobility of our people across borders to best serve our clients with global operations. I don't foresee the need for countries' regulatory bodies to enter into formal professional licensure agreements anytime soon, but it would be in all of our interests — both for our domestic firms and for our international networks — that they start an active dialogue on this issue.

MacGibbon: I don't think any of us want to see our brand disappear. If we sell it as a powerful brand, then whatever happens, happens.

Dancey: This is actually an area I'm focusing on right now because it's important for us to take the right tactical directions. There are a couple of possibilities. The first is to strongly encourage the Americans to work on mobility for CAs going to the US and CPAs coming here. That means taking a regulatory focus, because in the US you've got to deal with the state boards, which is a very tough process. The second approach is to work really hard on facilitating the process for Canadian CAs to get the CPA, which isn't that difficult anyway, and for CPAs to get the Canadian CA. It would facilitate mobility if we drove hard to make it a cultural matter — meaning that when you got your CA you almost automatically got your US CPA.

MacGibbon: I don't disagree. Also, I don't think we should lose

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Sight of the fact that a vast number of CAs in Canada are never going to work in the US.

Côté: Let's move on to talent. How attractive are you to the millennial generation, and does attracting that generation mean changing some of your ways of doing things?

MacGibbon: We know we're very successful at attracting really bright people, but if we want to have the pre- eminent brand in the financial world, however you define that, we are competing against the MBA and the legal profession. I'm afraid that to the millennial generation, we might appear old fashioned in our entry and experience requirements. I think we have to challenge how we are recruiting people from that generation and how we are retaining them.

Henry: I think this generation, from my perspective, is more focused on looking at the quality of experiences it is getting. They want access to the best clients and experiences. They don't care whether they're in Toronto or Vancouver — they want to build their own brands and improve their résumés over time. That's what they've been taught in university. That's how their friends interact, how they communicate. They have access to what's going on in their world on a real-time basis. They're further ahead than we are in that regard and they constantly demand better challenges. They want a lot of feedback very, very quickly. They don't want to be told what experiences they need — they think they know what they need and they're looking at organizations such as ours to provide great platforms. I think we do have great platforms, so part of the challenge is for us to tell the story. We operate on a global basis, we've got access to the best clients in the world, and I think we have the global platforms, but we have to tell the story better.

Côté: So, have you made it more interesting to the young, to the new CAs coming into your firms?

Clark: I think we've done a better job than we used to, but I think we can do a lot more. New CAs want to have access to important and exciting work right away. They want to have access to the leaders right away. They want to be challenged and they want immediate feedback, and if they're not getting that, they're going to move off to something else. I also think we can do a better job of telling people where the CA designation can take them, as well as its ability to open future doors. In the recruiting I've done lately, some CICA statistics have been very helpful, such as the fact that more than one in five of all C-suite positions in the ROB 1,000 are CAs. Those are very powerful statistics to use with graduating classes, who are seeking to become future business leaders.

Farlinger: In my view, we've been very good at attracting the best and brightest out of university. It's interesting — if you look at our employee surveys, you see they're very happy in the first year or two. We are challenging, there's tons of learning to do. But it gets dicey after that. And again, it was mentioned earlier that they don't want to put in the five years of working their way up the ladder, of doing tasks they don't really enjoy. They want to do the fun stuff all the time and get Chris's [Clark] or Trent's [Henry] job within three years. So that's going to be the hard part. And the other part is that one size doesn't fit all. They all have different ways and different needs, and we're expected to meet them. So it's going to be very tricky. We're going to have to be very flexible, very adaptable. We have to talk to them a lot. They like to have senior people talk to them.

Ritchie: I agree about the first few years. But in the past our business models have scared away some of these great people and we need to ensure our business models fit for today and tomorrow. Public practice is a great career, we just need to ensure it adapts over time.

Clark: I want to come back to a point talked about earlier, which is the increased focus on regulation within the profession. If what is happening in Europe from a regulatory perspective starts to take hold around the world, and the regulators say they don't like the multidisciplinary concept of professional services firms or severely restrict the kinds of work we can do for our clients, that will potentially have a major effect on our ability to attract the best and the brightest. They won't want to come in simply to become accountants, they want more diverse experiences.

Henry: If I were a regulator, I would be very concerned about this issue because if you're really trying to attract the best and the brightest in an era of globalization, you need people with diverse backgrounds, but you also need people with diverse skills. These multidisciplinary practices have really enhanced audit quality overall. As the regulators go through this journey, I hope audit quality is their focus.

Noble: Understanding and responding to the changing needs and demands of the workforce is a leadership challenge that we take very seriously. In my view, the young people entering our firm don't want to simply work; much more importantly, they want to make a valuable contribution through their work. We're focused on ensuring we have an environment where our people really can make a difference through their work.

Thomas: The number of candidates is declining, so demand currently outweighs the supply of newly qualified CAs. Many firms...
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and businesses are left competing for people to fill important roles in their organizations. This means the CA designation is very marketable. The perception is that going to industry will be easier and financially more beneficial — regardless of the reality. Young professionals have more career alternatives today, and they may have negative perceptions about the public accounting profession and regulatory oversight. The challenge for retention becomes making sure that recruits understand that earning the CA designation, while a huge accomplishment, is just the beginning and that learning and development will continue to build.

Côté: How about work/life balance — giving women a year so they can have a child, letting husbands leave at 5 p.m. so they can pick the kids up at daycare. How are you doing there? Would you say you are ready for this new generation?

Noble: It’s a business imperative that we engage people to do their best work while recognizing and respecting the fact that people have lives outside of work. We are very flexible in meeting the needs of our contributors.

Ritchie: Compared with where we were 15 years ago, we’ve come a long way, but we’re not there.

Thomas: We’ve developed local women’s networks in many of our offices as a way of providing additional support for our female team members. We have a large number of programs and initiatives that favour work/life flexibility. The success of these programs depends on our people being able to stay on track with career goals while pursuing life interests.

MacGibbon: I would say we’re collectively and individually working very hard on that part of the agenda, balanced with the service business we are in.

Côté: But there are no women here now. It’s not that they’re not bright and qualified, or hard workers. It’s that your environment is probably not conducive to accommodating their needs.

Thomas: Statistics show women often have their first child between the ages of 25 and 29, which coincides with the manager and senior manager years — a time when they should be preparing for the partner track. Our retention programs need to address the conflict here. We set targets in 2007 for the promotion of women and visible minorities to partner. We have been successful: women and visible minority men made up 40% of the partner classes for 2008 and 2009 and that number increased to 48% of the partner class for 2010. However, we still have a lot to do.

