

# CA

magazine

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## Greening and dealing

The world is preparing to update its environmental policy in Copenhagen this month, and CA students article in industry

Later this month, more than 15,000 representatives from many countries will meet in Copenhagen to carve out the next global environmental accord. Success is far from guaranteed, as the stakes are high and will impact states and individuals in many ways. To mark the event, billed as the new Kyoto, *CAmagazine* has two stories on environmental issues and how they will provide opportunities to members of the CA profession who take notice.

In “The business of climate change” (p. 28), CICA consultants Julie Desjardins and Alan Willis explain that climate change and other environmental and sustainability issues have changed the way business is conducted. “Unlike the recent financial crisis, from which most economies will gradually recover in time,” they write, “climate change as a formidable business issue is here to stay.” This has broad implications for CAs, particularly those in the fields of regulation, risk, reporting and valuation. The writers look at the challenges and opportunities ahead.

What is Canada’s stance on this? The country’s position evolves daily as various stakeholders try to influence public policies. Brigitte Alepin,

*CAmagazine’s* technical editor for small business taxation, Julie Larocque and François Therriault in “Toward the green deal” (p. 36) provide background to help us understand what is at stake and offer potential solutions.

The CA profession is also moving ahead in new directions to continue attracting the best and the brightest. CA students now have the option of completing their practical experience requirements in the corporate world, outside the audit path traditionally offered through public accounting firms. Robert Colapinto presents the program in “Industry approved” (p. 22) and talks to students articling in such companies as Nexen, J.D. Irving, Great-West Life and Royal Bank.

Our Regulars department for this last issue of the year presents articles on taxation (p. 40), technology (p. 43) and assurance (p. 46).

The importance of financial systems to generate appropriate information is also pointed out by Jim Carroll in *Netwatch* (p. 12). Such systems, he says, will prove crucial for what he calls the next economy, which will be based on ever faster business cycles. This ties in with Michael Burns’ *Work in process* (p. 13), in which he presents *CAmagazine’s* latest survey on business intelligence and corporate performance management systems.

Finally, Marcel Côté reflects on good governance in today’s corporate environment. In “Who is being served?” (p. 56), he argues that “good governance means much more than defending the rights of minority shareholders.”



Christian Bellavance, Editor-in-chief

## upfront

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Anne Marie Tucker has flipped, literally. The manager of the dispute analysis and valuations group at PwC in Hamilton does cartwheels, jumps for joy and even tosses teammates. She is a cheerleader with a parent-led, adult squad, which often performs to packed stadiums

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Environmental and sustainability issues are changing the playing field and are creating opportunities for chartered accountants in risks, regulations, reporting and other roles

BY JULIE DESJARDINS + ALAN WILLIS

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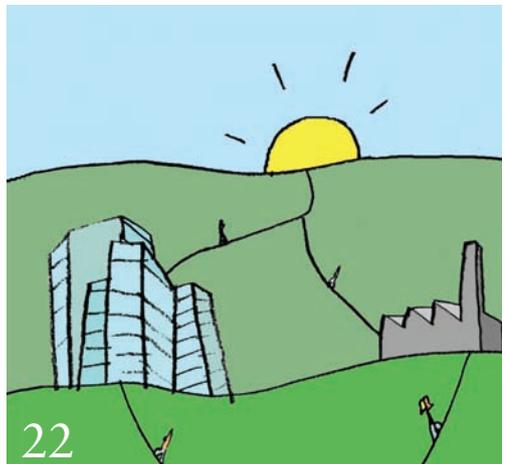
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# Mailbox

## CREATIVE BONUSES

Re: "What can a firm do to prevent corporate fraud?" (Ask an expert, October), there is another point that can be added: the awarding and monitoring of bonuses. The availability of bonuses can encourage some managers to become "creative." Also the power to award or deny year-end bonuses pretty well guarantees that any indiscretions of that manager will never see the light of day.

**Garry Parker, CA**  
Winnipeg

I enjoyed the October issue of *CAMagazine* and was particularly interested in "What can a firm do to prevent corporate fraud?"

While the section was well written and the content good, I was disappointed that the expert highlighted in this article was neither a CA nor apparently has Canadian experience. I am quite confident that through the Investigative and Forensic Accounting Alliance of the CICA you would have little difficulty in identifying a CA-IFA expert of equal stature and qualifications to highlight.

**Peter Dent, CA-IFA, CA-CIA, CPA-CFF, CFE**  
Toronto

## LOSS OF CREDIBILITY

The irony of Jim Carroll's column "Can CAs help save the world?" (Netwatch, September) is so devastating I had to comment.

The first example is his acquiring a device to control thermostats in his home and ski cottage to "reduce his environmental footprint." He is espousing the Intergovernmental Panel of Climate Change's theory that "anthropogenic CO<sub>2</sub> causes global warming." This is another case of the CA profession ignoring science. The profession, in my opinion, is heading for a loss of credibility by not leading the charge in denouncing this theory and not encouraging the public to do the same. Hopefully, the UN and its IPCC and supporters will be punished by the public for their misdeeds. It is sad that my profession may be included in that sorry group.

**James Shutiak, CA, MBA, CMC, CFE (retired)**  
Calgary

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# UPFRONT

News, people, briefs, trends + tips

## Jumping for joy



**Three cheers for Hamilton CA Anne Marie Tucker, who loves performing at competitions in her newfound sport**

Being in front of a crowd of 5,000 people makes Anne Marie Tucker literally flip. As a member of a parent-led, adult cheerleading squad, the Hamilton CA says she loves performing to a packed stadium. “I feel the excitement of the audience, and we feed off the crowd,” says Tucker, 36.

The manager in the dispute analysis and valuations group at PricewaterhouseCoopers in Hamilton joined CheerForce Parent Pack three years ago after witnessing how much fun her son, Hayden, now 7, was having cheerleading and discovering that there was a parent contingent. “My son’s friend’s mom basically dared me,” she says.

Never one to shun the spotlight, Tucker gets a thrill from performing. “Even in my work, I love doing presentations to adjusters,” she says. “Besides, you can’t be too modest if you’re doing cheerleading — you’re wearing a short skirt and when you do a cartwheel, people can see the gold bloomies you’re wearing.”

In high school, she preferred volleyball, softball and swimming to shaking pom-poms on the sidelines. But competitive cheerleading is different, says Tucker: “There are no pom-poms — it’s really a sport.” Each two-and-a-half-minute routine consists of stunting (building human pyramids and other formations), dancing, jumps, tumbling and cheering. In the position of “base,” a support at the bottom of pyramids and other poses, Tucker is learning how to toss teammates straight up and catch them in a seated position on one extended arm. Sounds tough, but cheerleading is incredibly fun, she insists: “It’s also a good escape from a very demanding job.”

The team of 30 men and women — including a former Olympic figure skater and NFL cheerleader — performs four times a year at local, provincial and national competitions. Angela Pirisi

### Résumé

- 1998** joins Coopers & Lybrand, Hamilton
- 2003** obtains CA designation (Ont.)
- 2007** joins the CheerForce Parent Pack Team
- 2009** to perform at Cheer Alliance Cheer for the Cure, Dec. 12, GM Centre, Oshawa, Ont.

## Global village goes broadband

One in five households worldwide will have a fixed broadband Internet connection in the home by the end of the year, according to IT research and advisory company Gartner Inc. That works out to 422 million households, up from 382 million last year, and nearly 580 million households are expected to have a fixed broadband connection by 2013.

“Multiple motivations are conspiring to keep broadband growth strong,” says Amanda Sabia, principal research analyst at Gartner. These include more affordable PCs and broadband subscriptions, migration from dial-up and aging populations requiring broadband connectivity.

At the end of 2008, nearly seven in 10 (69%) Canadian homes had broadband connections, a rate matched or bettered by only five other countries: Switzerland, 69%; Hong Kong, 72%; Denmark, 75%; Netherlands, 80%; and South Korea 86%.

## COMPETITION, DEMAND STILL TOP ISSUES

Competition in the marketplace and customer demand are the main challenges facing Canadian businesses, according to a 2009 CICA/RBC Business Monitor survey. Seven in 10 executive-level CAs polled say competition in the marketplace is of major or moderate importance, down slightly from 79% in 2008. Customer demand is considered important by 69% of respondents, virtually unchanged from 67% in 2008. The only other issue at least half of respondents rated as important is the value of the Canadian dollar, at 54%.

The survey also found some significant changes from year to year. The issue that increased the most in importance is collecting receivables, up to 34% in 2009 from 24% in 2008. Also up are access to capital, cost of capital and liquidity.

Availability of management skills declined the most, with only 32% of respondents rating it as important in 2009 compared with 51% in 2008. Other issues that declined in importance are regulatory requirements and succession planning.

### Issues of importance to Canadian businesses, according to CA executives



Source: CICA/RBC Business Monitor, August 2009

The results are from the Q2 2009 CICA/RBC Business Monitor survey conducted in August 2009. Go to [www.cicarbc-businessmonitor.com](http://www.cicarbc-businessmonitor.com) to view the full report for this study. John Tabone is CICA's manager of member value and research services



### ASK AN EXPERT

#### ARE E-MAIL GAFFES THAT BIG OF A DEAL?

**E-mail mistakes can be painfully visible and viral. Professionals should not do anything to cause employers to question their competence or judgment, and that means paying close attention when sending any message, particularly if the information is sensitive. Here are a few tips to help you avoid e-mail errors:**

**Give it your undivided attention.** If you can't respond right away, let the person know when they can expect to hear back. Then, compose the e-mail when you're free of distractions.

**Save the distribution list for last.** This will help you avoid sending out an incomplete thought or selecting the wrong individuals.

**Think twice before hitting "reply all."** Only copy people who need to be in on the conversation.

**Review it on a big screen.** Handheld devices with small screens and keyboards may increase the likelihood of mistakes. View important e-mails on a fullsize screen or use spell-check before transmitting.

**Check attachments.** Insert any documents — and confirm that they're the right ones — as soon as you refer to them in the memo.

**Don't hit "send" when you're seething.** Give yourself time to cool down before responding. It may be better to speak in person.

**Avoid saying anything unkind or unprofessional.** Electronic messages can easily be forwarded and employee e-mails may be monitored.

Megan Slabinski is executive director of staffing service The Creative Group ([www.creativegroup.com](http://www.creativegroup.com))

# #NUMBERS Game

**1** Estimated size of the North American carbon market in 2020 in trillions of US dollars, according to a British carbon consulting company.

**9.50** Value of a one-tonne carbon credit in dollars during the Montreal Climate Exchange's first carbon trade in June 2008.

**10** Years that Suncor Energy contracted with Niagara Mohawk Power Corp. in 1998 to provide carbon credits. The deal, valued at up to \$1 million annually, ended after the first year when Suncor decided the Canadian carbon market wasn't mature enough.

**15** Dollars that Alberta companies must pay into a clean technology fund for every tonne of carbon generated if they don't meet provincial targets for reducing their carbon footprint. Firms

**Carbon nation 2010** This month, nations will gather in Copenhagen to try to agree on a global system to reduce greenhouse gases. All signals point to a cap-and-trade mechanism



can also buy credits in an Alberta market.

**47** Percentage of Canadian executives in June 2008 who said they somewhat or strongly opposed Canada's commitment to reducing greenhouse gases through the Kyoto accord.

**2,000 to 3,000** Estimated additional annual income in dollars that western Canadian farmers with an average 1,100-acre spread could generate through the sale of carbon credits by adopting more efficient farming practices.

**34,370** Tonnes of emission offsets bought by the BC government's Pacific Carbon Trust from provincial businesses as of July 2009 to help meet the government's goal of a carbon-neutral public sector by 2010. Steve Brearton

## Going Concern



**PHIL KING, CA  
PRESIDENT, TSN**

**COMPANY PROFILE:** Self-dubbed "Canada's sports leader," TSN was the country's first 24-hour sports television network. It has grown from a mere 323,000 subscribers in

1984 to almost nine million in 2009. Co-owned by CTV-globemedia and US sports channel ESPN, it is the country's fourth-largest broadcaster. In 2008, it launched a new digital network, TSN2, to offer more live sports coverage. TSN has secured high-profile sports properties such as the World Junior Hockey Championship and the CFL's Grey Cup.

It even bought the rights, in perpetuity, to the iconic former theme song for *Hockey Night in Canada*. TSN also has one of the most popular websites in Canada, averaging 4.9 million unique visitors and 72 million page views per month.

**HOT FACTOR:** Having recently celebrated its 25th anniversary, TSN continues to broaden its reach by offering

improved access via wireless devices. Calling itself a multi-platform provider of sports, news and information, it offers live and video-on-demand programming on its website, as well as a portable web version called TSN Mobile.

**COOL PROJECTS:** TSN will deliver more than 300 hours of live coverage from the Vancouver 2010 Olympic Winter Games — up to 20 hours a day. Through its various platforms and affiliate stations, it will be possible to follow almost every athlete and every sport. "If you want to know what a particular Norwegian cross-country skier is doing," says King, "you'll be able to find him."

**IN HIS OWN WORDS:** "We're cautious about the new platforms because the economics haven't been totally figured out. Devices like the BlackBerry and the iPhone are game-changers, though. We're discovering that viewers will watch live sports on the best screen available, whether that's a 60-inch television or a small portable wireless device." John Shoesmith

**It's a wonderful life**

Business owners have the highest overall well-being of all occupational groups, followed closely by professionals (including accountants) and managers, according to a 2009 Gallup poll.

The ranking of 11 job categories is based on interviews with more than 100,000 US adults and considers their work environment, basic access to food, shelter and healthcare, emotional health, physical health and healthy behaviour, among other factors.

Despite working longer hours than people in any other occupational category — and earning slightly less than professionals and managers or executives — business owners took the top spot for well-being due to their high level of engagement and job satisfaction. Working long hours is only highly detrimental to well-being for those who are less engaged in their work, the study finds. Manufacturing workers placed last for overall well-being.

**Well-being by occupation**

Occupation	Overall well-being
Business owner	72.5%
Professional	71.5%
Manager/executive	70.9%
Farming/forestry	67.8%
Sales	67.6%
Clerical	66.1%
Construction	65.0%
Installation	64.4%
Service	64.0%
Transportation	62.6%
Manufacturing	62.1%

Source: Gallup-Healthways Well-Being Index, 2009



**Junior fraud squad**

Want to teach your — or your clients' — children how to avoid getting duped in an investment scam?

The North American Securities Administrators Association has launched a free interactive online program called FSI: Fraud Scene Investigator, which teaches students — the next generation of investors — how to research companies, examine stock charts, read investment account statements and understand the warning signs of fraudulent investment pitches. Users help dig out the truth about a million-dollar investment fraud and put the mysterious con man, Mr. X, behind bars.

If only Bernard Madoff's victims had received this kind of education in their youth.

**MIXED MESSAGES**

Nearly seven in 10 executives say they are communicating more frequently with their staff compared to a year ago, finds an OfficeTeam survey. But employees don't seem to be getting the memo; only 37% of US workers polled agree there's been a boost in the rate of corporate updates.

**SUSTAINABLE DEVELOPMENTS**

Canadian commercial property landlords are going green, according to a survey by global real estate firm Colliers International. Two-thirds (67%) of the institutional commercial property investors surveyed said they would pay a 3% to 7% premium for green-credentialed buildings.

**GOING NOWHERE FAST**

The majority of employed Americans describe their jobs as stagnant, according to a poll by HR firm Development Dimensions International. More than half of the 1,000 US workers surveyed said they don't feel stretched outside of their comfort zone with their development or job opportunities.

## Negotiating in tough times

**W**ith difficult economic times come agreements that no longer fit. They also bring renegotiation of contracts, some burdened by the circumstances in which they were forged.

**Manufacturer:** “We cannot continue to deliver smaller orders at these prices. Our transportation costs are rising.”

**Wholesaler:** “We cannot continue to pay these prices. Our customers are looking for price reductions and want smaller shipments to minimize their inventory levels.”

**Union:** “We gave up a lot the last time to stabilize the company. We want those concessions returned and job guarantees going forward.”

**Company:** “We do not have the resources to pay more and we need operational flexibility in the face of weak customer demand and strained cash flow.”

In “Improving the way you negotiate” (October 2007, [www.camagazine.com/pro; www.camagazine.com/negotiation](http://www.camagazine.com/pro;www.camagazine.com/negotiation)), I pointed out that because relationships are central to our lives, negotiation is also central to our lives. We use principled negotiation to reconcile needs and interests, thereby facilitating our relationships. Tough economic times heighten the need for effective negotiation skills to develop new relationships but also to preserve existing ones when renegotiating.

