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December 2010

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THE FUTURE OF TAX VISION

What will the tax landscape be like 10 years from now? Our experts predict. Read about it inside P. 20

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REAL VALUE EXPERTS

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A taxing future

What does the next decade hold for the Canadian tax landscape? Well, nothing is certain, except maybe more taxes

If we rephrase for our times Ben Franklin's well-known statement about taxes, it might sound something like this: "In this world nothing can be said to be certain, except death and increase in taxes." The US founding father, statesman and scientist would be astonished to learn that from 1961 to 2009, the average Canadian's taxes increased 1,624%; and for 2009, that represents a small decrease from the previous year, a result of the global recession and the federal and provincial governments choosing deficit spending to fund expenditures. So what does the future — specifically the next 10 years — hold for the Canadian tax landscape?

Writer Robert Colapinto set out to find out by asking a selection of experts to prognosticate and prescribe. That tax reform is needed is not in question. But the dilemma of the corporate and personal tax structure, writes Colapinto, lies in "maintaining the good health of the small business sector [and] attracting and maintaining the innovative entrepreneurs and highly skilled people who support the business sector." The problems are many: one expert points out that we compete for business and talent on a global scale, and if we don't



make the tax environment more attractive, talent will go elsewhere. It is a fascinating discussion. Read about it in "20/20 vision," p. 20.

Nearly half a million Canadians have investable assets of \$1 million or more. How do they manage these assets? Some use multifamily offices — one stop personalized services for wealthy clients. Sandra E. Martin investigates in "Advisers of the affluent," p.28. MFOs provide high-net-worth clients with the kinds of services one would associate with CAs, she writes, such as tax research, investment advice, managing international properties, succession planning and other financial matters. What makes MFOs unique is that while their clients may have a team of professionals working for them, the client has to meet with only one point person.

We have the usual reader favourites — Upfront, Regulars, Netwatch, Outlook. In Netwatch (p. 10), Jim Carroll discusses how developers are using plug-ins to create cool functionalities on your website or blog. Marcel Côté makes readers rethink cherished beliefs: worried about China? he asks (p. 48). Don't be — the economic growth of countries such as China opens up a large export market for Canadian high-value-added products. This will lead to economic improvement for Canada.

The staff at CAMagazine would like to wish our readers the very best of the holiday season. We hope the new year brings you everything that you wish, especially a buoyant economy.

PAUL ORENSTEIN

Okey Chigbo, Editor-in-chief (interim)

upfront

4 PEOPLE

Anyone looking for the trip of a lifetime that is exotic, out of the ordinary and not off the shelf should look to Toronto CA Mercedeh Sanati. The co-owner of a travel agency, Sanati mixes business with pleasure: she custom designs trips for clients, manages finances and when she's not in the office, she's scouting new travel experiences

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The recent fiscal crisis made tax-reform proponents worry that gains made over the years would blow away in a blizzard of red ink. Their goal is to chart a course that will encourage work and foster productivity. So what will Canada's tax system look like in 2020?

BY ROBERT COLAPINTO

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With about half a million Canadians having investable assets of \$1 million or more, the potential client base for multifamily offices in Canada is growing. And if you want one or more of these wealthy Canadians as clients, you're not alone

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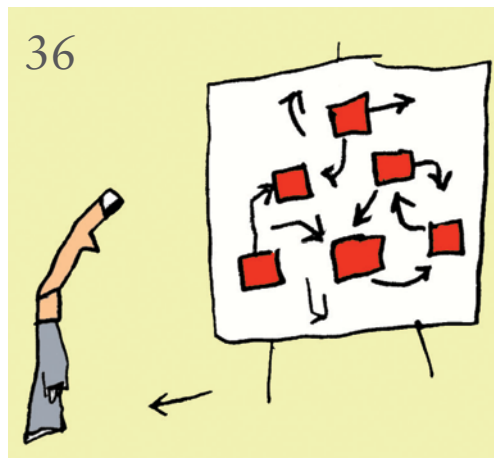
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UP FRONT

News, people, briefs, trends + tips

Tour de force



As co-owner of Quench Trip Design, Toronto CA Mercedeh Sanati wants to create the vacation of your dreams

The call came in on Thursday from a busy doctor in London, Ont., who had tickets to fly his girlfriend to Paris on Friday evening so he could propose. Could Quench Trip Design help? Co-owner Mercedeh Sanati swung into action. The Eiffel Tower would be too predictable and overrun with tourists. Instead, she arranged a ferris wheel ride on La Grande Roue de Paris. When the doctor popped the question, his girlfriend accepted and the couple celebrated with champagne.

Stories like this are the reason Sanati, a 37-year-old CA, loves her job. For most of her career Sanati worked in progressively senior roles at KPMG, including stints in London, England, and Capetown, South Africa. An avid traveler (she's visited 35 countries), she moved into the travel industry in 2006 as director of operations and CFO at Toronto-based luxury tour operator Horizon & Co. While at Horizon, Sanati and co-worker Jennifer Deacon discussed starting a business. "We were at the stage in our lives where it was either now or never. We could work for other people or we could take all the knowledge we had gathered and our aspirations and create something for ourselves," says Sanati.

In January 2009 they opened Quench Trip Design, which customizes every trip based on a client's interests rather than selling off-the-shelf packaged trips. "Most of our clients are quite sophisticated and want a really rich cultural experience," Sanati says. Clients go to Quench because they don't know where to find those hidden gems or don't have time to make the arrangements.

As well as designing trips, Sanati manages the finances, including budgets and cash flow. When not in the office, she's likely looking for new travel experiences to share with clients, such as the swim she enjoyed in the Norwegian Arctic, close to the North Pole. That's the way to mix business with pleasure.