Henry: I think there are all kinds of arrangements, there are flexible work arrangements in place. Are those perfect? No, but I think some of the core infrastructure is in place. I am adamant that we do better. There’s going to be a real demand for talent as we go forward in Canada. The financial crisis has put even more demands on us in this regard and made us realize we have to do better, faster.

Farlinger: I think we should be talking about flexibility, not work/life balance, because work/life balance is a very misused term, especially in our practice. We have times in the year when everybody has to work very, very hard and our people know that and work with that. They actually thrive during that period. But if, on the other hand, we give them time off in downtimes, if we make time for them when their children are sick, and so on — it’s that flexibility they want, much more than work/life balance.

Clark: Our job, as Keith [Farlinger] just said, is to make sure we provide the flexibility, but it’s more than just providing programs related to flexibility. The key is having a culture within the organization that will reward people even if they’re working in a different way.

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WE CANNOT CHANGE WHAT HAPPENED 40 YEARS AGO, but we can change what happens today and tomorrow. There is not much diversity in our partner groups over 60, and that is a reflection of the past.

Côté: Would you say you're ahead of the lawyers in providing an environment for women to develop themselves professionally?

Henry: The stats clearly indicate that in Canada we are well ahead of the legal profession in terms of representation of both women and visible minorities.

Côté: At the partner level?

Henry: Absolutely.

Ritchie: You're right: if you look around this table today, there are some things missing. We look in many ways like our profession did 30, 40 years ago, without much diversity. Which really should not be too surprising as, except for Trent [Henry] and Bill [Thomas], we are the graduates of 30 and 40 years ago. When you look at the graduates now, it is about diversity and about today's youth wanting different things from their careers/lives. We cannot change what happened 40 years ago, but we can change what happens today and tomorrow. At our firm we look at diversity in age bands, and there is not much diversity in our partner group over 60, and that is a reflection of the past. The firms and the profession did a really bad job of this 20 years ago; today I think we are doing a much better job but we can do more. We can't change what happened 30 years ago but I know in our case you're going to see changes in the statistics in the future. We are trying hard to make sure when we look at the over-60 partner group in 30 years' time, it will show the diversity of today's graduates. For example, for our new partner admissions last year the ratio of female to male was 48% to 52%. We don't have quotas; we try to create an environment that allows it to happen, not be forced.

Noble: We don't have difficulty finding qualified women. The fundamental challenge to our profession is understanding and addressing the barriers that clearly exist for the advancement of women. There are many women's initiatives underway but I don't believe we have solved this yet.

Clark: I'll make a distinction between retaining and advancing women. We don't have an issue retaining women. We have, I think as a profession, an issue in advancing women to more senior roles. I worry that if we don't address it proactively, it will become a critical business issue for the profession vis-à-vis the talent that we draw from to lead our firms. To address this, at PwC we're focused on developing, mentoring and providing leadership-development opportunities to help our women advance at the same rate as men to partnership and leadership roles within the firm. We have also — like many of you, I'm sure — set tangible targets around the advancement of women. These targets do not represent quotas but rather they are aspirational goals that will be a measure of our success around how we're advancing women to leadership roles at the firm.

MacGibbon: I feel a little differently. I think we do have a challenge retaining women as compared with white males.

Clark: You may be speaking for yourself there. (Laughter.)

MacGibbon: Well, I can only speak for myself. I think we do lose women at a higher rate than men. Whether they opt out for short periods or not, my concern is that we don't attract women as senior hires back into the business at the same rate as men. In other words, when women move out of our profession, I don't know if we attract them back as easily. So, I'm not sure we've got the picture straight yet. I think we're making great progress but I'm not convinced.

Henry: I think there's a body of research out there right now suggesting that the role of white males in this area is to advocate for women. Referring to Chris's [Clark] point, if we really want women moving forward in organizations and taking on roles such as chair or CEO, it's in advocacy that white males have a big role to play. I believe advocating for the best individuals and understanding who they are will make us stronger, so we're much more focused on advocacy now. Most leading organizations have good, strong mentoring programs in place. But I think advocacy is going to be the key as we move forward.

MacKinnon: If you want to be in the senior ranks at a professional services firm, you will be highly committed to your firm and profession. My other point is that we will see much more senior leadership positions held by women.

Henry: I think the research shows there's no doubt that bias plays a huge role in white men advancing in an organization. So, in our organization we've had all our partners and executive directors in the firm go through training on bias.

Côté: Sensitivity training?

Henry: It's crucial that there be a strong awareness within each of us about our biases. Just so there's awareness out there. So, you have to be a little more courageous in putting women into these roles. You'd probably make the same decisions with a white man in place but if you really want women to advance, they've got to get the same experiences and challenges and you can't judge people on style differences. So, I don't necessarily
Côté: Women manage differently, a lot more cooperatively as opposed to competitively.

Henry: I think there’s a danger in that comment too. In my view, you have to recognize that there is bias in the cultures and in how we make decisions. This table is made up of white men. If we’re all looking at the same thing, some of us will have the same biases. But we grew up in very different places in Canada and around the world, so our biases aren’t all the same, either, but we try not to generalize to say women are like this and men are like this. The reality is we’ve got a very diverse population made up of visible minorities, women and men. You’ve got to get beyond that bias and look to substance. You’ve got to reward substance, not style.

MacGibbon: I really believe we need to help enable role models. Women are going to stay and aspire to leadership if they have women in leadership as role models. The same goes for visible minorities, and in our own organization, I worry most about visible minorities who are women. It’s a lot harder to find the role models who will allow them to say, “I can aspire to that.” It’s a challenge and I believe we really need to focus, as you said, on getting past our biases and getting women in leadership roles to serve as role models, and that will have a flywheel effect.

Côté: That brings me to the next issue, which is the new pathway to the profession and attracting people from abroad — India, for example. Does anyone want to comment on that?

MacGibbon: Using India as an example, there are a billion people there. I was in India when Jean Charest spoke at Canada House and tried to create an easy system to get your Canadian citizenship from India if you were coming to university in Quebec. He used a line that I thought was wonderful: “Will you share your economic advantage with us? Your economic advantage is that you have a billion people and we have 30 million. Will you share some with us?” Now, the accounting profession is more than 100 years old in India, so it’s not exactly a new business.

Henry: I think you have to look at the world again. In Canada, immigrants are going to drive our employee base for years to come and we need to be more innovative and flexible in recognizing their talents. So I don’t think the system we will have in 15 years will look like the one we have now. We will need to have some type of accreditation system in Canada to deal with Canadian tax laws and so on. But there’s no doubt we will have to be more streamlined and show stronger recognition for the credentials these people have. It’s not about making everybody a CA but about providing better access and a more robust and streamlined system.

Côté: So should they take the UFE?

MacGibbon: We’ve got to find a way to welcome them.