In any negotiation there is always the risk that positional bargaining will take hold. Entrenched, both sides become less willing to explore alternatives. The din of arguing one’s position, followed by the deafness of correctness, engages the parties in gridlock. Underlying interests are not even articulated.

In renegotiations, the risk of positional bargaining is elevated by the temptation to play the blame game, where the focus is on allocating the losses or costs at issue rather than the shared gains originally envisioned. The stress of renegotiation can often fray goodwill.

Good negotiators defuse hostility and focus on engaging the other side in a shared search for a shared solution to a shared problem by listening and by framing.

Listening is a powerful vehicle. Rather than suit up in defensive armour, attune your radar. Look for underlying interests and motivation by asking open-ended questions: “What’s most important to you? Could you

help me to understand your perspective?” Since open-ended questions cannot be answered by a curt no, they provide insight into the why underlying a stated position. This can lead to a range of possible solutions.

Now stand down and listen — actively. Paraphrase what you hear, then ask more questions: “I hear you saying.... What might work from your perspective? Why is that fair?” Some negotiators wrongly fear active listening because they think it will be mistaken as agreement. Active listening can disabuse us of assumptions, some of which we may not be consciously aware.

For example, if the manufacturer and wholesaler actively listened to each other, they might agree to save costs by having the manufacturer ship directly to the wholesaler’s customers. They would share the savings and use them for price reductions.

In any negotiation it is important to develop your best alternative to a negotiated agreement, or BATNA. As explained in my 2007 article, BATNA answers the

**Listening is a powerful vehicle in negotiation. Rather than suit up in defensive armour, attune your radar**

question: what will we do, how will we meet our interests/needs if we cannot reach an acceptable agreement with the other side? We should also assess the other side’s BATNA: what do we think it will do to meet its interests if no agreement is reached with us? Equally bad BATNAs for both parties can lead to agreement.

The unionized employees, agitated about concessions made last time around, might forgo catch-up demands, because to do otherwise could bring their employer to its knees. They might recognize the shared problem of a protracted recession and their leaders’ assessment, skilfully framed, of the viability of a strike: “Now is not the time.”

As difficult as difficult times are, good negotiators can use the combination of well-prepared BATNA analysis and active listening skills to achieve sustainable contracts and preserve relationships.

For an expanded article, visit [www.camagazine.com/renegotiation](http://www.camagazine.com/renegotiation).

Wallace M. Howick, MBA, FCA, is an adviser and teacher with 35 years of international experience. Contact: [wallace@wallacehowick.com](mailto:wallace@wallacehowick.com)



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# Netwatch

BY JIM CARROLL

YOUR GUIDE TO BUSINESS & ACCOUNTING ON THE INTERNET

## Chameleons poised for success

I am not alone in thinking we're in the midst of a significant economic transformation. As Mick Fleming, president of the American Chamber of Commerce Executives, said recently, "It's going to be a move from a bad economy to the next economy."

What is the shape of the next economy? In many cases, it will involve structural change based on an acceleration of business cycles. Consider manufacturing, for example. We're moving from a world of mass production to mass customization, or what I call agility-based manufacturing. I often cite the case of Honda, as noted in a 2008 article on the financial website Bloomberg: "Honda's assembly lines can switch models in as little as 10 days." By contrast, the article suggests, it could take months for most rivals to make the same change.

Companies such as Honda can see what's selling strongly and quickly reorient their production to fit that demand. In the meantime, its competitors are busy cranking out 700,000 versions of the same old car, hoping to sell it to consumers who have already moved on to something different. It's no wonder Detroit is being killed off by its long-term reliance on gas-guzzlers.

Everyone now understands that the old Detroit-based manufacturing business model was deeply flawed. The newer model, based on agility and flexibility, is the model of the future. If an organization can rapidly change its production to accommodate what consumers are willing to buy, it has a good chance of future success.

This ability to respond quickly to change is a cornerstone of opportunity. Competitors will emerge, particularly as the new connected generation rejects existing business models and innovative people continue to shake up the fundamentals. Take the business model of Wizzit, a South African cellphone-based banking system, which could cause upheaval throughout the banking sector as mobile technology garners more of our attention.

Furthermore, the nano-cannibalization of markets is becoming a business trend rather than an aberration. For example, Apple broke new ground years ago by tossing out an entire iPod Nano product line worth billions of dollars

of revenue, replacing it with a newer, up-to-date product. Imagine even considering that. How could it cannibalize its own product revenue?

I recently spoke at a leadership meeting for a global organization, where the CEO spoke of a future in which the company's success would come from what he called "chameleon revenue" — the sales derived from entirely new product lines. The chart he presented said it all: the organization's future consisted of a steady decrease in baseline revenue and accelerating revenue streams from markets it currently does not participate in.

I think this will become the norm for most organizations. The ability to rapidly enter and exit markets will define future success. The ability to sustain multiple, short-term product life cycles, each perhaps no more than 36 to 48 months long, will be a critical success factor. Agility at discovering, producing and capitalizing on new revenue sources will be a fundamental necessity. In other words, your ability to change your spots and your colour on a dime will be the key driver for your potential.

Which begs the question: does your financial system have the capability to provide information on your chameleon revenue streams? Does it provide the insight and analytical tools to tackle product life-cycle revenue so the organization can assess how quickly its chameleon revenue streams are evolving? If it doesn't, what do you need to do to adapt?

Jim Carroll, FCA, is a well-known speaker, author and columnist. Reach him at [jcarroll@jimcarroll.com](mailto:jcarroll@jimcarroll.com) or log on to his website at [www.jimcarroll.com](http://www.jimcarroll.com)

### ADAPTING TO CHANGE

**"Honda's Flexibility Shows Widening Gap Over Toyota"** [www.bloomberg.com/apps/news?pid=20601101&sid=aAby\\_0DovKBs&refer=japan](http://www.bloomberg.com/apps/news?pid=20601101&sid=aAby_0DovKBs&refer=japan)

**Wikipedia on Time to Market**  
[en.wikipedia.org/wiki/Time\\_to\\_market](http://en.wikipedia.org/wiki/Time_to_market)

**Wizzit** [www.wizzit.co.za](http://www.wizzit.co.za)



# Work in process

BY MICHAEL BURNS

USING TECHNOLOGY TO IMPROVE THE WAY YOU DO BUSINESS

## BI/CPM survey 2009

**W**elcome to this year's survey on business intelligence and corporate performance management. We received 12 responses from vendors, up from 10 last year (see the online version).

Despite everything that has been written about BI and CPM, a lot of confusion remains. Let's start with BI, which is essentially about turning data into information useful for making decisions. This sounds like a good thing — everyone should have a tool for that purpose. But although there are several on the market, including Excel, reporting programs, dashboards and online analytical processing, none is ideal.

Excel is the dominant tool, but it has limitations. The raw data often needs to be manipulated before it is entered, leading to potential errors. Once in Excel, the data often requires adjustment, which leads to further problems — including the lack of “one version of the truth.” And it's not easy to generate reports with the various report writers without programming intervention.

Dashboards have become the gateway to some enterprise resource planning systems. When you log on to ERP systems, you first see the items most important to you.

OLAP is considered the gold standard for BI. It allows you to view information easily from multiple dimensions, such as region, customer type, manager or product type, as well as graphing and drilling down for details. But OLAP has traditionally been used only by a small percentage of organizations and often by only a small group of people within them.

Every problem is an opportunity for someone, so Microsoft is about to change things again. According to Kristina Kerr, Microsoft BI group product manager, the company aims to provide BI to the masses through Microsoft SQL Server, Excel and SharePoint. SQL Server is the dominant database used by ERP systems and it includes Microsoft SQL Server Analysis Services, which will generate the cube used for OLAP. Think of the cube as the database

for OLAP. Microsoft is also working on Project Gemini, which will allow Excel users (about 500 million worldwide) to create their own BI applications and share them through SharePoint (about 100 million users worldwide), while allowing IT to maintain control of the underlying data. Excel will be enhanced to significantly increase capacity and performance in accessing, combining and manipulating large amounts of data.

CPM is typically used by larger organizations that don't get the functionality they need from ERP systems. These organizations are looking for a budget process that includes statistical tools, Excel-like formulas and driver-based forecasts. CPM includes not only BI but also budgeting, forecasting, consolidations, scorecarding and reporting. With driver-based forecasts, you would enter

### With online analytical processing, you can view information easily from multiple dimensions

your assumptions/drivers to generate the forecast. A consolidation program is useful for larger organizations that need to deal with intercompany eliminations and foreign currency translation. Scorecarding includes metrics that are linked to strategy. Scorecarding questions were added to this year's survey. Reporting includes operational and financial reporting for both internal and external use. This is also useful, given that external reporting is often a problem for organizations that need total control over the report format. CPM will never be a tool for the masses; according to Kerr, Microsoft is leaving this market to its business partners.

We hope you find our survey useful. If you have suggestions for improvement, please let us know. For an expanded article, visit [camagazine.com/CPMSurvey2009](http://camagazine.com/CPMSurvey2009).

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## Does Decisions Matter matter? Taking stock of the CA profession's branding initiatives

In a few weeks, Canada's CAs will launch the second phase of their Decisions Matter advertising campaign, introduced in January 2009 as part of a broader branding initiative for the CA profession.

News from the profession recently caught up with Daniel McMahon, FCA, chair of the CA Branding Committee; Tom Arget, research head, Chawla & Associates; and David Williams, vice-president account planner with advertising agency Draftfcb, to find out about the impact of the first wave of the ad campaign and the objectives for phase two.

**What were the challenges facing the CA profession that led to the decision to mount an advertising campaign?**

**McMahon:** Today, governments and the business community recognize CA as the most credible and respected designation, not only for essential financial competencies and general business skills, but also for the core values of the profession — namely, integrity, trust and objectivity. They also recognize CAs as leaders in terms of business insight and strategic think-

ing. So we have an enviable reputation already. Our challenge is quite simple: maintaining and enhancing our position as leader in a more and more competitive market.

**Some people question whether a profession like ours should advertise at all. What do you think?**

**Williams:** Competitors in the accounting field have started to blur the lines in terms of what accounting designations are really worth through their advertising. Our advertising can stop them from blurring the lines. It can reinforce our market leadership. We like to say that advertising can help keep the CA badge shiny.

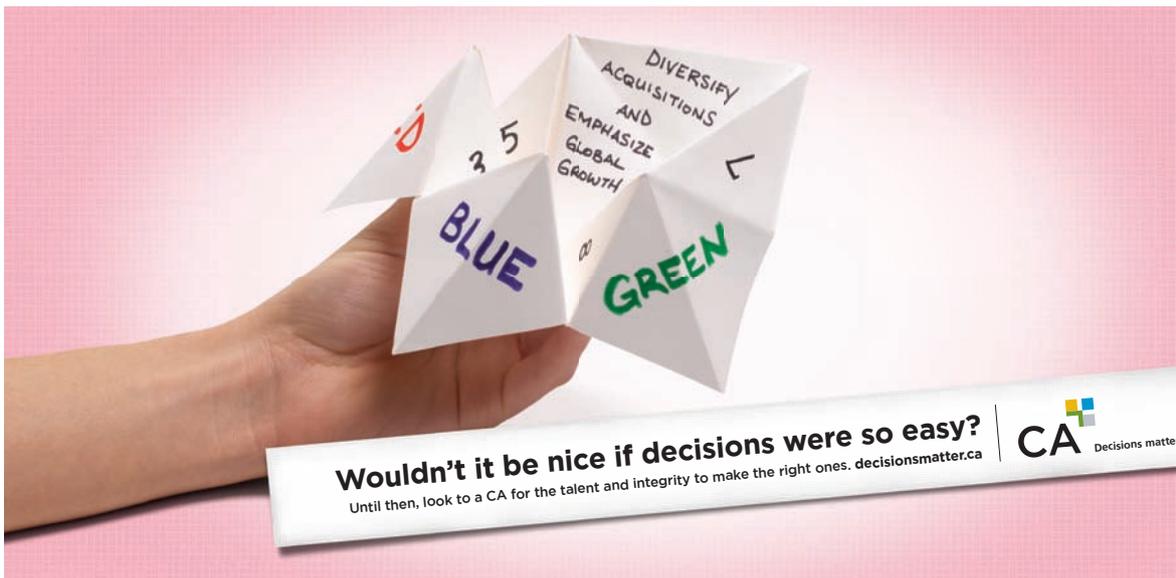
**What were you hoping to achieve in the first phase of the Decisions Matter campaign?**

**Williams:** The business audience gives CAs credit for being the gold standard among accountants in Canada. Yet many have a



Branding committee chair, Daniel McMahon (above); David Williams (top right) and Tom Arget (bottom right) discuss the impact of the first wave of the ad campaign

MICHAEL DIZON



narrow view of what roles CAs are suitable for. Not enough of them realize that CAs are well suited for leadership and C-suite roles. We wanted to address that and take a real leadership stance.

We noticed that other designations talk about what kind of accountants they are. We felt CAs should rise above that conversation. As leaders, CAs shouldn't get caught up in who studies the most or who is more creative. The CA profession should be talking about the end benefits that CAs offer — being the type of people you want around when it's time to make a decision.

**The tone of these ads seems different from other professional services communications. What led you to go down that path?**

**McMahon:** We purposely used a humorous approach because it is warm and memorable. Our ad campaign demonstrates the importance of the decision-making process and points out that when decisions really matter to you, you need to be dealing with a CA.

**Where have the ads been appearing?**

**Williams:** We launched a fully integrated campaign that appears on specialty TV, radio, business newspapers and magazines, and throughout major airports across the country. We leveraged consumer insights to connect with influential business professionals where they live, work and play. This led us to selecting media based on premium business environments where we were able to deliver maximum reach and frequency to the managers, owners, professionals and executives (MOPEs) targets.

**Are there regional differences in the campaign?**

**Williams:** Regionally, there aren't any major differences. The campaign was created to work well across Canada — both in English and French. Our French and English teams worked together to create a truly bilingual campaign.

**The Decisions Matter campaign only started last year. Does the research indicate any change in how the business community sees the CA profession?**

**Arget:** CA continues to surpass CGA and CMA designations by significant margins. However, overall positive impressions of all accounting designations showed some decline. This can be traced to a more reserved attitude in the business community brought about by the 2008-2009 economic crisis.

Nonetheless, early indications are that the Decisions Matter campaign shows strong communication value. Recall of the ads among businesspeople and affluent Canadian households exceeds previous CA Advantage messaging, as well as CGA and CMA advertising.

**Many CAs work in small communities and with small businesses. Did the message resonate with the small-business audience?**

**Arget:** The Decisions Matter campaign resonates equally well with businesspeople in large and small organizations. Among those who recalled seeing the advertising, six out of 10 assigned positive ratings to their overall impression of the message and the way in which it is communicated.

**Did the message come across equally to all members?**

**Arget:** At the time CA members were surveyed, they demonstrated a strong long-term increase in awareness of advertising for the profession but were more likely to identify the earlier CA Advantage ads rather than the new Decisions Matter campaign. This might be because of the study's timing, which was fielded May 4, 2009, immediately following this year's income tax season, an intensely busy period for many members of the profession.

Some regional differences were also noted among CA members. On a national level, 65% of CAs assigned strong impression ratings to the Decisions Matter campaign. In Quebec and

Newfoundland and Labrador, the number was higher at 75% and 73% respectively, offsetting a lower number of CAs in British Columbia, where 57% assigned positive impression ratings. Members in other regions awarded positive impression scores in line with the national average: remaining Atlantic Provinces (61%), Ontario (63%) and the Prairie provinces (64%). When members did not assign top ratings, they were most likely to be neutral in their assessments of the new campaign.

#### How durable is Decisions Matter as a campaign theme?

**Williams:** We feel it can be durable for many years. The good thing is that we aren't tied to the current formula. Decisions Matter can come to life in lots of different ways beyond the advertising you've seen this past year.

**Arget:** I agree. Pre-testing of the Decisions Matter campaign and results of the subsequent advertising awareness studies suggest the campaign is durable and lends itself to further executions that refresh the decision-making premise inherent in the message.

#### Did the Decisions Matter campaign fulfill the branding committee's objectives?

**McMahon:** As you might expect, the committee's objectives are long term. The Decisions Matter campaign is a normal evolution of our branding strategy. This new campaign fulfills almost all our objectives at this stage.

#### Since the campaign seems to have been successful, why can't we stop now?

**Williams:** Success means fending off other professional designations. That job will probably never be done to the point where we don't need to reinforce the value of the CA designation any more. Our competitors aren't going to stop any time soon — they have too much to gain by blurring the lines and suggesting that their designations are comparable in value.

**Arget:** Continuity of advertising ensures a cumulative build of awareness that translates to greater efficiencies. Lengthy interruptions in an advertising schedule lead to a decline in message and brand awareness, sometimes in a relatively short time.

It also creates the need to rebuild awareness to the level previously achieved, incurring costs and possibly a loss of competitive advantage.

#### From each of your perspectives, how does this campaign position CAs in a different light than other designations?

**Williams:** I think the best thing about Decisions Matter is that it doesn't debate other designations on what flavour of accounting is the best. Instead, it says, "We're the people you want around when it's time to make a decision. We get it." That's how a leader should act.

**McMahon:** Absolutely. Making a claim is easy. Delivering the promise is a whole other ball game. The business community, governments and the student community are well aware that the CA profession walks the talk.

**Arget:** The Decisions Matter campaign positions CAs in a clear, convincing manner, consistent with the CA brand vision, which is to shift the image of CAs to one of leadership as key decision-makers in senior executive positions. The majority of businesspeople and CA members participating in this research recalled the strong "decision-making" message in the advertising they saw, and associated this specifically with the CA brand.

#### What are you hoping to achieve now that we are into the second wave of advertising?

**Williams:** Brand ideas take hold over time. We're looking to solidify the campaign in MOPEs' minds, as well as add a few new elements to it. We want to see Decisions Matter really take root in their minds so we have a strong foundation to build on in the future.

#### Finally, where do you see the brand/designation's communication going in the future?

**McMahon:** Undoubtedly, our communication about the CA brand will continue to evolve but the underlying objective will remain the same — it is all about differentiation, demonstrating the unique and distinctive value of the CA brand. That's what makes our members the No. 1 choice.

## Public sector update — amendment to the Introduction impacts government organizations

The Public Sector Accounting Board approved an amendment to the Introduction to Public Sector Accounting Standards. The board confirmed that government business enterprises — self-sustaining, commercial-type operations — will change over to international financial reporting standards in 2011. This will maintain the ability to compare similar entities in the public and private sector.

The amendment eliminates the classification of govern-

ment business-type organizations and requires other government organizations to assess the needs of the users of their financial statements to determine the most appropriate basis of accounting, either PSABs' standards or IFRSs.

The amendment comes into effect for fiscal years beginning on or after January 1, 2011.

Go to [www.psab-ccsp.ca](http://www.psab-ccsp.ca) to learn more.

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## Taxpayers' ombudsman speaks at CICA conference

**PAUL DUBÉ**, Canada's taxpayers' ombudsman, welcomes opportunities to speak to tax professionals. Dubé gave the opening keynote address at the National Conference on Income Taxes recently staged in Toronto by the CICA.

He called tax professionals a key group of stakeholders in the tax administration system.

The two-day gathering is the country's leading income tax conference for practitioners serving owner-managed businesses.

Dubé was appointed to the position of taxpayers' ombudsman in February 2008. His role is to uphold the Taxpayer Bill of Rights and to see that taxpayers get professional service and fair treatment from the Canada Revenue Agency (CRA).

"Until recently in Canada, taxpayers and benefit recipients who felt that they had not received professional service or fair treatment from the CRA had only one place to go if they wanted to file a complaint—back to the CRA," says Dubé.

In addition to investigating individual complaints, his office identifies and investigates systemic and emerging issues relating to service and fairness. "Many complaints about service are due to an



Taxpayers' ombudsman Paul Dubé (left) and CICA's Frank Colantonio at the National Conference on Income Taxes

underlying systemic issue that will cause the problem to recur if not corrected," says Dubé.

In its first year of operation, the taxpayers' ombudsman office received about 4,000 contacts and conducted reviews of almost 900 individual taxpayer complaints. However, Dubé used his speech to put things into context. He noted that the CRA interacts with more Canadians than any other federal government organization and processes approximately 24 million individual tax returns and 1.6 million corporate returns each year.

"Taxpayers don't expect the CRA to be perfect — they just want it to fix things when they go wrong," says Dubé.

### New quality control standard for firms effective December 15, 2009

Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements, or CSQC 1, comes into effect this month. All firms performing assurance engagements should have the required policies and procedures in place by December 15, 2009. Learn more at [www.cica.ca/cas](http://www.cica.ca/cas).

## Skilled workforce mobility subject of Canada/EU roundtable

While there are many new CAs trained every year, the growing number of CAs who are baby-boomers getting ready to retire will create an even greater demand for new CAs in the near future. To maintain the CA profession, there is an increasing need for the talent and expertise of qualified foreign-trained professionals. Ensuring fair and transparent processes for assessing their credentials and helping them prepare to become Canadian CAs is critical as more accountants immigrate to Canada.

This was the subject of a presentation by Tim Forristal, CICA's vice-president education, at the European Union/Canada Roundtable on the Mobility of the Skilled Workforce, recently held in Brussels, Belgium. A joint initiative of the Canadian Public Policy Forum and the European Policy Centre, this invitation-only roundtable focused on facilitating mobility between

Canada and the EU, and in the longer term will contribute to the goal of a Canada/EU free trade agreement.

Canada's CA profession is known as a leader in international labour mobility and in foreign credential recognition. The national and provincial bodies have considerable expertise in determining substantial equivalency of foreign qualifications in a fair and transparent manner, while ensuring the maintenance of domestic professional standards. The Canadian CA model of mutual recognition agreements garnered widespread interest at the roundtable, particularly because it already covers eight EU professional accounting bodies.

To download the presentation and find out more about the EU/Canada roundtable, go to [www.ppforum.com/events/mobility-skilled-workforce-european-unioncanada-roundtable](http://www.ppforum.com/events/mobility-skilled-workforce-european-unioncanada-roundtable).

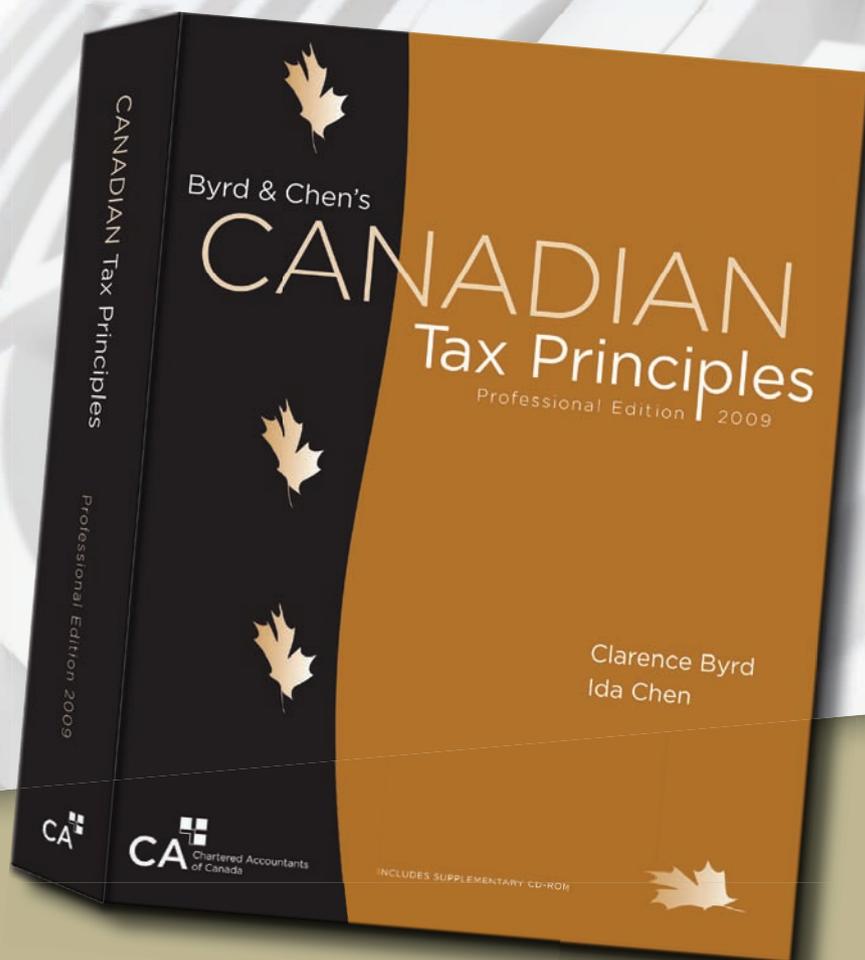
# Byrd & Chen's Canadian Tax Principles

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## RECENTLY ISSUED PRONOUNCEMENTS

<b>CICA Handbook – Accounting</b>	<b>Date issued†</b>
Preface to the CICA Handbook – Accounting	December 2009
Accounting Standards for Private Enterprises (Part II)	December 2009
<b>CICA Handbook – Assurance (Part I)</b>	December 2009
Preface to the CICA Handbook – Assurance	
Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements, CSQC 1	
Canadian Auditing Standards	
Retained Sections and Guidelines	
<b>CICA Public Sector Accounting Handbook</b>	
Introduction to Public Sector Accounting Standards (revised)	December 2009

## RECENTLY ISSUED DOCUMENTS FOR COMMENT (to November 30, 2009)

<b>Accounting</b>	<b>Comment deadline</b>
ED Adopting IFRSs in Canada, III	November 15, 2009
EDI Annual Improvements	November 24, 2009
EDI Financial Instruments: Impairment	June 15, 2010
EDI Rate-regulated Activities	November 20, 2009
<b>Public Sector</b>	
ED Financial Instruments	December 11, 2009
ED Foreign Currency Translation	December 11, 2009
ED Liability for Contaminated Sites	January 15, 2010

## WATCH FOR

<b>CICA Handbook – Accounting</b>	International Financial Reporting Standards (Part I) Accounting Standards for Pension Plans (Part IV)
<b>CICA Public Sector Accounting Handbook</b>	Tax Revenues, Section PS 3510
<b>Documents for Comment</b>	AcSB and PSAB proposals concerning Not-for-Profit Organizations IASB proposals on Hedge Accounting, Post-employment Benefits, Insurance Contracts, Liabilities, Conceptual Framework: Reporting Entity

### Legend

ED – Exposure Draft	EDI – ED issued by the IASB	rED – Re-exposure Draft
DS – Draft SORP	ITC – Invitation to Comment	SOP – Statement of Principles

† 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.*



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Fulfilling practical experience requirements in the corporate sector is an untested new path for CA aspirants. How have they been faring?

by Robert Colapinto

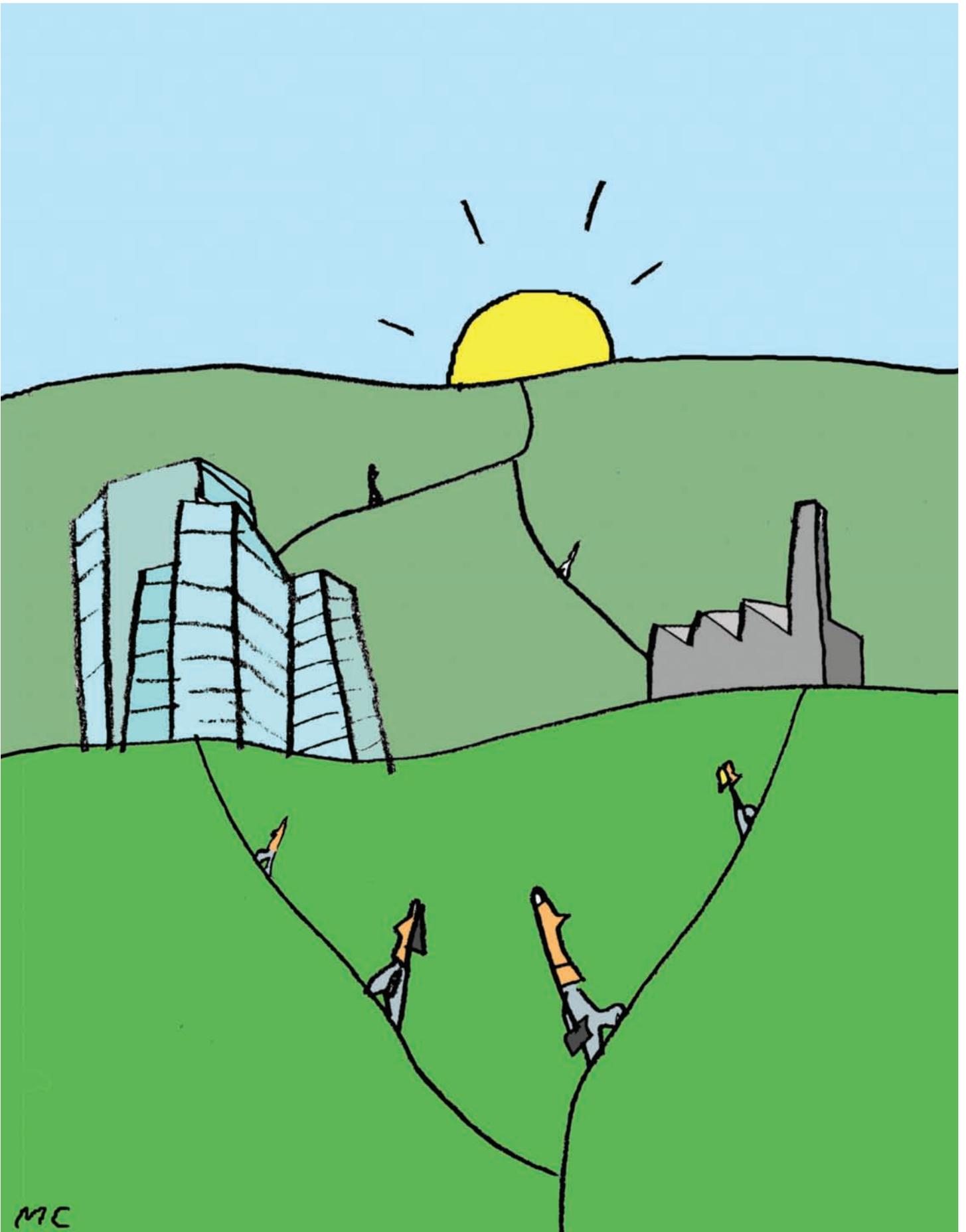
# Industry APPROVED

“I’m not going to lie — I do get scared sometimes that because I don’t have audit and assurance experience, I may be lacking some knowledge in regards to the UFE,” says CA student Jessy Brar. “But at the same time, I overcome that by studying more on A and A. I simply have to put more effort into that area because I know I don’t get that experience from work.”

Brar is one of an ever-growing number of CA aspirants immersed in the profession’s non-traditional path to accreditation as a chartered accountant. Work for Brar is a position not at a CA firm, but at Calgary-based oil and gas giant Nexen Inc. The depth competency for her

necessary practical experience requirements is not assurance, which prior to September 1, 2007, was an unavoidable core competency to be rigorously instilled within a real-world work environment for all CAs in Canada. Now CA students have the option of not only fulfilling their practical experience requirements in the corporate sector, but also of doing it without that worrying assurance prerequisite. To be sure, all students must still face the daunting assurance-related queries within the UFE — this, we are promised, will never change — but the un-

illustration by MIKE CONSTABLE



derpinnings that have so long defined how and where the designation is earned seem forever changed.

So how is this new crop of budding CAs faring in what is a relatively untested new path for the profession? And why have they chosen such a potentially risky route to their designations? For Brar and fellow Nexen student Adrian Hamfelt, it has been full steam ahead since entering the program in 2008. Although Hamfelt has actually chosen assurance as his depth competency, it's still being earned in industry, and he has not had a single audit-peer with whom to share his trials and tribulations. "With [at present] 99% of students coming from public practice, you do run the risk of being the odd one out," he says. "But I'm starting to feel like I'm part of the program, that I'm going through all the rigours, which was the one thing I worried about. I feel like a full-fledged CA student, not some sort of alien outsider from a corporation," he laughs.

Indeed, Nexen's Jason Berting, CA, has been sweating bullets to ensure all of Brar and Hamfelt's depth and breadth requirements are being fully realized. Berting is the company's training principal for its CA Training Office (CATO), one of the first CA training programs approved for industry. "I know there's tremendous pressure on our students to make it through our practical experience program, to pass their UFE and to satisfy their individual aspirations as CAs," he says. "But, wow, I and everyone at Nexen feel a similar pressure, and that's to make this work at Nexen. It's very, very new. But I'm convinced we've got it covered."