Henry: If there’s going to be transformation overall, there has to be a business challenge. The business challenge is coming so it’s just a matter of whether we hit that ball.

Farlinger: I think we all need these pathways — this has been a thread through this whole conversation. But we have to maintain the quality of the CA designation as well. Finding pathways that maintain that high quality is going to be very important.
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WE HAVE A LARGE NUMBER OF CAs IN SENIOR POSITIONS in the C-suite in industry, so I think we’ve shown that our platform creates business leaders across a broad spectrum. We have to keep that vision out there.

Côté: But that is often used as an argument for maintaining the status quo. Sometimes you have to take a chance.

Clark: I’ll pick up on what Keith [Farlinger] was saying. If you take a picture of our starting class today and compare it with one from 10 or 15 years ago, you will see they are vastly different. And looking at the demographics of the future, we just have to find a way to create these different pathways for them to arrive at their CA. Also, we’ve got to get past the bias that we’ve done it a certain way for 20 years so we should just keep doing it that way rather than being innovative to arrive at a solution.

Côté: Would you say that competitors for talent such as the MBA are better equipped than the CA in attracting talent from abroad?

MacGibbon: I think it’s two different models of attraction. For us, the pathway is so important because if the primary model for getting your CA is through us, we have a limited number we could actually produce, and we’re biased toward producing them with audit and tax backgrounds before they move into other things. So the real question is, what do we want the CA designation to achieve? Is the designation what it was when we became CAs or is it something different? If we look at our jobs today, we don’t do what we learned way back then.

Henry: I struggle with this question a little bit. You can’t compare an MBA to a CA. First, we’re a regulated business in Canada and around the world now. The MBAs aren’t regulated, so what is an MBA? There are many different types. So you have to ask whether being a regulated profession is a competitive advantage or a disadvantage. It’s probably a disadvantage for recruiting talent.

Côté: From abroad?

Henry: From abroad, exactly, because of the constraints.

Dancey: I wasn’t going to make a comment on the particular pathways, but I think it is important. If you went back 10, 15 years, we always viewed the CA as a platform for a career as a professional accountant in a heavily regulated business. I think that today, the CA is regarded as a platform for a career in business, and as a subset, maybe as a professional accountant in a regulated business. We have a large number of CAs in senior positions in the C-suite in industry, so I think we have shown that our platform creates business leaders across a broad spectrum. We’ve just got to keep making sure that vision of the CA is out there because our competition is made up of MBAs and law degrees as platforms for careers in business. We’ve got to make sure we’ve got the right pathways to get into the profession as well.

Côté: My point was that it is good for Canadians to have competitive pathways, but if you are in India and planning to come to Canada, is the CA a competitive pathway to get into the C-suite?

Ritchie: That goes back to the idea of improvement. We need our members to understand that the world is changing and that we can’t just stay the way we were. I think it’s a matter of who gets in there first, because others will. And if other groups get in there, whether it’s other accounting designations or MBAs or anybody else, we may not need more CAs because CAs might simply be people who do audits at accounting firms. That’s my biggest fear.

Clark: I think the value proposition that we’re trying to create is the same whether a person is coming from India or Europe or Canada or wherever. The question is, is the profession able to give the right training, development and experience that will allow that person to either stay within the profession or move into industry and seek other career options?

Côté: Let’s take the example of a bright young woman from India who wants to go into a global business career and who can either take an MBA at Schulich [York University] or McGill or go for a CA in Canada. If she’s in India, how does she do her CA in Canada? And if she enters the MBA in Canada, she is lost to your pathway, your platform. How do you make your platform attractive at a global level?

Dancey: We’re actually very close to a memorandum of understanding with India that we hope to complete in the first half of 2011 (see News from the profession, p. 16). It’s been a long journey. But if it is completed, the route for an Indian CA to become a Canadian CA would be simply to write the UFE. After that memorandum is in place, we hope to continue working with India to upgrade its programs so that we arrive at full mutual recognition. If that happens, it will be a lot easier for an Indian CA to become a Canadian CA than an MBA.

Farlinger: I think international standards have to help too. In a few years, experienced CAs in India will be able to fit right into our practices because we’re all using the same standards and thinking the same things.

Côté: One final question. If there’s a young woman or man...
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who is contemplating becoming a CA, what would you tell that person?

Henry: To be fair, I wouldn’t say the CA profession is the right answer for everybody. If that person is looking for access to the business profession broadly, I think there is strong empirical evidence showing we provide a great program and experiences to develop the next generation of leaders. We have done that for generations in Canada. The CA gives you mobility, it gives you access to the world, and it has only improved with time. We’ve never been in a better position to provide such a tremendous business development opportunity.

MacGibbon: I would say, if you love business and you want to be in business and you want to understand business, there is no better entry point than your CA. And I believe the best place to launch a career is in one of our firms. If you have that on your résumé and you have a CA on your résumé, the world is your oyster.

Clark: It is about the exposure you get to different types and sizes of business, as well as to different markets. It is about the opportunity to see different things, experience different cultures and to get experience in different industries, and different areas of our firms. The tremendous learning and development you get within the profession, even if it's only for a few years, allow you to grow and develop at a different rate than you would otherwise be able to do.

Thomas: Yes, working with diverse clients, surrounded by highly competent team members with deep expertise in a variety of areas who are available for consultation and available to help you develop personally — the development opportunities are unparalleled.

Farlinger: I would tell my career story. I think we could all tell a story about opportunities. As I remember it, you got bored doing something and you looked around and there was another opportunity in the firm. There were always new challenges, new people to meet. I think that's the way I would express it.

Ritchie: I would talk about all the doors that are open to CAs. I can't think of a better way to get into a profession, into the world. And I’d make sure they understood all the opportunities they can get with the firms and public practice. A lot of young people don’t know that the big firms can put them on assignments around the world, which is important to young people.

Noble: I’d say the sky’s the limit. It begins with having an opportunity to achieve a standard of professional excellence unparalleled in industry and to get a bird’s eye view of business in the broadest sense. I would talk about the opportunity to work on interesting and challenging assignments with the best talent and minds in the profession. I’d talk about the opportunities to coach and mentor other professionals and to develop leadership capabilities. Of course, I’d talk about the camaraderie — the fun, the collaboration and the lifelong friends made along the way. And finally, I would tell that person that what we do matters.

Côté: Bill [MacKinnon], there are only 30 seconds left.

MacKinnon: People should understand how great these seven firms are. You will never see a higher standard of integrity. It is unbelievable what you see every day. These people are just so ethical and full of integrity and they make the right decisions all the time. That’s such a great grounding when you're starting out in business. We should never undersell it. This is a great profession, full of extraordinary people.

Dancey: Excellent. On behalf of the CICA, I would like to thank Marcel [Côté] for facilitating this session. I would also like to thank each of you for participating. I think it has been a great session.
A unified approach?