Prior to 2007, practical experience was recognized only via public practice firms or an approved office of a federal or provincial auditor general. The new corporate sector CATO was anything but a simple add-on to satisfy part of the profession's longstanding mission to attract the best and brightest. Berting and his team — which included support from the most senior executives at Nexen — worked away at a CATO approval process that was facilitated by the West's CA School of Business and emphasized exacting and meticulous requirements.

All corporate training office positions must provide not only structured work assignments within a company, but the governing bodies also have to be assured that students are exposed to a work environment driven by the highest levels of ethical behaviour. Competency development is evaluated and documented by the student in their Record of Qualifying Experience and reviewed with qualified mentors who instil values of professional behaviour and professional integrity.

As a training principal — the primary overseer of the CATO program, its mentors and students — Berting filled out a weighty approval submission. Nexen was keen on handpicking the counselling members, who have been shepherding Brar, Hamfelt and a third student through the program. "It's crucial that we make sure these students experience as much of what the company has to offer as possible, including its culture of pride and honesty," he says. Berting understands that much of what is new, especially when it comes to competency-based qualification, can be worrying for some in the profession. "So, integrity, ethics

and the expected high standard of professionalism are of paramount concern," he says. "We have to show the CAs out there who emerged from the more familiar accounting firm world that these new CATOs are not diluting the brand. In the end, we expect they'll enhance it, make it something even more."

Brar knows full well that she is on the cutting edge of not so much an experiment but a work in progress. "We're still on that learning curve, and the same can be said for the new program," she says. "And over time, the program will get better and will be modified to the needs of the students in industry." Support from Berting, whose door is always open to the students, is much appreciated by these CAs-in-training. And it is an attitude and sentiment that permeates their experience from the ground floor to the executive boardroom: "From managers to mentors to [Berting] to the bigwigs to just people in the elevator," she says, "it's all, 'Hey, good luck. You're in that program? Good luck.' It's really stressful, but the amount of interest and support we get is really unbelievable."

The idea to funnel CA students through industry dates back to a 2004

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“By 2005, two-thirds of the CICA membership was working outside public practice, and this had members thinking”

CICA document called Strategic Crossroads for the CA Profession, which sought to enhance and expand the profession vis-à-vis the changing roles of CAs in the business world. The notion that a CA's expectations were limited to only a few, albeit highly skilled and inimitable, positions within business was recognized as no longer representing an accurate picture of the profession. Moreover, it was recognized that the CA designation had a certain resonance — one where accounting and performance measurement skill sets were being recognized as a value-added competency across the entire spectrum of business activity in the corporate sector. From shop floor to oak-panelled boardroom, forward-looking CAs had managed to ease their way into non-traditional positions.

By 2005, two-thirds of the CICA membership was working outside public practice, a percentage that had members pondering how best to take further advantage of the designation that had truly grown into its finely polished marketing PR as the gold standard. If CAs were naturally gravitating to nontraditional positions, was there a more effective way of arming them for the transition from public practice? Indeed, was it possible for aspiring CAs to avoid the stepping-stone of public practice practical experience requirements and earn their designation within industry or government?

For Tim Forristal, CICA's vice-president of education, the plan to create a new qualification stream was a natural and necessary move. “There was a huge nucleus of CAs doing other than the core audit and assurance,” he says. At the same time, as luck would have it, the legal stars had aligned to pave the way for change. “It all was facilitated or made possible with legislative changes that were being made or planned in Ontario and Quebec to sepa-

rate licensure and certification. You still have to pass the UFE, which still requires significant knowledge and skill in assurance and financial reporting. But without the separation of requirements for certification and requirements for licensure,” he says, “we would have continued to be obligated to ensure all CAs obtained audit training.”

Only in the West have the laws governing a licence to practice and certification been distinct for some time. Forristal and his colleagues had watched with great interest in 2003 to 2004 when Alberta and BC initiated a pilot project where a small number of people were permitted to train in industry. The only problem was, these graduates would have to forfeit the option of moving their skills across the country — unless they were willing to return to a public accounting firm to earn equivalencies that were on par with and recognized by the rest of the country. The CICA learned a great deal about how best to create today's CATO from the western pilot project. “But the first thing we learned is you can't set requirements to become a CA on a provincial basis,” says Forristal. “We really did need to have a national program in place.” To date, all provincial institutes have signed on to the 2007 practical experience requirements for CAs, including the ordre in Quebec, which is ready to go full bore, says Forristal, but is still awaiting regulatory approval.

This nationally recognized program replaces the Approved Training Offices (ATOs) familiar to all practising CAs. Firms or units of firms that already had functioning ATOs prior to 2007 automatically receive approval for the transition to CATOs. According to Forristal, the only real difference between the two programs is that more stringent competency reporting requirements were instituted to ensure new CATOs within the corpor-

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ate sector are meeting all the competency needs of their students. “We’ve not just opened the gates, if you will,” he assures. “We’ve very much said, ‘We want you to offer practical experience within the domain of skills for which a CA is known.’”

The new expanded practical experience format requires students to choose one of two areas for their depth competency: assurance or performance measurement and reporting. Those considering a career in public accounting and who want to be eligible for a licence to practice public accounting must choose assurance as their depth area and must complete their practical experience requirements at CA-firm-based CATOs. So Nexen’s Hamfelt, if he chooses to continue along the assurance path but in public accounting rather than industry, will have to find a placement at an approved firm to beef up his assurance competencies and meet the licensing requirements. Students interested in performance measurement can look to both the CA firms and the corporate sector to fulfill these practical experience require-

tain applicants.” The very best, as always, are in demand and they had better see the brass ring within reach. “These applicants have other opportunities with the practice firms and other accounting designations,” he says. “With our new expanded experience model, we’re painting a picture of greater opportunities.”

For the companies, the opportunity to run a CATO offers them the chance to train CAs who may, at the end of their term, stay on with the company. “I’m sure the object for the CAs who set up CATOs for their companies was to create resources for their employers with an overall lower cost at the end of the day,” says Trainor. “But working with them you can just see they are keenly interested in passing on their CA values to upcoming members. They take a real interest and pride in it.”

Chard (and, in fact, all the CA students surveyed here) has every intention of sticking with the company. “It makes such good sense,” she says. “Instead of hiring us from outside after punching time with a CA firm, why not have us grow with the

## For the companies, the opportunity to run a CATO gives them the chance to train a CA who may stay with the company

ments. In general, at least one-third of a student’s three-year articling term is spent honing skills in either assurance or performance measurement, and the remaining training is given over to such breadth categories as taxation; governance, strategy and risk management; finance; and management decision-making.

“Every three months, I move departments,” says Melanie Chard, one of six CA students at resource colossus J.D. Irving, Ltd. in Saint John, NB. “I’ve been in tax, treasury, sawmill accounting, internal audit — so I just keep shifting throughout JDI.” With a bachelor of commerce degree from Newfoundland’s Memorial University, Chard had only heard rumours of an alternative path to her CA. “For the most part at university, we’re hardwired to think firm, firm, firm,” she laughs. “So I did an information session with [J.D. Irving] and I had an interview and, boy, did I ask a ton of questions.”

Chard’s decision was complicated by an earlier offer to join Deloitte’s tried-and-true CATO program. Still, she had always known that a firm and a career in audit would never be the perfect fit. By the time she was invited to Saint John for a second face-to-face interview, J.D. Irving was more than prepared to assuage any lingering concerns. “It had the whole program structured and laid out right in front of me,” she remembers. “I could see all the work terms, all the different departments I’d move through, and even the exact dates and competencies that I’d have to hit. And that’s what sold me because I was kind of afraid. It was so new and I had to make sure it would give me what I needed.” After a hard look she made the leap: “‘My goodness,’ I said, ‘this is exactly what I want. Industry and a CA!’”

Employers are also looking for students who are the right fit for the company. Dan Trainor, executive director of the Atlantic School of Chartered Accountancy in Halifax, says, “From talking to some of the employers, there’s a lot of jockeying to attract cer-

company from the beginning? I’m learning their ways, learning the culture, learning how the business works from the get-go,” she says. “It’s like killing two birds with one stone. This is all about growing with the company and having a long-term relationship from the start.” Indeed, few of these students believe they would have gone the CA route if they had not had the option of training in industry. “If it hadn’t been possible to get a CA through Nexen,” says Hamfelt, “well, I certainly wasn’t considering leaving Nexen to get my CA.”

“My decision to become a CA was based on my goal of ultimately working in a large corporation,” says Rosalynn Lim of Winnipeg’s Great-West Life. With a large number of subsidiaries that report in more than 25 different currencies, this multinational has the potential to provide as wide a depth and breadth of experience and exposure to business finance as any student could hope for. The attraction of not being subjected to hundreds of hours of audit certainly helped tip the balance toward Great-West for Lim. “I think it is a great idea to receive training in industry, since most CAs pursue careers outside of audit,” she says.

Richard Piticco, director of CA training offices at the Institute of Chartered Accountants of Ontario, admits he would have gone with the nonassurance model were it on offer during his training 12 years ago. Yet he refuses to say one route is any better than the other. “I wouldn’t say it’s more varied,” he says. In public accounting one is exposed to many different clients. In the corporate world, the student deals with one “client” and all its different departments and varied perspectives. “So they’re different perspectives, but I wouldn’t suggest that one’s better than the other,” says Piticco. “It’s simply a different experience.”

But it may well be a better experience for Lim. “I have been given a broad range of responsibilities to challenge myself and to assist me in becoming a successful CA,” she says. “I believe

that working in industry provides a more dynamic and relevant real-world work experience because you can obtain more breadth with all the day-to-day challenges we face in the corporation.”

Only a few years ago, the profession faced the challenge of attracting more students to the designation. Now the challenge is to find placements for those seeking this gold standard. One of Piticco’s primary concerns these days is to ensure there is a place to train and work for those who qualify for CA education. The new training model helps relieve some of this strain. As of the fall of 2009, there are 42 nontraditional CATO programs running nationally, including 21 in Ontario, and a projected 60 by the end of the year, according to Piticco. “Certainly right now, given the economic environment, there are more CA students than there are positions in the CA firms,” he says. “So, yes, this does provide other career paths and options for students.”

Yet the final and quite literal test of the new model has yet to be assessed. Will the students in the nontraditional stream — most of whom only experience internal audit practical experience requirements — find themselves unprepared for the assurance-related portions of the UFE?

Brar may be encouraged by the experience of Melissa Lai, who is going through her rotations at the Royal Bank of Canada in Toronto. Lai has already written and passed the UFE. “I’m a really odd case,” she says. “I went to the accounting and financial management program at the University of Waterloo, the stream for people who were more oriented toward industry. This involved four four-month co-op terms with a bank and a reinsurance company during my undergrad,” she says. None of these hours would accrue toward her CA, and little of her work experience was accounting related, she says. After earning her bachelor of accounting and financial management, she got her master of accounting. It was as she was working on her master’s degree that she also took courses to prepare for the UFE, the cost of which was picked up by the Royal Bank, her future employer. Finally, without having spent a single day working at the Royal Bank, Lai wrote her UFE. “I think I was just lucky,” she says.

Now, UFE in hand, Lai is developing and demonstrating the demands of the prescribed ethics-based pervasive qualities and skills along with her specific competencies at the Royal Bank. Her unusual but successful path may help convince those in the profession who ask questions about what truly concerns students who have

chosen the nontraditional stream: passing the UFE.

“I think it is on their minds: yes, a good employer, good experience and good professional development. But is it going to help me through the UFE?” says Forristal. “And now I think they see it is going to — I’m very satisfied. If we can offer people a future that’s grounded in the CA, but goes beyond that, I think that would be attractive to a lot of people. It will truly make their practical experience the difference that makes the difference for the profession.”

Robert Colapinto is a Toronto writer

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Environmental and sustainability issues are changing the playing field and creating opportunities for CAs in risks, regulations, reporting and other roles

By Julie Desjardins & Alan Willis

# THE business of CLIMATE CHANGE

**“CLIMATE CHANGE IS NOT ONLY A CHALLENGE,**

it is also an opportunity. A paradigm shift to a low-carbon economy has the potential to drive forward the next chapter of technological innovation. It will require a third — this time green — industrial revolution” (The CEO

Climate Policy Recommendations to G8 Leaders, July 2008,

Illustration by GÉRARD DUBOIS





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## Risk

Climate change is a global business issue of unprecedented significance, affecting entities of all sizes in all sectors. Unlike the recent recession and financial crisis, from which most economies will gradually recover in time, climate change as a formidable business issue is here to stay. It is multidimensional, evolving and complex, presenting new aspects and challenges as time goes by.

Climate change will increasingly alter the rules for doing business. There will be winning industries and winning companies. There will also be losing ones. Large mainstream investors such as pension funds want to know which companies are the likely winners, and which are the riskier investments in a low-carbon economy.

What are the risks that climate change poses for companies and what are companies doing to manage those risks? As with all types of risks, “enterprises in the same industry, facing simi-

ling information about the carbon content of its products? Might the company be subject to US border tariffs because there is a perception that Canadian legislation is not as stringent as that of the US? Might the sustainability of an entire industry, such as the western forest industry or the oil sands, be threatened by climate change issues?

Different industries and different companies within industries will be impacted in their own various ways — some more than others. Financial impacts are inevitable, sooner or later — a reality now evident to investors. It is increasingly apparent to the capital markets that climate change must be factored into investment decision-making.

Families of investment indices are sprouting up to reflect the financial performance of companies with strong carbon management strategies. CIBC World Markets has assessed the carbon impact on entire sectors such as forestry, noting that there is a complex relationship that brings risks and opportunities to the industry. Some individual companies would benefit from a carbon reduction system, some could fare well under a cap-

# Unlike the recent financial crisis, from which most economies will gradually recover in time, climate change as a formidable business issue is here to stay

lar risks, will often choose different risk management actions because different managements have different risk strategies, objectives and tolerances. Investors need to be aware of these differences,” according to the Institute of Chartered Accountants, England and Wales (Financial Reporting of Risk — Proposals for a Statement of Business Risk, 1998).

Risks related to climate change may be physical, regulatory, reputational or legal. Some companies face mitigation risks related to their obligations and expectations about reducing their emissions of greenhouse gases (GHG). The risks faced by others may be related more to the impact of climate change on their business operations and the need to adapt accordingly (adaptation-related risks). Companies’ effectiveness in identifying and addressing climate change risks (and opportunities) and their implications for business strategy is itself an important and distinguishing competitiveness factor.

For example, what are the risks that a business or its supply chain might be affected by increased frequency of extreme weather events, by sea level changes, or by the availability of water? What financial impact will current and expected climate-change-related regulations have on a company? On its competitors? How might a company’s results be impacted if customers, employees or regulators perceive the company as failing to address climate change issues?

Might operating approvals be delayed, as in the case of Imperial Oil’s Kearl Oil Sands project in Alberta, or restricted due to legal charges that the company has not adequately considered the climate change impacts of its operations? Might the company’s competitiveness be hurt due to an inability to provide label-

and-trade system, and some could be victims of climate change. New government incentives will enable growth in “cleantech,” renewable energy and energy efficiency.

Climate change will impact finance, financial decision-making and financial results in any number of ways, including:

- New capital expenditure considerations: the ability to create and sell emission reduction credits creates a new dimension to capital expenditure decision-making and may make capital investments attractive where otherwise they would not have met hurdle rates.
- Increased global operating challenges: companies that operate globally may have to deal with a variety of emissions regulations and emission trading systems, each with different rules, risks and opportunities.
- New considerations in mergers and acquisitions: mergers and acquisitions contain another layer of complexity with climate change risk, opportunity and valuation considerations.
- Access to insurance: the ability to obtain affordable insurance may impact risk management policies.
- Access to capital: increasingly banks are reviewing the climate change risks in their loan portfolios.

## What does this mean for the accounting profession?

Whether as executives within the finance and risk management departments of companies or as trusted external business advisers, individual accountants and firms will be inextricably involved, helping to ensure that companies recognize and deal with the new types of risks and opportunities that accompany the paradigm shift to a low-carbon economy. Accountants’

knowledge and skills will need to expand accordingly.