While governing bodies work to converge transfer pricing and customs valuation, importers should work to mitigate the risks.

Multinational corporations that import merchandise from related parties can face significant challenges because transfer pricing and customs valuation are governed by different rules and, in many countries, enforced by different authorities. For the same set of import transactions, there is an inherent contradiction that exists such that the income tax authority, Canada Revenue Agency (CRA), has an interest in decreasing transfer prices to increase taxable income and corresponding taxes. In contrast, the customs authority, Canada Border Services Agency (CBSA), has an interest in increasing customs value, as this is the base upon which customs duties and other import taxes (e.g. GST) are levied. These competing objectives, in conjunction with the separate framework, rules and enforcement, have caused increasing frustration for companies engaged in global or crossborder transactions, to the point where the Organization for Economic Co-operation and Development (OECD) and the World Customs Organization (WCO) have sponsored joint conferences to discuss the possibility and/or desirability of converging transfer pricing and customs valuation.

The differences between transfer pricing and customs valuation rules and enforcement; situations where common transfer pricing issues can create customs exposure; and recommendations on how to mitigate transfer pricing and customs risk warrant a review.

Transfer pricing and customs valuation rules

Global transfer pricing standards are laid out in the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations. The OECD guidelines are meant to assist member countries with securing an appropriate tax base in each jurisdiction and to avoid double taxation.
To evaluate the transfer prices used by associated enterprises, the OECD guidelines focus on the application of the arm's-length principle and provide guidance on the transfer pricing methods that can be used to demonstrate adherence to the arm's-length principle. These transfer pricing methods are categorized as either traditional transaction methods or transactional profit methods. A previous version of the guidelines specified a hierarchy of transfer pricing methods, whereby the transactional profit methods were considered to be last resort methods to be used only in cases where there was insufficient data or other information to rely on the traditional transaction methods. However, recent revisions to the guidelines replace the hierarchy of transfer pricing methods (i.e., exceptionality) and stress the most appropriate method for a particular case principle for the selection of a transfer pricing method.

The determination of customs value for imported goods is governed by the Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade 1994, which is applicable to all WTO members. This WTO valuation agreement requires adherence to a uniform system of determining customs value based on a hierarchy of established methodologies. The most common methodology is the transaction value method, which provides for a value based on the selling price subject to certain adjustments. For related-party transactions, the rules seek to ensure that an arm's-length principle is achieved. Furthermore, the transaction value method applies to these transactions only if the relationship of the parties hasn’t influenced the selling price, as determined by examining the sale’s circumstances or by demonstrating that the price closely approximates certain test values.

The customs rules require an importer to examine the value of each product and import transaction at the time of importation. This is necessary given that duty rates vary based on the particular product that is imported. Although the transfer pricing rules imply that a taxpayer’s transfer price should be set on a transaction-by-transaction basis, in practice, transfer pricing rules are often applied using an aggregate approach. As such, while it is clear that the transfer pricing and customs rules both seek to justify an arm's-length principle, the complexity arises from the fact that both sets of rules have different methodologies and mechanisms for accomplishing that goal, and each program has at its root an opposite objective regarding the taxability of transactions. Furthermore, each taxing authority and/or customs administration may have a different interpretation on the application of a particular methodology and/or how to achieve a price or value based on the arm’s-length principle.

In Canada, Information Circular 06-1, or Income Tax Transfer Pricing and Customs (reproduced as Customs Departmental Memorandum D13 3-6), has been issued to provide taxpayers with information and guidance on the application of the rules. In particular, the document outlines key differences and similarities between the regimes, as well as a summary of the applicable methodologies. Notably, the document clarifies that the CBSA is not obliged to accept a transfer price determined for income tax purposes as a valid customs value, and vice versa.

Although some countries (such as Canada) have issued guidance on the application of the rules, the business community has expressed concerns over the complexity of the rules, the compliance burden associated therewith and the costs of applying inconsistent standards and reporting to different government agencies. In response, the WCO and OECD held two joint conferences, in 2006 and 2007, to understand the issues and discuss them amongst customs and tax authorities as well as the business community. The main themes that emerged from the conferences included the possibility of converging the two sets of rules; exploring avenues to provide greater certainty for businesses through advanced pricing agreements (APA), joint rulings, dispute resolution, etc.; increased information sharing between tax and customs authorities; and exploring the potential for joint audits and compliance. Subsequent to the conferences, a focus group on transfer pricing was also set up, with delegates from the WTO, WCO, OECD, customs and tax administrations and the private sector. The work of the focus group, in conjunction with the technical committee on customs valuation, is ongoing. It is anticipated that as a result of the technical committee's analysis of various case studies, certain instruments will be issued to clarify the application of the rules based on the issues raised under the case studies, as well as certain best practices identified through submissions made by administrations and stakeholders, including country submissions made by Canada, the US, Australia and Korea.

### From an enforcement perspective, there is significant divergence even amongst the different tax and customs administrations on how to regulate the requirements

**Transfer pricing and customs enforcement**

From an enforcement perspective, there is significant divergence even amongst the different tax and customs administrations on how to regulate the requirements.

During an income tax audit in Canada, auditors assess the arm's-length nature of a transfer price using the guidance provided in Canadian tax legislation and the OECD guidelines. Tax auditors typically request and review transfer pricing documents to assess whether a taxpayer's transfer pricing policies were determined using a method that results in the most reliable application of the arm’s-length standard. In many cases, tax auditors have agreed with a taxpayer's selection of the transfer pricing method but disagree with the application of the method. This point can be illustrated by the fact that taxpayers and auditors normally determine an arm's-length range with respect to a transfer price based on a sample of comparable companies, giving consideration to the functions performed, risks assumed and assets employed by the related parties (notably, taxpayers and auditors often disagree on this range of results). Where a transfer pricing adjustment has been made by the taxpayer or
the tax authority, the customs requirements should also be considered, given that the customs value of goods traded between the related parties may also require a corresponding adjustment to be filed with the customs authority.

During a Canadian customs audit, the administrative policy is generally to accept a transfer price that has been determined under one of the methods governed by the OECD guidelines, or under an APA, as evidence that the relationship of the parties has not influenced the price. However, there is also a focus on examining all intercompany payment flows in order to ensure that all adjustments to the price, as provided under the Customs Act, have been made. In this regard, CBSA verifications routinely examine payments such as royalties, R&D, management fees, etc., for potential inclusion in the customs value of imported goods. The most controversial issue in this respect has been the issuance, in July 2009, of D13-4-13, entitled Post-Importation Payments or Fees “Subsequent Proceeds,” which starts with the presumption that all payments made to or for the benefit of a vendor are required to be added to the price in determining customs value whether or not the payment is in respect of the goods or made as a condition of their sale. While this is a fairly new policy, early indication is that regional verification officers are reading very onerous and, in some cases, unreasonable requirements into the policy.