The CICA is supporting business and the profession with a climate change page on its website, continuing education events and publications such as Executive Briefing: Climate Change and Related Disclosures; Climate Change: A Hot Topic for Chartered Accountants; and Climate Change Briefing: Questions for Directors to Ask.



## Regulation

Climate change policy and regulations place a price on carbon that, along with the costs of adapting a company's business to climate change impacts, directly affects the bottom line of many companies.

We are seeing new regulations and economic instruments internationally and domestically — carbon taxes, cap-and-trade systems, new building codes, and fuel emission standards — that affect the operations of businesses and the competitiveness of companies' products and services.

Companies are increasingly using scenario analyses to understand the strategic and risk management issues related to current and possible new regulations. Companies will want to identify and act upon strategic opportunities as well as prepare for meeting compliance and reporting obligations.

Currently in Canada, leadership in climate change regulations is coming from the provinces. For example, BC has instituted carbon taxes and has mandated new water and energy efficiency building codes. Public sector organizations in BC are required to be carbon neutral by 2010. BC, Manitoba, Ontario and Quebec have joined the Western Climate Initiative, a regional cap-and-trade program. Alberta enacted climate change regulations effective July 1, 2007, setting emissions intensity limits on GHG emissions of certain facilities.

At the federal level, signs are that Canada may follow the lead of any US national system. The American Clean Energy and Security Act of 2009, referred to as the Waxman-Markey bill, proposes a cap-and-trade regime for entities that emit more than 25,000 tons per year of carbon dioxide-equivalent GHG emis-

sions. Those entities that are not covered by the cap may be able to create offset credits for eligible emissions reduction projects that can then be sold for compliance purposes into the covered sectors. While there would be many advantages (including a much more liquid market) to a harmonized or at least linked emissions trading system with the US, the Canadian and US economies are quite different and may require thoughtful and divergent economic policies.

International trade will be impacted by national governments putting a price on carbon. There will increasingly be the prospect of border taxes or similar trade measures for those countries perceived as not having sufficiently robust carbon regulations in place and therefore perceived as having a competitive cost advantage, absent the trade measures.

This month, international talks take place in Copenhagen to negotiate a framework to limit GHG emissions for the years after the first commitment period of the Kyoto Protocol, which is due to expire at the end of 2012. The Copenhagen discussions will be complex, and it will be critical to have the US, China and India as signatories of any new framework. The world's poorest people have contributed little to global GHG emissions but are the most vulnerable to the impacts of climate change. They expect the developed nations, responsible since the Industrial Revolution for the majority of global GHG emissions, to bear the economic brunt of whatever needs to be done to reduce GHG emissions and stabilize global warming this century.

Canada contributes about 2% of global GHG emissions, but on a per capita basis Canada's emissions are seventh in the world. Alberta, Saskatchewan and Ontario account for about 70% of Canada's GHG emissions. Alberta's emissions have been rising due to increased production of petroleum products for export. Currently, Alberta accounts for about one-third of Canada's GHG emissions and 40% of industrial emissions. It is projected that Alberta's contribution will increase in coming years. Part of the issue is that oil sands development produces more GHG emissions than conventional oil production. Canadian oil sands producers are feeling the heat. International civil society campaigns, ethical investors, banks and insurance companies are all keeping a keen eye on the sustainability of oil sands development and its impact on Canada's GHG emissions.

## What does this mean for the accounting profession?

Members of the accounting profession will be called upon to assess the financial impacts of existing and potential new regulations associated with climate change and climate-change-related regulations on companies, industries and governments. As for other economic instruments such as taxes and incentive programs, professional accountants will have to be thoroughly familiar with new regulatory policies and schemes, whether to support company compliance or advise on strategic options to minimize the operational and financial impacts of climate-change-related regulation.

The CICA has been active in commenting on government discussion papers and draft regulations, as well as providing technical input to government departments about the tax, accounting and assurance implications of possible and proposed regulatory schemes.

## Reporting

Climate change confronts companies and their accountants with new measurement and reporting challenges. These include measuring and reporting company GHG emissions, accounting for the financial implications of climate change transactions that occur under regulations and emissions trading schemes, devising and implementing new performance metrics (key performance indicators) and making sure that disclosures to capital markets include all material risk and performance information. Management and boards of directors need reliable performance metrics and reporting to support informed decision-making and oversight about climate change issues and their future bottom-line impact. Investors increasingly seek reliable disclosures about climate change risks and material bottom-line impacts, beyond what securities regulators currently call for in periodic corporate filings.

There is significant uncertainty or lack of precision in the measurement and reporting of GHG emissions. There is also generally a lack of good information systems, processes and controls to ensure that data collected is reliable. Given this, it is particularly important that independent verification is carried out to provide reasonable assurance as to the reliability of GHG emissions information reported to regulators and investors. As a risk management strategy for the credibility of a government's GHG inventory and/or cap-and-trade and offset programs, independent verification of inventories and project baselines and emissions reductions seems essential for ensuring compliance with regulations and making sure that tradable credits are issued only as appropriate.

There are a number of issues related to GHG emissions verification. Verification of GHG emissions will generally require a multidisciplinary team of professionals (perhaps CAs, engineers, professional foresters). Accreditation of verifiers should therefore be at a firm level; the process for accreditation should reflect a team-based approach to verification, be robust, interna-

tionally consistent and acceptable, and should reflect the need for verification teams to apply professional standards, principles, judgments and competencies. Verification standards need to be robust in providing the needed assurance about emissions information and be internationally recognized.

Government regulations and related market transactions will create new liabilities, assets, revenues and costs to report in financial statements, and companies will require accounting standards guidance on how to account for these new transactions. For example, auctioned allowances and those provided free of charge will result in different accounting in company financial statements, with gratis allowances possibly recorded as government grants (with income measurement consequences). There is currently a lack of clear guidance on how to account for GHG transactions under emissions trading systems, leading to the use of a variety of accounting approaches. Inconsistency in accounting practices, depending on materiality, may be problematic for internal and external users of financial statements in evaluating cash flows, reported earnings and financial condition.

Effective management of climate change issues calls for reliable information not only about actual GHG emissions, but also for the design and use of other relevant and reliable performance metrics or key performance indicators (KPIs) to track progress over time against targets. For example, KPIs might measure GHG emissions per unit of output (intensity), energy consumption, technology-related R&D expenditure and investments in new energy technologies. As they say, what gets measured gets managed.

Climate change presents new external reporting issues in both mandatory and voluntary disclosure channels. There are two main categories of mandatory reporting: continuous disclosure reporting to capital markets and required filings under governmental climate change regulation. Many companies voluntarily provide information beyond that required by securities regulators or other government departments and agencies. Voluntary

## Initiatives regarding climate change

### 1997 to 1999

CICA acted as observer to Ontario Pilot Emission Reduction Trading project

### 2002

CICA and the International Emissions Trading Association sponsored a meeting of representatives from industry, accounting standards bodies and accounting firms to consider accounting for GHG emissions

### 2003 to 2004

International reports by the Carbon Disclosure Project recognized CICA's leadership work in the accounting profession regarding financial accounting and disclosure about GHG emissions and climate change issues

### 2003 to 2004

CICA participated in Joint Task Force with American Institute of Certified Public Accountants that produced Practice Guide Engagements to Audit Greenhouse Gas Emissions Information

### 2005

Public Sector Accounting Issues Related to the Kyoto Protocol tabled with the International Public Sector Accounting Standards Board

### 2005

MD&A Disclosure about the Financial Impact of Climate Change and Other Environmental Issues published as a discussion paper to help reporting issuers and build on the CICA MD&A guidance

# The accounting profession will be called upon to assess the financial impacts of existing and potential new regulations associated with climate change and climate-change-related regulations on companies and governments

information may be reported in responses to surveys such as the Carbon Disclosure Project (it collects climate change information from corporations worldwide; for more information see [www.cdproject.net/canada.asp](http://www.cdproject.net/canada.asp)) in separate corporate sustainability and climate change reports and on corporate websites.

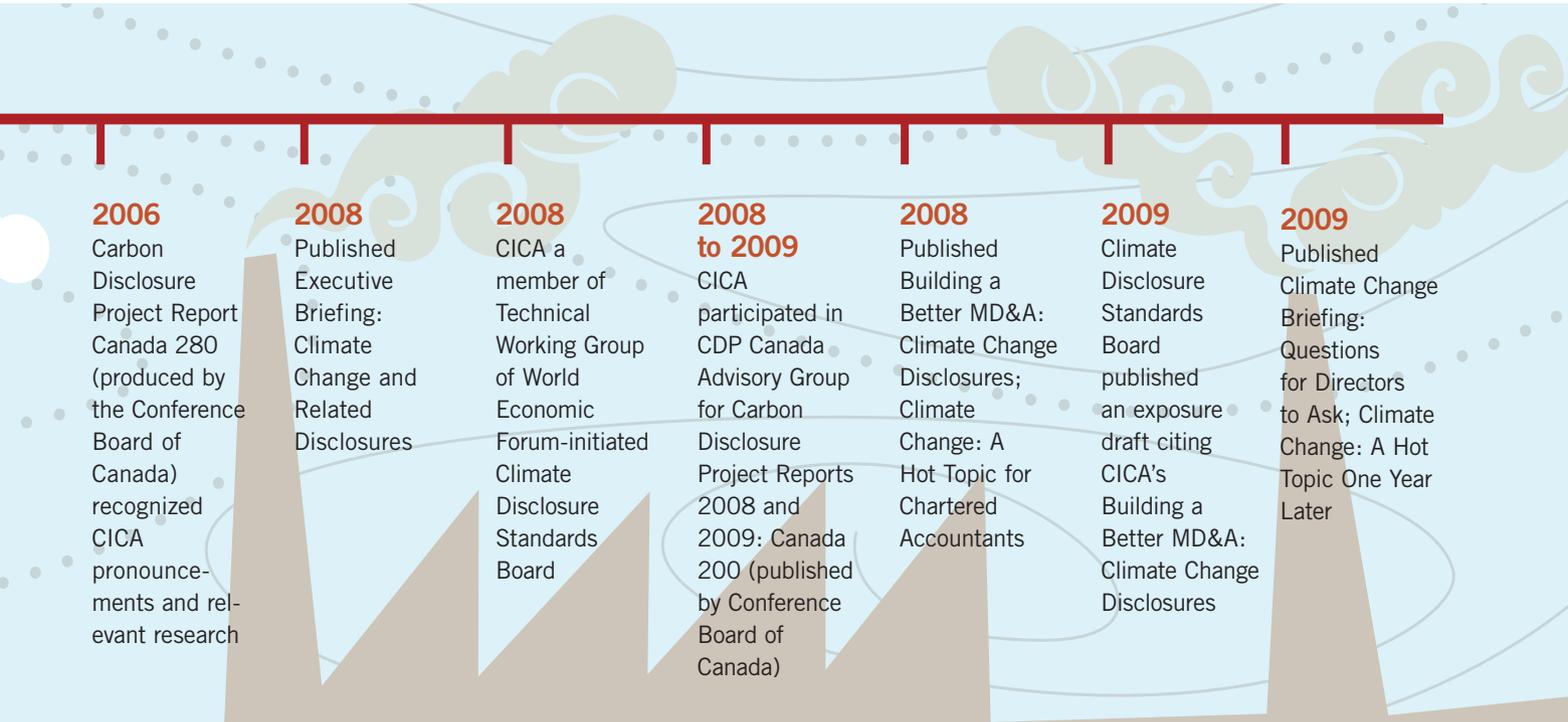
Information disclosed in all these reporting channels needs to be consistent; material information in voluntary reports also needs to be disclosed on a timely basis in mandatory reports; and voluntary external reporting needs to be reliable and comply with applicable Canadian Securities Administrators' requirements about forward-looking information.

There are developments in the US affecting securities regulators that may impact Canadian companies listed in the US. In June 2009, 41 signatories, including public pension funds, state treasurers, controllers, asset managers, foundations and other institutional investors with approximately US\$1.4 trillion in assets under management, sent a letter to the US Securities and Exchange Commission (SEC) requesting that it address corporate disclosure of climate change and other material environmental, social and governance risks in securities filings. The letter followed the release of two reports that showed that S&P 500 companies — including those with the most at stake in responding to the risks and opportunities from climate change — are providing little climate-related disclosure to investors. The letter is but

the latest of several attempts to engage the SEC on this issue, and finally there are signs of the SEC giving these disclosure needs serious consideration.

Meanwhile, on March 17, 2009, the US National Association of Insurance Commissioners approved a mandatory requirement that insurance companies disclose to regulators and investors the financial risks they face from climate change, as well as actions the companies are taking to respond to those risks. All insurance companies with annual premiums over US\$500 million will be required to fill out an Insurer Climate Risk Disclosure Survey every year. This US initiative may impact insurance costs going forward that could affect Canadian companies.

In Canada, some securities regulators have signalled their intention to pay closer attention to environmental disclosures in continuous disclosure reviews but so far have not introduced specific climate-change-related disclosure rules beyond those already embedded in current Annual Information Form and Management's Discussion & Analysis (MD&A) requirements. To date, institutional investors in Canada have not submitted letters and petitions similar to those submitted to the SEC. In April 2009, however, a private member's resolution was approved unanimously in the Ontario legislature. It called for the Ontario Securities Commission to review its disclosure rules regarding environmental, social and governance factors and report by January 2010



# Climate change confronts companies and their accountants with new measurement and reporting challenges. These include measuring and reporting company GHG emissions and accounting for the financial implications of climate change

what actions it might take to improve such disclosures.

A key stumbling block to date in external reporting to capital markets about climate change has been the lack of an internationally developed framework for climate change disclosures in companies' mainstream annual reporting. In 2007, a multi-stakeholder Climate Disclosure Standards Board (CDSB) was established by the World Economic Forum and several other international bodies to promote and advance climate-change-related disclosure in mainstream reports through the development of a global framework for corporate reporting on climate change. The requirement to adopt and follow such a framework, modelled with the adoption of international financial reporting standards in mind, could then be legislated in any jurisdiction worldwide — say, in Canada, as an add-on to MD&A reports. The CDSB issued its first exposure draft of such a framework in May 2009; it is too soon to assess the outcome of this bold initiative.

## What does this mean for the accounting profession?

The International Accounting Standards Board and the US Financial Accounting Standards Board are jointly conducting a project to develop comprehensive guidance on accounting for emissions trading schemes.

The International Auditing and Assurance Standards Board (IAASB) is developing relevant assurance standards for engagements on carbon emissions information. It is expected to issue an exposure draft in 2010 that will address the issues of uncertainty, risk and the impact of internal controls on assurance work. It is expected to highlight key elements of the professional code of conduct requirements under which members are bound, including issues of independence and conflicts of interest.

Accountants within companies have to grapple with new measurement and reporting challenges. The roles and services of accounting firms as accounting and reporting advisers and as providers of independent assurance take on new dimensions as well as new opportunities to apply traditional skills.

Auditors of financial statements may have new transactions and associated professional risks to address in the course of auditing companies' financial statements.

The major accounting firms are building their client service practice units to meet the needs of businesses for climate-change-related reporting and assurance services, as well as strategy and risk management advisory services.

As can be seen in the time line summarizing CICA's involvement in climate change issues since the mid-'90s, the CICA has been an extensive contributor to measurement, reporting and verification issues. The CICA has participated in the setting of International Organization for Standardization standards 14064,

14065, and 14066 regarding measurement, reporting and verification of GHG emissions. The CICA is a contributing member of the project advisory panel of the IAASB assurance standard. In 2003, the CICA and the American Institute of Certified Public Accountants jointly issued a practitioner's guide to providing assurance about GHG emissions information. In 2008, the CICA published *Building a Better MD&A: Climate Change Disclosures* to assist MD&A preparers. The CICA is an active participant in the Climate Disclosure Standards Board Technical Working Group and contributor to the May 2009 exposure draft (which refers extensively to the CICA's 2008 guidance on MD&A disclosures regarding climate change).

## Roles

The roles and responsibilities of boards of directors, CEOs, CFOs and internal and external auditors all take on new dimensions to address the impact of climate change on the companies they serve. To carry out their oversight role, directors not only need a thorough knowledge and understanding of the company's business but also how it might be impacted by climate change. In particular, they will want to enhance their understanding of:

- the business issues arising from climate change;
- how these business issues influence a company's risk management and strategy;
- the impact of these issues on a firm's financial performance;
- the external communications necessary to inform investors about these matters; and
- the adequacy of the company's information systems and related internal controls for managing climate change issues.

CEOs and CFOs need to take concrete steps to address the implications of climate change and related regulations for the company's strategies, risks, opportunities and financial performance. They also need to provide appropriate and reliable information to capital markets to meet securities regulators' disclosure requirements (including certification of filings) and satisfy investors' expectations for such information.

Within companies, the lexicon of climate change must become an everyday feature of the language of business for effective inter-departmental dialogue. A 2001 CICA report, *Environmental Performance: Measuring and Managing What Matters*, about managing environmental performance, identified the need to improve communications between environmental and financial executives. Climate change issues make this even more a necessity.

A significant infrastructure build will be required of auditors. Internal auditors increasingly will be called upon to assess the reliability of GHG emission information and the underlying systems, processes and controls. External auditors will need to

ensure that they have the appropriate skill set to perform verifications of GHG emission information and the financial statement impacts of climate-change-related transactions.

The accounting profession itself needs to continue to support in various ways the transition to a world of business, capital markets and professional services shaped by climate change issues and policies. Since the '90s, the CICA has been at the forefront of worldwide accounting profession initiatives related to climate change; through its strategic and operational cooperation with provincial institutes of CAs, the CICA will remain so.

#### Bottom line

“Businesses succeed when they innovate and when they adapt to new market opportunities. The scale of new technologies, practices, services, products and innovations that will be required to address climate change is large. The business of addressing

climate change and the rapid shift to a low-carbon economy that lies ahead have the potential to drive forward the next chapter of technological innovation” (The CEO Climate Policy Recommendations of G8 Leaders, July 2008, page 9).

Climate change inescapably transforms the context for doing business and impacts companies' bottom-line results sooner or later. There will be winners and losers. Investors are already looking to differentiate between them, although company disclosures don't make this easy. In this new low-carbon economy, the CA profession has a great opportunity to help businesses, investors and regulators meet the challenges of climate change.

Julie Desjardins, CA, and Alan Willis, CA, are independent consultants in sustainability and business reporting. They have been involved in all the CICA publications and initiatives on climate change since 1997

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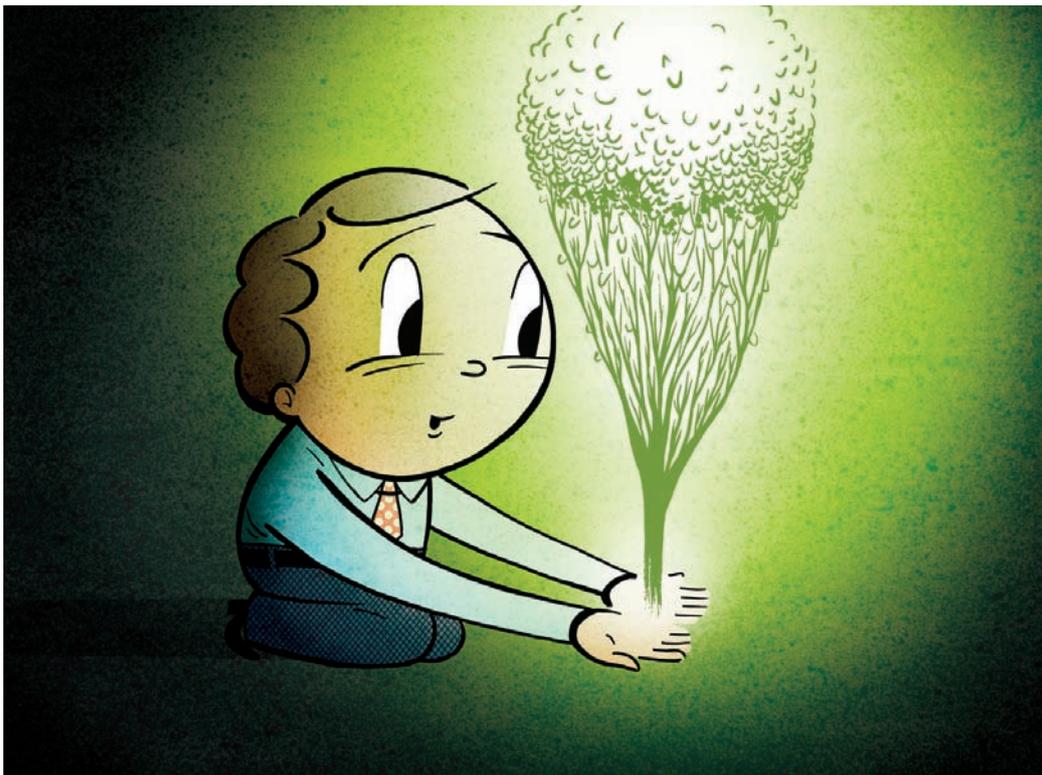
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## Toward the green deal

As more than 15,000 participants meet in Copenhagen for the climate change summit, a number of serious issues are at stake



**F**rom 1990 to 2007, Canadian greenhouse gas (GHG) emissions rose by 26.2%. Canada is now seeking to lower these emissions by 20% relative to 2006 levels by 2020. To reverse the trend, we'll have no alternative but to embark on a genuine green shift and attribute a monetary value to environmental virtue. Green taxation is one of the few tools Canada has available to achieve this goal.

If Canada and the US have made little use of green taxation and the polluter pays principle (PPP) in the past, they now seem to be increasingly inclined to move in this direction. For example, the Obama administration would like to levy carbon taxes on products from countries that haven't committed to limiting their GHG emissions,

while the Canadian government has announced that steps taken will be comparable to those of its trading partners (chiefly the US).

It is widely recognized that chartered accountants must continue to expand their horizons and learn to think about accounting in a new way. In the current economic, political and environmental context, CAs with expertise in green taxation will be in demand. The transition will be a lengthy one and these CAs will be able to take advantage of a new market niche, offering their clients sound advice on how to minimize the economic impact of a green shift.

The following guide will give readers a better idea of Canada's position at the next international climate conference. It is a must-read for all CAs interested in honing their green taxation skills.

## What is the Copenhagen 15th Conference of the Parties (COP)?

In referring to COP 15 in his opening remarks to the participating countries attending the Climate Change Summit Plenary in New York on September 22, 2009, UN Secretary General Ban Ki-moon said: "You have the power to chart a safer, more sustainable and prosperous course for this and future generations. Now is your moment to act."

COP 15 is the name of the summit held in the Danish capital December 7 to December 18, 2009. The summit is expected to be attended by ministers and officials from 192 countries, more than 15,000 official participants, reporters and activists. Since the Kyoto Protocol commitments will expire after 2012, the Copenhagen conference is an important one. A second agreement is indispensable if we are to avert a legal limbo and prevent the serious environmental, political and economic consequences that could ensue.

Post-Kyoto negotiations began in Bali with COP 13 in December 2007. At that time, it was decided that the talks would be concluded at COP 15, which would allow enough time to ratify an agreement and to optimize the prospects for a new agreement coming into force in 2012. This timeline was based on past experience, which had shown that international negotiations could take more than two years and that another two years were needed to ratify the agreement.

## How are the international talks on climate change progressing?

With COP 15 only days away, the state of negotiations is worrisome. A number of questions remain unanswered. For example, will the industrialized countries agree on common ambitious GHG reduction targets for the midterm? Will they provide the funding required to help developing countries? What commitment will the US be willing to make?

Even though nearly all countries recognize that climate change exists and that the problem is global in scale, they still

haven't agreed on how to share responsibility. Emerging countries continue to express dissatisfaction, accusing developed nations of failing to put forward concrete proposals, particularly measures aimed at helping the poorest countries take steps to combat global warming.

In July 2009, at the summit in Aquila, Italy, the G8 adopted the recommendations of the Intergovernmental Panel on Climate Change for 2050, agreeing to cut global emissions by 80% or more from 1990 levels. However, no global target was set for 2020.

In the US, the House of Representatives passed the American Clean Energy and Security Act of 2009 (HR 2454 or the Waxman-Markey Bill) with an objective of reducing US emissions. The bill, which proposes a cap-and-trade system, is currently awaiting a vote by the Senate.

## Even though nearly all countries recognize that climate change exists and that the problem is global in scale, they still have not agreed on how to share responsibility

### What is Canada's green plan for a post-Kyoto agreement?

At press time, Canada was proposing to lower its GHG emissions by 20% relative to 2006 levels by 2020, bringing them to 3% below the 1990 baselines.

### How will Canada reach this target?

To achieve such an ambitious green shift, Canada will likely have no choice but to introduce a greener taxation regime or a cap-and-trade system. To do so, it will have to apply the PPP, which will inevitably trigger transfers of wealth (see PPP box below).

### Why are transfers of wealth an issue in Canada's green shift?

Transfers of wealth can occur between markets or provinces.

*Between markets:* going green will inevitably lead to additional costs for Canadian manufacturers, which in turn will create competitive disparities on interprovincial markets and between

### Polluter pays principle

The PPP indirectly requires economic agents to take negative cost components into account in their production costs. In actual application, the challenge is to identify the polluters and quantify their negative externalities. The cost base should correspond to polluting emissions or the consumption of goods generating such emissions. The ideal tax rate should allow for optimal pollution reduction. Accordingly, this rate should equal the marginal costs of the damage caused to encourage these economic agents to take environmental action that would be less expensive than paying the tax.

Although this principle was adopted in 1972 by the Organisation for Economic Co-operation and Development (OECD), it has not yet been fully applied in Canada and the US. OECD Secretary-General Angel Gurría has stressed the importance of adopting the PPP and the role of green taxes in its application. "We need strong price signals to change behaviour, encourage the development of new technologies and end wasteful or polluting behaviour," he says. "Green taxes, including a carbon tax and other taxes on polluting activities, can play an important role. In fact, the OECD can take some pride in its work in developing and advancing the polluter pays principle."

Canadian and foreign markets. For example, two steel companies would no longer be on an equal footing if one fired its furnaces with coal and the other with biogas.

As for transfers of wealth between Canadian and foreign markets, if a greener competitive product is available from another country, certain Canadian industries could be penalized in relation not only to other domestic industries but also to certain foreign markets. The European Union has already threatened to raise barriers on imports from countries that have a more flexible attitude toward environmental concerns. In addition, the protection of US businesses is a crucial component of the American Clean Energy and Security Act of 2009.

The Canadian government has a number of options to mitigate the adverse effects of wealth transfers between markets. Obviously, no matter which option the government chooses, it will have to comply with World Trade Organization agreements and regional trade accords such as NAFTA. Ottawa also needs to keep public finances healthy and maintain a balanced budget over the long term. It could thus:

- propose an international agreement under which the signatory states would require an equal and fair environmental effort from their companies and their citizens;
- help Canadian companies maintain their international competitiveness by not imposing too heavy a tax burden;
- pay particular attention to the manufacturing industry, agriculture and other energy-intensive industries;
- introduce an environmental tax reform that would not increase taxes on businesses. For example, Ottawa could introduce a pollution tax and lower an existing tax.

*Between the provinces:* the provinces have divergent interests when it comes to a Canadian green shift. Alberta would prefer a provincial system that collects a tax on GHG emissions, which would allow it to retain its tax revenue and limit the drain of capital. Quebec, Ontario and BC would benefit more from a national tax

#### **Less environmental effort for certain provinces?**

**If Canada wants to remain the main supplier of energy to the US, it will have to allow the oilsands provinces to expend less environmental effort.**

However, the provinces that lack this natural resource would be doubly penalized since, under the Canadian constitution, royalties from natural resources belong to the province in which they are located. The other provinces only indirectly benefit from oilsand exploitation through federal income tax, which amounts to a fairly insignificant sum annually. For example, in 2007, the federal income tax collected for oil and gas extraction totalled \$2.2 billion, i.e. less than 1% of government revenue and 1.3% of industry revenue.

administered by the federal government. There is also reason to believe that Manitoba, BC and Quebec would want to promote their hydroelectric power to gain a competitive edge.

To reduce the negative repercussions of provincial transfers of wealth, a number of competing alternatives are available to the federal government:

- allocate GHG quotas fairly between the provinces, thereby reducing regional disparities and tensions (see *Is a North American green deal a solution?* below);
- introduce a provincial revenue recycling system so the provinces themselves can alleviate the problems inherent in the transfer of wealth;
- introduce a national revenue recycling system that could transfer revenue to the provinces by reducing income taxes, taxes, public spending or even by repaying the debt.

## **A reduced environmental effort that would favour Alberta and Saskatchewan has been defensible up to now, but it's unlikely other provinces would agree to bear the costs**

### **Is a North American green deal a solution?**

Even though a reduced environmental effort that would favour Alberta and Saskatchewan has been defensible up to now (see box below), it is unlikely the other provinces or other countries would agree to bear the ensuing economic and environmental costs. That's why a North American green deal could be an interesting option, both for Canada and its provinces and for the US.

Since 1997, the environmental effort required to lower GHG emissions has been greater in Canada than in the US. This disparity seems to have quadrupled in 2009, creating a situation that could have economic implications for Canada. Environment Canada reports that Canada's emissions totalled 747 million tons in 2007. Accordingly, with carbon at \$100 a ton, a 1% reduction amounts to 7.47 million tons or savings of \$747 million.

Furthermore, the oilsands play a role in the US energy security. Some 83% of Canadian tarsand oil is exported to the US and this industry is one of the main sources of the growth of GHG emissions in Canada. Unless economically feasible technological breakthroughs are made, setting the Canadian target too high would have negative consequences for the US, such as:

- a scarcity of Canadian oil: Alberta and Saskatchewan would have to make a greater contribution to Canada's environmental effort, which would lead to a drop in oil production;
- the Canadian oil supply would be less reliable: the higher Canada's reduction target, the greater the transfer of wealth and adverse effects of oil production cuts, which would weaken the country's political and economic stability.

The ability of the US to pay and its GHG per capita profile are also reasons why Canada's target should be less restrictive than that of its neighbour. Americans have a greater ability than Canadians to pay. According to the International Monetary Fund, for 2008, the GDP per capita was US\$47,440 for the average

continued on page 48

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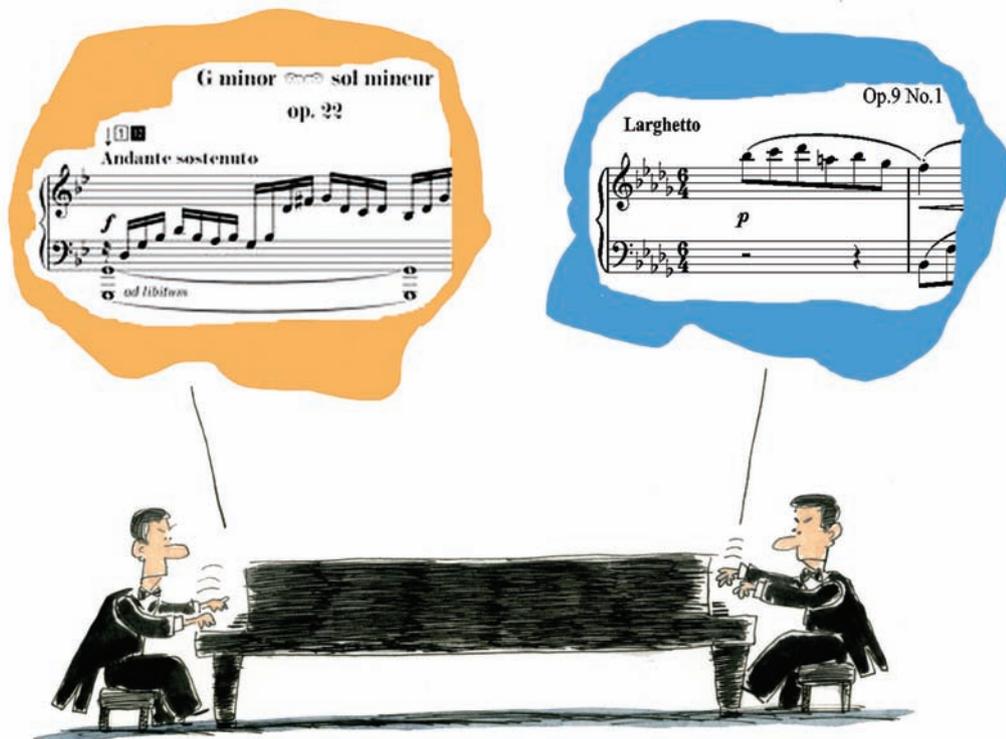
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## Harmony or discord?