In terms of other enforcement issues, it is noteworthy that, in Canada, the obligation to correct customs declarations ends four years after the date that the goods have been accounted. However, with respect to transfer pricing adjustments for income tax purposes, the normal statute of limitations for a corporation, either three or four years, is extended by an additional three years. While exposed to different reassessment periods for customs and transfer pricing audits, a taxpayer’s situation is further complicated by timing differences between CRA and CBSA audits. In fact, once an adjustment is made for transfer pricing purposes, the customs transactions affected may be statute-barred from correction under the Customs Act.

**Risks and mitigation steps**

Tax administrations around the world, including the CRA, have increased their focus on transfer pricing and there has been a rise in transfer pricing disputes globally. In addition, the CBSA actively conducts verifications based, entirely or in part, on the proper determination of customs valuation, and related-party transactions are generally a key focus area. Given the differences in the transfer pricing and customs regimes, multinational corporations should be mindful that customs issues relating to transfer pricing are not disregarded. Careful planning can prevent tax issues and controversies in the future. Some potential risk areas and steps to mitigate these risks include:

- ** Sufficiency of documentation**
  
  Documentation of transfer pricing policies will aid taxpayers in defending the arm’s-length nature of their intercompany pricing and will demonstrate that the transfer price should be an acceptable base for determining customs value. Ensuring that there is adequate documentation in place to support related-party payment flows (e.g. royalties, management and administration fees, buying commissions, etc.) will reduce the risk that such payments will be required to be included in the customs value.
- Securing a joint ruling or an APA
  An APA is an agreement between a taxpayer and a taxing authority regarding an appropriate transfer pricing methodology for a particular intercompany transaction. In many cases, taxpayers may be committed to an APA arrangement for transfer pricing methods that have an undesirable effect on the customs valuation of imported goods. In general, the CBSA will accept a transfer pricing methodology agreed to under an APA. However, an APA price will not be accepted as a customs value until certain mandatory adjustments are made. In some jurisdictions, such as the US, it is more common for the customs administration to be involved in the APA process. Further, based on consultations between the WCO and OECD, there appears to be a global movement toward increasing certainty and, to the extent possible, convergence between the two systems. Accordingly, importers might consider involving the customs authority in the APA process with a view to providing a ruling concerning the valuation of future importations and the dutiable status of certain payment flows. At a minimum, the parties to an APA should include customs and trade analysis as part of the intercompany pricing strategy.

- Transfer pricing adjustments or changes in policies
  When a taxpayer's transfer pricing policy involves targeting a specific arm's-length profit margin, it is common that transfer pricing adjustments are made during the year or at year end to achieve projected financial results. Although the purpose of such adjustments is to be compliant from a transfer pricing perspective and to avoid income tax risk, they can result in risk from a customs perspective. If such adjustments are made or changes in transfer pricing policy are contemplated, it is important to consider the impact on customs value. Upward transfer pricing adjustments would likely result in additional duty payments, taxes and interest, as applicable. However, a downward transfer pricing adjustment does not have to be accepted by the customs authority and consequently a refund of duty should not be expected. Denying the duty refund means the importer has been subject to double taxation (i.e., increased income tax due to lowered transfer price, whereas duties have already been levied on the higher price). Double taxation may also result where multiple jurisdictions seek to include all or a portion of the same related-party payments or allocations in the value of goods imported into their respective jurisdictions.

- Leveraging the CBSA re-assessment policy or voluntary disclosure program
  Although the retroactive correction period for customs purposes is four years, CBSA policy is that, in certain instances, where an importer initiates its own review (internal or external), there may be an avenue to correct identified issues on a go-forward basis only. Caution is warranted, however, as the policy requires that the importer had no prior reason to believe the error existed, which is very subjective, and it specifies certain requirements about documenting the review and findings. Where an importer-initiated review is conducted, and the above policy is not applicable, the importer can disclose the issue under the voluntary disclosure program in order to mitigate penalty and interest exposures. If the subject goods are nondutiable and the GST owing is recoverable (referred to as “wash transactions”), there may also be the potential to eliminate the penalties and interest entirely under this program.

It is evident that the divergence of the transfer pricing and customs objectives and rules leads to complexities in ensuring compliance for multinational organizations. While international governing bodies are continuing to work toward convergence of these regimes, importers should undertake steps to mitigate their risks and simplify the administration where feasible.

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Technical editor: Jay Hutchison, tax managing partner, Canada, E&Y
No cause for panic

Forming a plan for NFPO audits under CAS and a few other steps will help improve service to clients and reduce audit risks.

Are you ready to implement the Canadian audit standards (CAS)? The standards are effective for audits of years ending after December 14, 2010. The transition from the old standards may not be as onerous as you might expect. To help with implementation there are a number of tips you can follow.

Read and understand the standards
The audit standards are not a sea change in audit practice. The structure of the audit remains the same: engagement-acceptance procedures followed by planning, risk assessment, response to identified risks, forming an opinion and reporting. However, some requirements are phrased differently from before, many allowing for greater audit efficiencies. If you don’t read and understand the requirements, you may miss some or even perform unnecessary procedures. As a result, your fee recoveries could suffer.

Comprised of 36 standards and 572 requirement paragraphs in more than 800 pages, CAS is a weighty tome. That said, in the majority of small not-for-profit organization (NFPO) audits, several standards will likely not be applicable (for example, standards dealing with reliance on experts and internal auditors). In addition, many of the requirements in standards that are relevant will probably apply only infrequently (for example, those dealing with special-purpose reporting frameworks and management-imposed scope limitations).

But you can only know which requirements are not relevant to your NFPO audits if you read and understand the standards. The good news is the CAS structure makes this relatively easy. Open the book; pick a section; read “CAS 300, Planning an Audit of Financial Statements.” You might be surprised how understandable it is.

Implementation as an exercise in change management
CAS pertaining to NFPO audits is likely to provide a stable platform of standards for the foreseeable future. This is the first time in many auditors’ careers that audit standards are not expected to change to any appreciable extent over the next five to 10 years. Investing time now will pay dividends in the future. Auditors could take this opportunity to treat the implementation of CAS as an exercise in managing change as opposed to learning a new skill. Specifically:

• appoint an implementation leader in your firm;
• figure out which standards and which requirements are relevant to your NFPO audits;
• take time to read the standards. You can do that in manageable chunks over a number of weeks if you start now;
• as you digest the standards, make a note of the changes you need to make to your current audit methods;
• inform everyone in your firm of the changes required; and
• discuss the changes with your clients and colleagues now.