Global transfer pricing is a major issue for MNEs, but at times there seems to be more discord than harmony



**T**ransfer pricing continues to be the No. 1 international tax issue of interest to multinational enterprises (MNEs), according to Ernst & Young's global transfer-pricing surveys. This should come as no surprise when one considers that the number of countries with effective transfer-pricing documentation rules increased to more than 38 in 2007 from five in 1997.

While there is a high level of agreement between countries on the broader transfer-pricing concepts, such as the applicability of the arm's-length standard, it is in the application of such concepts in the unique political and legal environment of a particular jurisdiction that the divergence in the approach of the various authorities becomes clear. The reality for MNEs is that it is becoming ever more difficult to determine and use transfer-pricing policies that are acceptable in all the jurisdictions within

which the MNE has operations. The difficulty of achieving harmonization is also experienced by the transfer-pricing advisers who attempt to document the MNE's transfer-pricing policy in the most expedient and expeditious manner.

The impact of such trends as well as the increased documentation requirements of many countries have prompted various authorities and interest groups to seek ways to minimize the negative impact on MNEs. Given that most countries in broad terms accept the arm's-length standard, there have been a number of attempts by governments, including those of the US and Canada, to minimize the compliance burden and the risk of controversy.

In addition to country-specific efforts, the Organisation for Economic Co-operation and Development (OECD) has issued guidance in the form of various discussion documents relating to the attribution of profits to a permanent establishment; the approaches to the analysis of compa-

rable companies and data; the use of profit-based methods to demonstrate compliance with the arm's-length standard; and the transfer-pricing implications of business restructuring.

In order to provide a greater level of harmonization of transfer-pricing principles, the US and Canadian governments entered into a memorandum of understanding (MOU) in 2006 regarding the Mutual Agreement Procedure (MAP) provided for in the US-Canada double tax convention (DTC) for solving disputes. The MOU was intended to provide greater clarity as to the specific approach to be adopted in resolving matters under the MAP. However, in practice the MOU was not successful in resolving Canada/US disputes or providing greater clarity. Subsequent to the MOU in 2006, the Fifth Protocol to the US-Canada DTC was executed on September 21, 2007.

In broad terms, the relevant provisions in the Fifth Protocol stipulate that the governments of the US and Canada have agreed to submit to mandatory and binding arbitration, matters that have not been completely resolved. Cases will, unless otherwise agreed between the authorities, not be submitted for arbitration until two years after commencement of the case. It is at this stage unclear as to how effective this process will be, given that the parties may well be reluctant to submit to arbitration due to the uncertainty of an outcome under this process.

Other efforts to improve harmonization include those by the members of the Pacific Association of Tax Administrators (PATA), including Australia, Canada, Japan and the US, to compile a transfer-pricing documentation package that, if complied with, should satisfy the documentation requirements of the member states. Despite the original optimism surrounding the introduction of the PATA provisions in 2004, in practice, the PATA provisions have not been widely embraced by MNEs or advisers due to the fact that compliance with the principles of the PATA documentation package will not prevent a PATA member from making a transfer-pricing adjustment if necessary. As such, the PATA process should not be confused with an advance-pricing agreement.

Notwithstanding the above harmonization efforts, the differences in legislation, regulations, practices and administration continue to expose MNEs to multijurisdictional transfer-pricing challenges. The situation is expected to be exacerbated by the current economic downturn and the need of most tax jurisdictions to fund their domestic administrations in an era where raising tax rates would be politically unacceptable.

Current, specific examples that are likely to give rise to disputes for US taxpayers and their Canadian subsidiaries arise from recent developments in the US relating to charges for certain services and their approach to cost-sharing arrangements.

With respect to charges for services rendered by US headquartered MNEs to their subsidiaries resident outside of the US, the three issues that are likely to create the greatest controversy are: the amendments to the criteria in terms of which services can be charged on a cost-only basis; the treatment of shareholder activities; and the need to factor in stock-based compensation.

On July 31, 2009, the Internal Revenue Service (IRS) and the US Treasury Department issued final regulations relating to taxable income in connection with controlled services transactions.

The final regulations make it clear that in order to continue to charge for services on a cost-only basis, four requirements must be met. Specifically:

- the service must be a covered and hence a qualifying service (the white list); or qualify as a low margin covered service;
- the service activity cannot be one that is specifically excluded by the regulations (the black list);
- the service must be judged by taxpayers under a "business judgment rule" not to be fundamental to the success or failure of the business; related to the company's core competencies; or part of the company's competitive advantage; and
- adequate books and records must be maintained.

As a consequence, it is likely that some services that were historically charged out on a cost-only basis will now require a margin to be added to the cost base. This approach is likely to face some resistance in Canada in particular, as the Canada Revenue Agency (CRA) appears to prefer that many of these services are charged at cost on the basis of the OECD concept

## **Notwithstanding harmonization efforts, differences in legislation, regulations and practices continue to expose MNEs to multijurisdictional transfer-pricing challenges**

that the underlying services are routine in nature and not high-value-added services.

The final regulations have further expanded the definition of the term "services" to include any activity provided by a member of a controlled group that results in a benefit to one or more members of that group. A recipient would be considered to receive a benefit where:

- the activity increases the commercial value of the recipient or enhances the recipient's commercial position;
- the recipient would be willing to pay for the same or similar activity or would have performed the activity for itself; or
- the activity increases the value of the recipient's intangible assets.

Of particular interest is the treatment of shareholder services that were, until now, not charged to recipients of the service. Going forward, an activity will only be regarded as a shareholder service if the sole effect of the activity is to protect the capital of a member, or is for legal or regulatory compliance. This sole-effect requirement significantly reduces the number of activities that will not require a charge by the shareholder to the recipient of the service.

The implications of this change are far-reaching. Failure by a US-based shareholder to comply with this regulation will result in audit challenges in the US. However, compliance with this rule is likely to result in additional charges to the non-US-based subsidiaries, Canada included. Foreign authorities are aware of the changes in the US regulations and are likely to monitor

the related party charges very closely. It is anticipated that this could result in an increased risk of double taxation and a greater incidence of requests under the MAP. A single change in approach by a US shareholder could result in disputes in every country where the group has subsidiaries. The possible tax and economic costs associated with this approach should not be underestimated.

Further controversy is likely to arise over the mandatory inclusion of stock-based compensation expenses in the total service costs applied in any cost-based or profit-based method. Cost allocations should, in the view of the IRS, include direct and indirect service costs, including stock-based compensation. However, stock-based compensation charges will continue to be rejected in many foreign jurisdictions, including Canada, resulting in potential double taxation.

The stock-based compensation issue is also a major factor in applying the US temporary cost-sharing arrangement (CSA) regulations released with an effective date of Jan. 5, 2009. Under these regulations, stock-based compensation must be included in the pool of costs that are to be borne by the participants of the CSA, in proportion to their expected benefits from the CSA. Once again, the reluctance of foreign governments to accept that stock-based compensation should form part of the cost pool is likely to create major obstacles to achieving the benefits typically associated with a CSA.

The IRS is understood to retain the view that pricing methods for CSA buy-in payments that do not accord with the outcome of the IRS' preferred approaches (for example, the investor model and the income method) should be viewed with circumspection. This position, which arguably does not adequately address the particular risk profile of a CSA, again places pressure on participants to follow approaches that may not be readily accepted in other jurisdictions. This again increases the potential for double tax, conflict and controversy.

Apart from these more recent changes, the continued exist-

tence of fundamental differences in the approaches followed by the IRS and the CRA, such as the appropriate way to identify comparable company datasets, will continue to create uncertainty, disputes and increased costs of compliance.

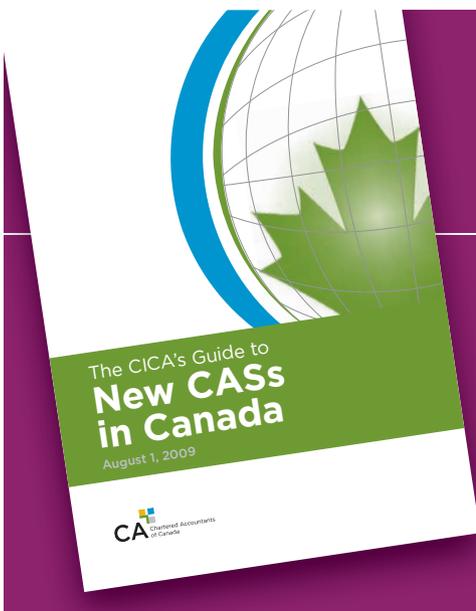
Taxpayers should carefully consider the ramifications of the above trends and uncertainties, for the purposes of financial statement disclosure having regard to Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), and similar regulations.

While harmony is desired, in practice this is proving very difficult to achieve and at times there appears to be more discord than harmony.

All is not lost, however. Taxpayers can reduce their exposure by an increased awareness of the changing trends in legislation, practice and administration in the countries in which they operate. This will enable taxpayers to identify potential exposure areas in a timely manner, providing an opportunity to mitigate these or at the very least, ensure that they are properly accounted for. Preparing robust transfer-pricing documentation continues to be the starting point for reducing transfer-pricing risk. A thorough review of historic approaches to dealing with service charges and CSAs is considered to be a necessity, in addition to regular revaluation of the functional and risk profiles of the various entities within a multinational group. Lastly, taxpayers are encouraged to explore the benefits of using advance-pricing agreements and of adopting a strategic approach to managing controversy in audit activity within the various jurisdictions to increase certainty in these uncertain times.

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Technical editor: Trent Henry, tax managing partner, Ernst & Young



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# Where's the info?

Data analysis may not be the silver bullet many hope it is, but it can accelerate the execution of audits

All of us can attest to the proliferation of information systems and automation at all levels of our business and personal lives. Information is captured by our home computers and smartphones as well as within the enterprise resource planning applications that organizations spend millions of dollars implementing and maintaining. Virtually every activity and transaction, financial or not, is captured and recorded somewhere. For those who look, this information can be a gold mine. The question is, can we obtain valuable information from all this data without having to be data-mining experts with time to spare?

There are significant potential business intelligence opportunities related to having data. Data analytics, typically done over an entire population, tend to provide more complete and exhaustive results than sample-based reviews. However, many professionals are still unsure how to extract the most value from all available data.

### What does it mean and how can it help?

In determining how to get value from information, first consider what we know. The term “data analytics” is often used as a one-size-fits-all description of data analysis techniques and approaches. In addition, the term’s continuous controls monitoring and continuous audit are both over-used and provide little clarity in describing the capabilities they involve.

To improve understanding of data analytics, consider the following forms data analytics can take. More specifically, the three most-desired outcomes generated by a robust data analytics exercise are to address risks and assess internal controls; to improve performance; and to predict (see Desired outcomes on page 44).

There are opportunities for relatively straightforward and easy-to-execute analytics, which most auditors and even business owners, data-minded or not, can consider in addressing risks and assessing internal controls for audit or review purposes.

Some value-driven quick hits for risk/control ana-

**Guiding principles**

OBJECTIVES	CHARACTERISTICS
<b>Accessibility</b>	Data is provided to properly authorized users and applications based upon job responsibilities
<b>Auditability</b>	Data sources, changes and transformation processes provide a clear trail of evidence
<b>Availability</b>	Data is available to users and applications in a timely and usable manner
<b>Compliance</b>	Data usage complies with applicable laws, regulations and contractual agreements, including those mandating security and confidentiality
<b>Consistency</b>	Data generates the appropriate information for management to operate the entity, and to exercise governance responsibilities
<b>Integrity</b>	Data is complete, accurate and reliable

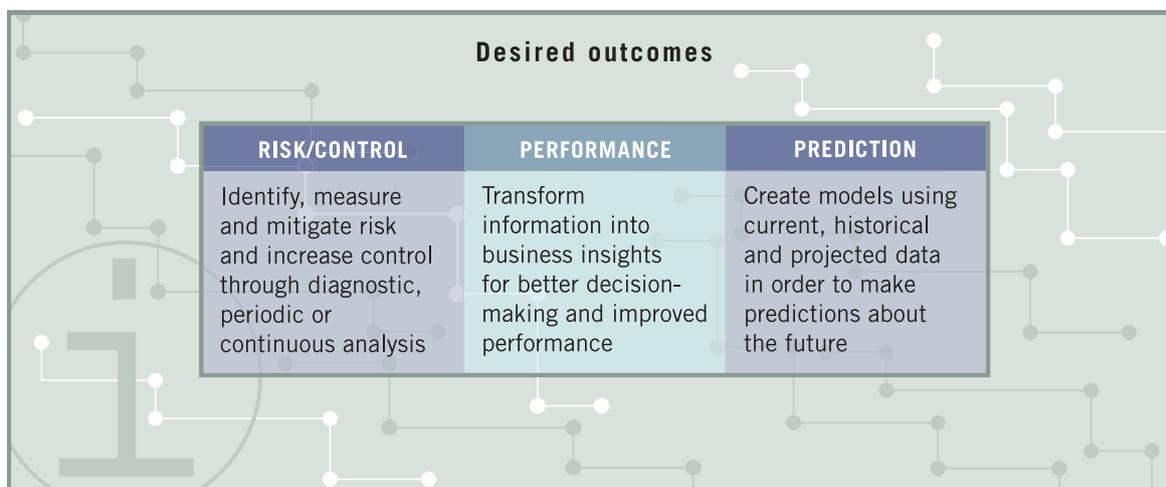
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lytics include:

- journal entries analysis for irregular entries and the like;
- analysis of inventories for costing (e.g., identifying products that have costs that fluctuated, over a set period of time, greater/less than x%) and pricing issues (e.g., identifying products that were sold for greater/less than cost by x%);
- analysis of accounts receivable for confirmation selection (using basic statistical concepts) as well as identification of economic dependencies, etc.;
- analysis of accounts payable, also for confirmation selection,

data analysis. However, simple replacement of manual audit steps with data analytics will not typically provide enough perceived benefit to sustain the investment in analytical tool analysis capabilities. It is at this point that the second perspective should be assessed. More specifically, if the data analytics are able to provide comfort on specific areas of risk that cannot effectively be monitored or audited by manual procedures, then, by extension, better results will be obtained.

In determining whether better results (e.g., greater scope coverage, more risks addressed, more controls assessed, etc.) are



in addition to aging; including possible simplistic working capital improvement analysis when combined with actual disbursement data;

- analysis of expense report amounts versus promotion limits, to identify trends, etc.;
- comparing a pay register at year-end with stated salaries in an employee master file;
- comparing payments made during a predefined period with a list of known and approved vendors as well as with approved disbursement limits;
- analysis of an employee master file for invalid social insurance numbers, which may reveal fictitious employees;
- comparison of employee address information to vendor address information;
- looking for duplicates or gaps in a pre-sequenced series of disbursement cheques; and
- isolating repetitive transactions (e.g., disbursements, inventory movement, etc.) and following up on their nature.

### How can data analytics help you?

With a better understanding of the types of possible data analytics, deeper thought should be given to whether it is truly beneficial to a practitioner's existing situation. This process should focus on two primary considerations: whether existing tactics can be replaced by more efficient ones and whether this alternative approach will yield better results.

The easiest possible replacement item could be a manual analysis or audit procedure, which can be augmented through

obtainable, practitioner skills begin to become more relevant because the executing practitioner will likely be the first person determining what is reasonable and what is anomalous.

### Are you able to pull it off?

After thinking about how data analytics can help, the immediate next step is to determine whether existing competencies can be harnessed or developed and whether it makes sense to develop or buy the required skills.

Given that this is an exercise in leveraging technology, the technical skills component of any data analytics exercise cannot be ignored. Here, it helps to remember that any automated tool alone does not result in effective audits; a tool is often only as effective as the professional who wields it. A typical analyst given ACL, IDEA, ActiveData, SQL or any other tool may not generate compelling findings. Too often, data analytics projects invest in basic training for two or three auditors with a budding interest in using analytics.

However, without proper training, initiative and guidance, these auditors may perform unfocused analysis with limited benefits. Generally speaking, good auditors may not make good analysts and vice versa; it takes a combination of the right skills and approach.

Data analytics for audit testing purposes can deliver dramatic results. Conversely, they can yield little more than the manual procedures they replace. In reality, the latter result isn't necessarily a bad thing — using analysis to validate the effectiveness of existing procedures increases confidence in the overall audit

program. However, when we scope the investment and build expectations for greater results without specific objectives, the analysis is rarely considered successful by its end users.

Before embarking on any data analysis, it is helpful to appreciate that, historically, one of the biggest obstacles to executing analytical analysis was simply capturing the information in a readable and usable form. It would be fair to say approximately 50% to 60% of the total data analysis budget is related to data request, receipt, initial review and inquiry and preparation. Only then could the actual detailed analysis be commenced.

Working on the assumption that a workable set of data is obtainable, begin planning for a data analytics exercise. In doing so, perhaps the single most relevant consideration is that one needs to have at least some idea of what to look for (have some level of ideas) and how to find it (one does need some level of analytical tool usage skills).

Alternatively stated, there is a requirement for some rudimentary expectations and technical software skills. Furthermore, there is nothing wrong with having multiple people develop the expectations, whereby the actual data analysis executor (i.e. the person operating the tool) works in tandem with someone with no tool or data analytics experience, but who has a deep understanding of the particular business risks and controls. Frequently, a lack of cooperation among audit engagement team members leads to unsuccessful data analysis efforts.

For practitioners with limited resources, it may just mean more focused, expectation-based analysis. More specifically, it means establishing some well-thought-out expectations, which are developed through one's own knowledge of operations and further corroborated via management discussion.

#### Tools available

Once the decision to advance with data analytics is made, as well as how and who will execute them, consider that available technology is fundamental to the exercise.

There are many available tools: ACL, IDEA, ActiveData, SQL, SAS and even the stalwart Microsoft Excel are popular. The decision about which tools to use is impacted by the following considerations:

- the volume of data to be processed (some tools have limits);
- the usability of the raw data (i.e. how much manipulation and massaging is required to import the data into the tool);
- the skills available to execute the analysis;
- existing technology platforms and available support; and
- budgetary constraints.

The good news is that from a skills perspective, usually someone who already knows at least one of the tools is at an advantage over someone with no experience at all. While they are all different, most of the currently available and most popular tools have enough similarities to enable people with skills with one to adapt to the requirements of another. Furthermore, while the tools are different, data analytics is based primarily in a certain mind-set, rather than a tool.

Different perspectives exist on which tools are better, but each user needs to determine his or her primary decision conditions. Once the tool is acquired, it must be leveraged effectively to deliver maximum value. A tool is just the enabler, and it will not overcome, by itself, the challenge of conducting an analysis. The onus for successful analytical analysis rests primarily on the commitment of the practitioner. Here, it bears mentioning that each analysis will improve over time. Errors will be ironed out, skills will improve and, eventually, the focus will move from the more technical components of appropriately capturing the data and executing commands in the tools to improving the analysis, developing more robust expectations and looking into business improvement opportunities. For those used to a traditional, manual approach, an initial investment is required to give the data analysis approach a chance to be adopted and, over time, improved.

#### Conclusions

Sustained and effective use of data analytics may require a change in mind-set for the typical audit practitioner. To realize this transformation, there must be changes in approach for risk and control

## Data analytics for audit testing purposes can deliver dramatic results. Conversely, they can yield little more than the manual procedures they replace

test procedures and controls programs, as well as a possible broadening of focus to include identification of performance improvements to better meet management's strategic objectives.

The table on page 43 provides some of the guiding principles that need to be evaluated when determining if data analysis is something worth exploring in more detail. Furthermore, if the decision to proceed is then made, there needs to be a minimum level of conditions in place around the data itself to warrant additional investment.

The concluding considerations include:

- Can we derive value from the exercise?
- Do we have the skills and budget to efficiently execute data analytics?
- Is data readily available?

Using data analysis may not be the silver bullet many people hope it can be. However, it can accelerate the execution of audits or reconfirm what one may have previously suspected but did not have readily accessible proof of. Here is where analytics can offer the most value for the least cost.

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## No easy task

The changeover to IFRS is a major challenge, but it's also an opportunity for audit firms to review their procedures

**W**ith 2010 weeks away, many public companies are preparing for the changeover to international financial reporting standards (IFRS). Management teams, audit committees and IFRS committees are busy ensuring the transition will be effective and efficient.

And the changeover is no easy task. Its success depends on the availability of adequate tools and resources, as well as a considerable investment of time and money on the part of management.

This is also true for auditing firms. The transition will mean a major shift in how audit engagements are managed and will call for a substantial combined effort and focus. To avoid unpleasant surprises, firms need to review their audit approach in light of the risks inherent in IFRS conversion. They will also have to cope with

unexpected challenges, control costs and minimize the risk of potential lawsuits or possible adverse effects on their clients' day-to-day activities.

### The European experience — lessons to be learned

The IFRS conversion process in Europe encountered a number of problems — even failures in some cases — despite the good intentions of all the stakeholders involved. Studies have shown that difficulties arose when companies and their auditors:

- applied blanket or nonrelevant accounting policies;
- failed to make a list of all disclosure requirements on time;
- underestimated the importance of properly configuring information systems to process and retrieve all the information needed to prepare IFRS-compliant financial statements; or
- based their estimates on hindsight.

These weaknesses resulted in incomplete, nonrelevant or inconsistent financial statements and unforeseen additional costs. The profession needs to take the task ahead seriously and learn from the European experience to avoid making the same mistakes.

### Planning — crucial for an effective transition audit

The changeover to IFRS in Canada represents a fundamental shift in financial reporting. Changes in the application of new policies, the configuration of systems and maintenance of internal controls will all have an effect on audit risk, significantly increasing the risk of misstatements and fraud. In turn, this will have a considerable impact on how audits are conducted. That's why it's important to properly plan the engagement — a step that everyone agrees is the key to a successful transition.

Planning should focus on two major areas: assessing and updating the knowledge of professionals; and participating in the company's conversion process.



### Continuing education and core resources

The conversion process should start with intensive and ongoing IFRS and International Standards on Auditing (ISA) training for key audit and review personnel.

During the switchover in Europe, the role and involvement of auditors in the conversion process were often questioned. Surveys have shown that many companies accused their auditors of being slow to identify technical and reporting issues and of failing to meet deadlines, primarily because they were ill-prepared and lacked the necessary knowledge.

To optimize effort and make the most of their investment, firms should consider hiring or teaming up with recognized IFRS specialists to assess the quality and relevance of training programs offered by consulting firms.

To be useful, training should not only address the technical and theoretical aspects of the conversion but should also cover practical issues adapted to the Canadian regulatory environment and specific characteristics of the industry in question.

And don't forget professionals and specialists whose expertise is needed at certain stages of an audit engagement. These include IT professionals, tax practitioners, valuers, risk management consultants and others who should provide assurance that they can and will do the job well.

### Users' concerns and professional risk

One thing is certain: the first IFRS financial statements will be closely scrutinized by the various stakeholders, including financial backers, investors, market analysts and regulators. As was the case in Europe, all these stakeholders are concerned about the impact the changes will have and the risk that the standards will be applied inconsistently.

And these concerns are well-founded. Unlike Canadian GAAP, where certain complex accounting treatments are closely modelled on US rules, IFRS is based on much looser and more general principles, which leave more room for interpretation and the exercise of judgment and therefore lead to greater subjectivity in the application of an accounting treatment or standard. In some cases, there is no IFRS equivalent to the current Canadian standards. This issue and its impact on audit engagements will naturally need to be addressed.

Just as they have to support the application of an accounting policy or the selection of a specific IFRS standard by an analysis demonstrating its relevance, auditors who settle on a Canadian standard will need to be reasonably certain that it complies with the overall conceptual framework governing IFRS and justify its application by clearly documenting their conclusions.

In their risk assessment, auditors should also consider the possibility of figures being manipulated by management. The changeover is a convenient opportunity to embellish the results and financial position or to conceal previously undetected errors in the opening balance adjustment.

Early in the planning process, auditors should identify the files that present the greatest risk, either because of their complexity, major differences between Canadian GAAP and IFRS, or

characteristics specific to certain Canadian industries where few IFRS equivalents exist. This will enable them to take the necessary precautions to ensure the audit is properly performed.

Obviously, vigilance and professional skepticism should be the watchwords of the day.

### Management's transition plan: key audit evidence

The active involvement of auditors in all stages of the planning, development and implementation of the company's conversion process is critical to the engagement and essential to their work and conclusions, given the extent of the change, the high level of professional risk and the potential adverse effects inherent in the process.

The objectives of the auditor's approach are:

- to identify specific risks, potential problems and the impacts of the changes;
- to assess the appropriateness of management's transition plan and its progress;
- to ensure that the choice of standards and the changes made by management to information and accounting systems are appropriate;

## **The first IFRS financial statements will be closely scrutinized by various stakeholders, including financial backers, investors, market analysts and regulators**

- to assess the impact of changes on the auditor's own work;
- to make the audit effective and efficient while minimizing risks and meeting deadlines.

Auditors will therefore need to assess the soundness and relevance of management's transition plan and make certain the client has identified all risk areas. In addition, they will need to understand and analyze the appropriateness of decisions, interpretations, assumptions and significant choices made when applying specific standards and accounting policies. They will also have to ensure that all decisions are supported by sufficient analysis and explanations confirming compliance with IFRS. Finally, auditors will need to understand the impact of the changes on information systems and accounting processes in order to determine the overall audit strategy required, the specific auditing procedures and the timing of their application.

Particular attention should be paid to differences that seem negligible at first glance or to features that appear similar. It is easy to identify standards that have obvious differences, such as tangible capital assets and impairment tests. However, many differences that have a significant impact on the recognition, measurement and assessment of a transaction require a detailed analysis of a particular IFRS, for example, as regards the interpretation of concepts, definitions and terminology.

### Information and accounting systems

The European experience clearly shows that the critical factor in the changeover to IFRS was the process of adapting and recon-

figuring information systems and updating internal controls. To meet the new transaction processing and financial reporting needs and requirements and to ensure the quality and reliability of information, current systems will have to be substantially revamped or entirely replaced.

Given the risk associated with a conversion and the possible impact of the changes on audit strategy selection and on the nature and extent of specific procedures, auditors will need to be actively involved in the various stages of the information systems conversion to reduce control risk to an appropriate level. Obviously, some audit procedures will only be able to be performed during the conversion.

What's more, auditors will have to understand the changes made, evaluate the controls introduced during the conversion process, assess their impact on their procedures and determine which tests are necessary to ensure that both general and application controls are appropriate.

Finally, auditors should be able to answer the following questions.

- Is the information-gathering, transaction-processing and data-extraction process adequate, and does it meet IFRS requirements for classification, presentation, recognition and measurement?
- How do the changes impact internal controls and sources of audit evidence?
- How will the rotation of control testing be affected?
- How will the changes impact the internal control certification process?

### Remaining independent

The need for auditors to actively participate in the transition process could lead to certain problems of independence, since clients will ask them to provide opinions, advice and recommendations about the company.

To enforce the rules of professional conduct respecting independence and to avoid placing the auditor in a real or perceived conflict of interest situation, both the company and the audit committee will need to put processes in place to define the extent of the auditor's involvement and collaboration with the management team.

### Conclusion

The changeover to IFRS is a major challenge, but it is also an opportunity for audit firms to review their programs, procedures and practices to make them more effective and efficient. Like any major shift, the changeover will not be easy and will require considerable resources and time. Good planning will be crucial to cope with the obvious increase in workload and to maintain the quality of services offered. It is our job as auditors to be prepared.

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## Climate change

continued from page 38

### The importance of energy security for the US

Energy insecurity is the Achilles heel of US economic domination, and the country's dependence on oil is a threat to its security. In 2006, Barack Obama explained, "All we really need to know about the danger of our oil addiction comes directly from the mouths of our enemies: '[Oil] is the umbilical cord and lifeline of the crusader community.'" These are the words of al-Qaeda.

"Focus your operations on oil, especially in Iraq and the Gulf area, since this will cause them to die off [on their own]." These are the words of Osama bin Laden. "More than anything else, these comments represent a realization of US weakness shared by the rest of the world. It's a realization that for all of our military might and economic dominance, the Achilles heel of the most powerful country on Earth is the oil we cannot live without."

American, compared with US\$45,085 for the average Canadian. In addition, according to the OECD 2008 Key Environmental Indicators, US emissions per capita are still higher than Canada's, despite the faster growth in Canadian emissions since 1990.

Although the Kyoto Protocol allows for a specific target to be set, only the European Union has taken this route and has announced it will do the same under a post-Kyoto agreement. Even though Canada and the US have neither a common market nor common political authorities, they can certainly learn from the European experience. Their economies are highly integrated under NAFTA and through extensive crossborder trade. They also have a long history of trade relations.

To conclude, whether or not a North American green deal becomes a reality, under the current economic systems we can anticipate a higher energy bill for the US. It will have to bear the larger share of newly imposed Canadian environmental costs for oilsands exploration in Canada. In short, the environmental costs of a future reform will either be absorbed by profit or prices, or a combination of the two. Establishing a target to lower the environmental effort required from the oilsands provinces is consistent with economic thinking and solves the problem of North American energy and economic and political insecurity. [This article reflects developments as of October 30th, 2009]

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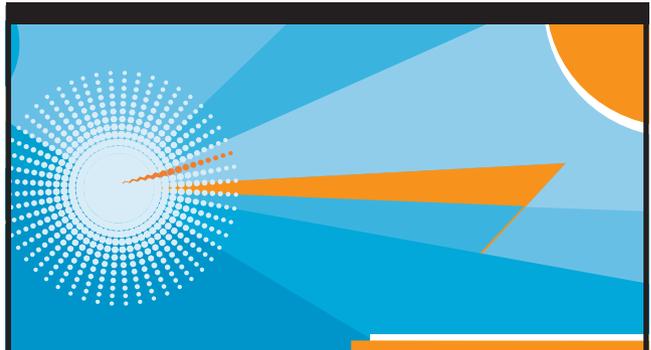
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# Outlook

BY MARCEL CÔTÉ

WHERE ECONOMICS AND POLITICS MEET

## Who is being served?

The fiduciary responsibility of a board of directors requires its members to act in the best interests of the company. This was reaffirmed in last year's well-known Supreme Court of Canada decision in the BCE and Bell Canada case. The highest court in the land ruled that when board members must decide between the interests of various stakeholders (for example, shareholders and bondholders, as in the BCE case), they should be guided by the interests of the company and all its stakeholders.

Governance is very often associated with the defence of shareholders, especially minority shareholders. Although professional organizations dedicated to promoting good governance — and there are many in Canada — profess their respect for the rights of all corporate stakeholders, in practice they focus their attention on shareholder concerns.

This is mainly due to the activism of the Canadian Coalition for Good Governance (CCGG) and to Board Games, an annual ranking of Canadian companies based on governance practices published by *The Globe and Mail*. The CCGG comments on major public governance issues. It is supported by large institutional investors, and its initiatives in good governance are limited to defending the interests of minority shareholders, as if institutional investors and companies always have common interests.

Yet, good governance means much more than defending minority shareholders' rights. In Canada, the vast majority of public companies have a controlling shareholder, very often an entrepreneur who intends to pass the business on to his or her children. Good governance must acknowledge this contingency and address it. This means ensuring that the business transfer is well organized, that the next generation will be able to assume control of the enterprise and that the family has put in place adequate management structures such as a family council. This process forms the basis of good governance in companies with a controlling shareholder. However, you

won't find the slightest information about succession-planning issues in the abundant documentation on governance produced by the CCGG or by professional firms of lawyers, accountants or human resource specialists.

The same criticism applies where corporate social responsibility is concerned. Like succession planning in family businesses, organizations that disclose best practices in corporate social responsibility are also overlooked and rarely mentioned in documentation on good governance. Such stakeholders as customers, communities, employees and society in general are given short shrift by the CCGG and other advocates of good governance.

Each year, the *Globe* uses 35 well-defined criteria to evaluate the performance of several hundred boards

### Good governance means much more than defending the rights of minority shareholders

of Canadian public companies. However, the vast majority of these criteria relate to minority shareholders' rights and thus provide a tunnel view of what constitutes good governance. The truth is that the priorities of minority shareholders may differ from those of other stakeholders. In the *Globe* ranking, the priorities of minority shareholders far outweigh those of other stakeholders.

The result is ironic, to say the least. According to this ranking, good governance is not tied to good economic performance. There is a slight negative correlation between the governance ranking and the five-year return for investors, which is certainly not what we're taught in the many training programs on corporate governance.

Governance that is concerned only with minority shareholders is poor governance, which unfortunately is what the *Globe* ranking reflects. The reality of every business is complex, and its governance must take this into account. The *Globe* and the CCGG should follow suit.

Marcel Côté is founding partner at SECOR Consulting in Montreal

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