A bonus is that you will be able to use the same change management plan when you implement the new NFPO accounting standards, which are effective January 1, 2012.
Talk with your clients now
CAS has some new and very specific communication requirements; use these to your advantage. For example:
• CAS 210 — “Agreeing the Terms of Audit Engagements” requires management to acknowledge its financial reporting responsibilities in every NFPO audit. The audit is premised on this acknowledgement. Make sure management knows what it has to bring to the table in order for you to do your audit. If you have a hand in drafting the financial statements, this may be an opportunity to explain to your client the safeguards you have put in place to protect your independence. Part of management's financial reporting responsibilities includes selection of an appropriate financial reporting framework. For fiscal years beginning on or after January 1, 2012, NFPOs must choose to adopt either the new accounting standards for NFPOs as Canadian GAAP or IFRS, with early adoption permitted for both. Consequently, you may also wish to raise issues related to adoption of a new financial reporting framework with your client at this time.
• CAS 240 — “The Auditor’s Responsibilities Relating to Fraud” and CAS 350 — “Related Parties” require you to ask very specific questions of both management and board members in every NFPO audit. Take a minute to make a tailored checklist of what you need to ask client personnel in your NFPO audit engagements; then ask away. Remember, it is intended to be a two-way conversation.
• CAS 265 — “Communicating Deficiencies in Internal Control to Management and Those Charged with Governance” requires you to report all significant deficiencies in internal control in writing. CAS 260 — “Communicating with Those Charged with Governance” requires you to report other matters important to the financial reporting process. Many NFPO clients respect your expertise and appreciate your suggestions. Use these sections to your advantage as an opportunity for enhanced client service.
• CAS 700 — “Forming an Audit Opinion and Reporting on Financial Statements” requires an audit report that is quite different from the one we have used so far. At some point, go through the new report with management. It might be interesting, for example, in why the report, if it includes a scope limitation on the completeness of donations received from the public that is common in many charitable organizations, may not fit on one page. Consider including the expected text of the scope limitation in the engagement and audit-strategy letters that you issue at the beginning of the audit to prevent surprises toward the end.

Audits under CAS will probably look and feel quite similar to those carried out in the past. But you need to act now, talking to colleagues and clients at every opportunity
file the risks of material misstatement you have identified at the assertion and financial-statement levels (CAS 315.25) and those you have classified as significant (CAS 315.27). Have a look at the actual requirements. They are written very plainly.
• Will that colleague then be able to see the link that ties the audit procedures you think necessary to the assessed risks? If you have identified any risks of material misstatement and have not performed or documented audit procedures to address those risks, your audit is deficient. If you have performed procedures not tied to a risk, you may have inadvertently over-audited. And in small NFPO audits, over-auditing can play havoc with recoveries.

Summing up
Implementation of CAS should not be cause for panic. Audits under CAS will probably look and feel quite similar to those carried out in the past. But you need to act now, form a plan of attack, talk to colleagues and, most of all, talk to clients at every opportunity. This may be a chance to improve service to your NFPO clients and to reduce your audit risk. Happy auditing.

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Technical editor: Ron Salole, vice-president, Standards CICA
No quick fix

When it comes to managing fraud risk in an organization, there’s no easy solution. It’s all about being on guard.

A key question for many organizations is who is actually responsible for managing fraud risk? Obviously, the managers in place are, but how much responsibility belongs to players such as internal auditors, external auditors and risk managers?

Reducing the risk of fraud requires the input of many stakeholders within an enterprise. Each is a key player in a process that must be organized and structured. And the effectiveness of any activity involving many players may be undermined unless responsibility is clearly defined and communicated.

Who are the players and how can they be motivated to take responsibility without distracting them from management’s strategic and organizational goals?

Gone are the days when management could claim that external auditors were responsible for detecting fraud. Although they may consider fraud risk within the scope of their work, detecting fraud is not their primary responsibility; it is management’s responsibility. Management must develop and implement reliable and effective internal control systems.

Internal auditors may also be asked to step in during their assignments. The risk management group may be required to look into fraud risk as well, especially if it has been identified as one of the organization’s material risks. Lastly, the financial compliance group (52-109 or SOX certification) also has to consider fraud risk, specifically the risk of financial fraud.
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Types of fraud
Understanding the types of fraud that can arise is a prerequisite to effective fraud management. Financial fraud comes to mind first; but fraud is a much broader concept that can refer to corruption, theft of data, assets or personal information, forgery, overbilling, fictitious invoices and the like.

How is it possible to protect an organization when so many types of fraud can affect so many people? Who within an organization can make a difference when it comes to preventing and detecting fraud?

When numerous players say they consider fraud risk in their work, it might give the impression that risk is fully covered. Is it? Is the coverage commensurate with management’s needs? If it isn’t, the audit committee may be lulled into a false sense of security.

In fact, fraud risk is often poorly understood and under-discussed at audit committee meetings.

The internal auditor’s role
This situation is of great concern because isn’t the internal auditor supposed to keep the audit committee up to date on the matter? The internal auditor must persevere and periodically include fraud risk as an item on meeting agendas.

The auditor may ask such questions as has the organization compiled an itemized fraud risk inventory? Has the organization identified its most significant fraud risks? Are mechanisms in place to remedy these risks? Has the organization performed vulnerability analyses?

Types of fraud and the inherent risks must be thoroughly analyzed. Internal audit is typically responsible for cataloguing types of fraud and fraud risks, either by using fraud simulation techniques (fraud scenarios) or performing vulnerability analyses.

Another strategy is to hold cross-sector management workshops to identify potential types of fraud, measure risks and determine which prevention mechanisms to implement. To increase accountability for material risks, the risk manager could present the risk he or she oversees to the audit committee and explain how he or she intends to limit that risk. Don’t underestimate the time and energy needed to sensitize the organization to fraud risk. Reminders are required to raise awareness among managers affected by this risk.

Considering that an organization may lose 5% to 7% of its revenue to fraud, the issue is surely worth studying, particularly in a time of economic instability and implement employee-assistance and staff-leadership programs to overcome employee negativity.

Code of ethics
A code of ethics is essential. Drafting a standard code and posting it on the company intranet is not enough. It should clearly state what is ethical for the organization and explain which behaviours are tolerated and acceptable, using examples. For instance, the code might put a reasonable price limit on supplier gifts or define the behaviour expected by the organization. Such concepts should not be left open to interpretation. The code of ethics should be substantiated with examples. Many organizations have even developed intranet capsules for employees.

And remember, employees must know who to ask if they are unsure about how to interpret the code of ethics. Posting general interest questions and answers on the intranet is a sound practice. A clear code of ethics is a step in the right direction, but it’s only the first step — it has to be communicated and enforced.

Constant reminders, posters and messages are also useful. An organization must ensure that employees are complying with the code by performing spot audits. The internal audit function can play a role in this area.

Management must also convey the company’s values, setting an example by its behaviour. How can an organization claim to instill rules of ethics if its managers transgress those very rules? Management’s tone will pave the way to success.

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Royal treatment

Certain industries are more susceptible to royalty fraud, but investigating and proving it is a challenging process.

The fraud was ingeniously simple — and lucrative. A dozen young British adults, including two 19-year-olds, contracted a US-based company to promote, on Apple’s iTunes and Amazon’s MP3 stores, about 20 songs they had allegedly produced. The company was successful and the songs were posted on the two popular online music sites.

The group then used stolen credit cards to download their own songs about 6,000 times between January 2008 and June 2009. A percentage of the revenue, which has not been released by the London Metropolitan Police Central e-crime Unit, was turned over to the group as royalty payments.

In December 2010, Lamar Johnson, 19, was the first of the group to face conspiracy to defraud charges in court. He pled guilty and admitted to downloading about a third of the transactions. His sentence, five years in prison, was a strong message that royalty fraud is being taken seriously by the British legal system.

While that investigation was relatively straightforward, many royalty frauds are trickier to pursue. One example is a dispute in the oil and gas industry that took seven years to resolve.

In September 2010, a US federal judge ruled that Kerr-McGee Oil and Gas Corp. of Houston had to pay almost US$23 million in penalties for having defrauded the US federal government out of royalties after a jury found it guilty three years earlier of having submitted false royalty claims. The amount was triple the US$7.5 million the jury had assessed.

At the trial, the jury found that Kerr-McGee had sold its oil to Texon Corp. for below-market prices from 1999 to 2002 as part of an arrangement with Texon to provide marketing services and other incentives, The New York Times reported.

The judge also awarded about US$5.7 million under the government’s qui tam, or whistle-blower program, to Bobby Maxwell, the auditor who brought forward the fraud allegations. Maxwell worked for the federal Minerals Management Service (MMS), the Interior Department agency charged with regulating the oil industry and collecting royalties from it. When Maxwell told MMS he believed Kerr-McGee was vastly underpaying royalties on the 57 oil leases it held with the government, according to the Times, he was let go by the agency, a move he charged was a clear case of retaliation. Interestingly, MMS “was implicated in the recent problems leading to the BP oil rig explosion in the Gulf of Mexico.”

The Times noted that a 2007 report by the Interior Department had found that “the Maxwell case was part of a
troubling culture of management problems at [MMS], in which officials had overlooked evidence of abuses or fraud by oil companies.”

Reporting royalties in the oil and gas industry is not necessarily a straightforward process at the best of times. “Royalties can be denied in a few ways,” says Mick Winter, author of Peak Oil Prep. “Oil and gas producers [can report] lower levels than they produce in order to circumvent paying the royalties. Inflating production expenses is another way they scheme to avoid paying royalties.”

In fact, royalty fraud is often a challenging process to investigate and prove, no matter what type of industry is involved. It is also an area that receives limited attention in the corporate world or in the media (except when a case has some resonance with the public, such as the downloading music scam).

At the same time, it’s an enormous problem — one recent case in Canada involved $50 million in royalty fees owed to a government agency by a private business using a government facility — and often complex. The latter is caused by the difficulty in determining if an alleged underpayment of royalties is the result of fraud or just bad bookkeeping.

Even if a company suspects it is being deliberately cheated out of royalty payments, it can be reluctant to initiate a fraud investigation for fear of damaging a business relationship with the suspected fraudster. This is particularly the case in the franchise world.

It’s no secret in franchising that some franchisees fail to report all their sales to the franchisor. They often argue that the financial relationship is far too tilted in favour of the latter, so if they want to survive they have no choice but to under report. Whether true or not, they are legally contracted to provide accurate revenue numbers.

Proving the books are cooked can be done by critically analyzing the documents. One method is to take a complete extract of the sales and look for anomalies. Proving the books are cooked can be assessed by analyzing the documents. One method is to take a complete extract of the sales and look for anomalies.

One such case occurred in the US when a franchisor was certain the franchisee was paying his staff at a popular bar with cash skimmed from sales. He retained a forensic accountant to determine the average reported revenue for a four-week period leading up to the date of a week-long invigilation and a four-week period following it. During the invigilation the staff, knowing they were being carefully watched, dutifully recorded all cash sales. When the analysis of the nine-week period was completed there was a significant, and telling, spike in sales for the one week when the invigilation had taken place.

When confronted with the results of the investigation, the franchisee admitted what he had been doing. He had a large number of undocumented workers and had begun the scheme as a way of helping them out. The franchisor, who thought the business was being run well except for the deception, agreed to continue the relationship on a probationary basis and negotiated a partial repayment plan with the franchisee.

Perhaps the most common scam perpetrated by franchisees is the purchasing of supplies from sources other than the franchisor. A primary reason for this, franchisees say, is because of the high cost levied by the franchisor for supplies that could be purchased cheaper from discount retailers. Rather than using their buying power to offer franchisees reduced rates for supplies, many charge more. Some franchisees have also discovered that corporate-owned stores pay less than they do for the same supplies.

It’s mostly people with good credit who are coming in.”

Unconvinced, the forensic accountants proposed a simple sting operation. On several occasions groups of two to six customers employed by the forensic team ate at the restaurant at lunch or dinnertime. After the bill came to the table, one customer went to the washroom and took a time-stamped photograph of the bill. The customers then paid the bill in cash and, after returning to the team’s office, signed statements that the copy of the bill, which had now been downloaded and printed, was a true copy of what the waiter had presented them.

When the forensic accountants subsequently examined the restaurant’s receipts for the days when the undercover patrons had eaten at the franchise, 25% to 35% of the group’s receipts were missing. This information was eventually used to help terminate the contract with the franchisee.

A somewhat similar, and most effective, investigative tool used to expose unreported cash sales is a process known as invigilation. This is an opposite approach to employing undercover work. It involves telling a suspected fraudster that for a specific period of time a group of observers will be on the premises to ensure that all transactions are accurately recorded.
franchisors apply to assess whether sales are reported accurately is to look at how much supply is ordered. In the food business, for example, the amount of flour or food mix ordered indicates how much product is being cooked and, ultimately, sold. If the franchisee can obtain a percentage of that product from sources other than the franchisor, the books will seem accurate when, in fact, they are not.

Although industries such as the entertainment business, oil and gas and franchising tend to be more susceptible to royalty fraud, the problem can occur in others. In the vehicle rental business, for example, the dispute might focus on what components of the business royalties must be paid on. Should they be paid on only the revenue achieved from renting the vehicles, or should they include insurance fees, car seats, GPS devices and other add-ons?

The answer is in the parties’ agreement, a document not always read in detail or understood by one or more of the players. No royalty investigation should begin without the agreement being studied clause by clause. Increasingly, these documents are becoming more complex. That can result in genuine mistakes made by either side; it can also be an excuse for deliberate misinterpretation of the conditions set out in the paperwork. “I had no idea this wasn’t allowed,” one person who deliberately underreported royalties said. “The agreement was so hard to follow.”

Any royalty holder needs to have negotiated a clearly written agreement allowing the holder to audit the royalty payer’s books. Ideally, the agreement should permit random audits, not just those on an agreed-to schedule. Random audits in general are one of the greatest fraud deterrents. If a fraudster knows his or her books can be examined without notice (as long as the process is conducted in a reasonable manner that doesn’t impinge on the business negatively) it can have a sobering and positive impact on the person’s honesty.

Random audits will not necessarily (although they may) expose a second set of books, which is how some fraudsters cover up wrongdoings. In many cases the existence of a second set of books is uncovered during interviews with staff at the company being audited. It’s unusual for just one person to know of, and be complicit in, such an undertaking. It’s hard to keep such a practice a secret. The more junior the accomplice the greater the chance the person will tell the truth, especially if reminded of the consequences of lying. Critical for the forensic accountant doing the interviews is to ask if a second set exists. Even if the question is part of a fishing expedition it’s worth putting on the table.

Before commencing the audit the forensic accountant should also understand the industry in question. Too often, accountants focus on the agreement itself and fail to educate themselves on the way the industry operates and how agreements are enacted in practice and not just in theory.

Whether a client wants to call it a fraud investigation or just a review, the key to this kind of assignment is to know how payments are supposed to be recorded and every possible trick or mistake that can result in underpayments. In other words, give every file the royal treatment.

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Assurance
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Sound internal control systems
Preventing fraud also means communicating clear policies and procedures and setting up internal control systems, which are an excellent way to keep fraudsters at bay.

In today’s economic climate, organizations are cutting costs by downsizing or reorganizing, neglecting certain internal controls in the process. There should be a sharp focus on segregation of duties in any organizational change, because a deficiency in this area can often be the source of fraud.

Although management is the chief watchdog over internal controls, the internal auditor, who has expertise in the area, is a key player. There’s nothing like an internal audit in a sensitive or vulnerable sector to keep everyone on their toes. Internal audit techniques have grown more sophisticated. Many are automated and can detect patterns of fraud. These high-performance tools can process a large volume of data in next to no time.

Whistleblowing
The ultimate fraud fighter, the most effective weapon in the arsenal is whistleblowing. It’s still the best way to detect fraud within an organization. According to the 2008 and 2010 Global Fraud Study, almost half of all fraud was detected through whistleblowing. This process within any organization should therefore be flawless.

How often have audit committees said that there was no whistleblowing in the last quarter? Although many organizations may see this as a healthy state of affairs, it may be the opposite. Employees often refrain from whistleblowing because they do not believe their anonymity will be assured or they feel threatened or intimidated. Often, this ethical recourse is managed internally, which is an effective way to keep informants quiet.

Taking time to properly assess a company’s whistleblowing process is vital. Outsourcing it to a neutral and independent party is another way to go and there could be surprises in store for many organizations.

Organizations hold a false sense of security when it comes to managing fraud risk, and no organization can claim to be immune. Thought should be put into clearly defining and understanding this risk. Fraud awareness should be raised within an organization and appropriate safeguards should be implemented.

Unfortunately, there is no quick and easy fix for fraud. It’s best to be on your guard. After all, can your organization afford to lose 5% to 7% of its revenue?

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Greed is bad

None of Wall Street’s titans sued journalist Michael Lewis for defamation following the release of his book *The Big Short*. Yet, Lewis accused them of being corrupt, putting their own interests ahead of their clients’ and not knowing their products, in short, of excusing the inexcusable.

Wall Street toed the line, promised not to do it again and pocketed government bailout money to rescue its funds or those of its debtors. It started making money again, and as soon as it paid back the government, went back to high-stakes speculation. That the hard-to-control Wall Street machine triggered the global recession, causing millions of job losses, is immaterial.

Wall Street is a constellation of financial institutions that manage capital from all over the world. But it is dominated by a few investment banks, including Goldman Sachs, JP Morgan Chase, Citigroup, Bank of America, HSBC, Credit Suisse, UBS and Deutsche Bank. The concentration of financial power is best illustrated by the derivative market: less than 10 banks control 95% of this US$200-trillion market. Officially their main activities consist of meeting the needs of clients, governments, large enterprises and the financial sector, but a significant portion of their profit comes from investing their own capital on the financial market (proprietary trading).

In the good years, investing their own capital was their main source of profit. Their move into the subprime market between 2005 and 2008, as a result of that investment strategy, was the cause of the bubble that led to the financial crisis and the loss of hundreds of billions of dollars.

These investments are huge bets on economic and financial conditions. In most transactions, bankers on both sides of the market are trading for themselves or for clients. Besides creating conflicts of interest between their investment activities and their fiduciary responsibility to clients, these bets are also extremely risky.

In his book, Lewis describes the magnitude of the bets Wall Street routinely takes. Blinded by potential financial gains, senior bank executives close their eyes to the abuse. Furthermore, compensation packages structured around big bonuses encourage traders to exploit their knowledge of the market in their own interest, a clear conflict, well documented during the subprime crisis.

US President Obama’s legislative overhaul, named the Volker rule, was intended to restrict banks’ speculative investment with their capital. But the 2010 regulatory framework that came out of US Congress is full of loopholes that allow Wall Street bankers to maintain significant proprietary investments. The only change is that speculation activities will move from subprimes to new markets, where Wall Street access to privileged information will provide a competitive edge and the chance to make considerable profits. Greed is still the dominating value on Wall Street. Nothing’s been resolved. With the amount of speculative capital in play, we can expect another crisis, perhaps even worse than the one in 2008.

Canadian banks avoided such excesses because their investing strategies involved little proprietary trading. But there’s no guarantee they will continue with intermediation activities. Increasingly active in the US, our banks may be tempted to emulate Wall Street counterparts.

A lesson must be learned from the meltdown of the US financial system. Financial history repeats itself, with excessive greed being the catalyst to economic crises. Canadian banks should limit their activities to financial intermediation. Regulatory authorities should prohibit them from speculating on the markets with their own capital. Our banks benefit from significant privileges, such as deposit insurance and access to Bank of Canada funding. In return, Ottawa could demand they use their capital to meet their clients’ needs first.

Marcel Côté is founding partner at SECOR Consulting in Montreal
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