Deena Waisberg

CAs made skating in the square a reality

'Tis the season — for skating, that is. And thanks to two CAs in Waterloo, Ont., an outdoor skating rink at the city's new public square is opening for its second season this month, weather permitting.

The rink, planned in 2008 by The City of Waterloo as part of a \$2.8-million public square construction, stalled until a community group — headed by four locals including CAs Jim Playford and Paul Rossi — raised enough money for its completion. The team raised \$440,000 in donations from August to October 2009, allowing the rink to open to the public in December 2009. "It quickly became a focal point for skaters and even the Olympic torch relay," says Playford.

Waterloo Mayor Brenda Halloran publicly thanked the CAs and other fundraisers, adding, "Your efforts resulted in a lasting gift for the entire community to enjoy every winter."

Résumé

- 1994 joins KPMG (Toronto)
- 1996 obtains CA designation (Ont.)
- 1999 becomes KPMG's director of marketing, corporate finance (Toronto)
- 2006 hired as CFO, Horizon & Co. (Toronto)
- 2009 opens Quench Trip Design

SOCIAL NETWORK STATS

Nearly two-thirds (64%) of Canadian CAs have used a personal or business social networking website in the past year, according to a recent International Innovation Network survey. The majority (85%) of respondents said the main reason they use the sites is for networking/socializing, while 59% are searching for news/information. Other reasons cited include entertainment (26%), finding business opportunities (22%), searching for a job (22%) and raising your business profile (20%).

The social networking site CAs are most likely to visit is Facebook (58% of all respondents), followed by LinkedIn (35%), Twitter (18%) and MySpace (15%). In addition, CAs who use Facebook are much more likely to be frequent users of social networks than those who use LinkedIn or Twitter. For example, more than half the CAs who use Facebook visit the site at least weekly and 16% do so on a daily basis, while about one in four LinkedIn users visit the site weekly and 2% daily.

The survey also found that about one in three CAs overall and nearly half of CAs younger than 35 would use a business net-

Reasons CAs use personal or business social networking sites



Source: International Innovation Network, 2010

working site offered by the CICA. As a result, the CICA will be launching CA Connect, a networking site for CAs, in early 2011. Look for more details in an upcoming issue of *CAMagazine* or e-mail caconnect@cica.ca for advanced access to CA Connect.

Paul Long is CICA's manager of marketing and marketing research



ASK AN EXPERT

MY COMPANY BLOCKS SOME WEBSITES I NEED FOR MY WORK. WHAT SHOULD I DO??

In most situations, robust information security measures are necessary to protect an organization's sensitive data and network integrity. If policies regarding web or network access are standing in the way of productivity, however, companies may need to reach a compromise. Here are a few things you can do if you think your organization's IT security policies are too restrictive:

Don't be afraid to ask. Some policies may be outdated and no longer make sense. Asking someone in the IT department why access is restricted is often one of the quickest ways to resolve an issue.

Make a business case. If employees can't access a client's website or a professional networking

site that can generate business, it will probably be an easy case to make. Be prepared to discuss how access to a site or network will help the business grow and why it's necessary.

Listen. Even seemingly simple requests for access may be denied, but for good reason. Allowing access to certain websites, even if justified from a business perspective, could be too risky enterprise-wide.

Compromise when necessary. If your IT security team thinks the risk is too great, be ready to ask if there is a suitable compromise. It might offer another solution, such as setting up a computer with Internet access, but not connected to the company's network.

John Reed is executive director of IT professional staffing service Robert Half Technology (www.rht.com)

#NUMBERS Game

1 Fine in millions of US dollars levied by the Securities and Exchange Commission against Sony Corp. in 1998 for failing to adequately disclose losses in its movie division. Sony obscured deficits by combining them with profits from its music division.

2 Occasions in a two-week span in 2002 Xerox Corp. was forced to amend its annual report. Revisions related to interest expenses and statements on a venture with Fuji Photo Film Co.

8 Consecutive years for which Nortel Networks restated its annual earnings. The period covered the years 2000 to 2007.

30 Percentage increase in the page count of General Electric Co.'s 2001 annual report in the year after Enron's accounting troubles.

Annual distort A firm's idea of disclosure in an annual report may include too little information, too much information or just plain misinformation



"If the annual report or quarterly report has to be the size of the New York City phone book," said GE CEO Jeffrey Immelt, "that's life."

150 Percentage increase in Computer Associates' 2000 earnings due to a "transcribing mistake." The US tech firm was subsequently investigated for its bookkeeping practices.

1,234 Number of pages in energy firm The Williams Cos.' 2001 annual report — triple the size of the 2000 document.

2009 Year NZ Farming Systems Uruguay featured the following editorial note in its annual report: "Fudge this to equal depn in FA note 11 \$2391 - via no ca." The New Zealand agricultural firm says the comment remained from a preliminary income statement.

Steve Brearton

Going Concern



TED HASTINGS, CA
PRESIDENT, CYBERPLEX INC.

COMPANY PROFILE: Founded in 1995, Toronto-based Cyberplex Inc. began life as a web-design company but soon expanded into the online advertising market. Today it is an

online publishing company that has created and developed more than 300 websites across all major markets. In turn, it leverages those niche sites — examples include SureBaby.com for mothers and PlusPets.com — by selling ad space online. "However a client wants to reach potential customers online — to get their e-mail addresses, have them fill out a form to be contacted, to have a banner [displayed] — we have the communities and websites for them to achieve those goals," says Hastings. Through its three subsidiaries, CX Digital Media, CX Interactive and the recently acquired Tsavo Media, its online reach represents 30 million monthly unique visitors to its network of websites. With blue-chip clients including Sony Canada, Ontario Power Generation and Royal

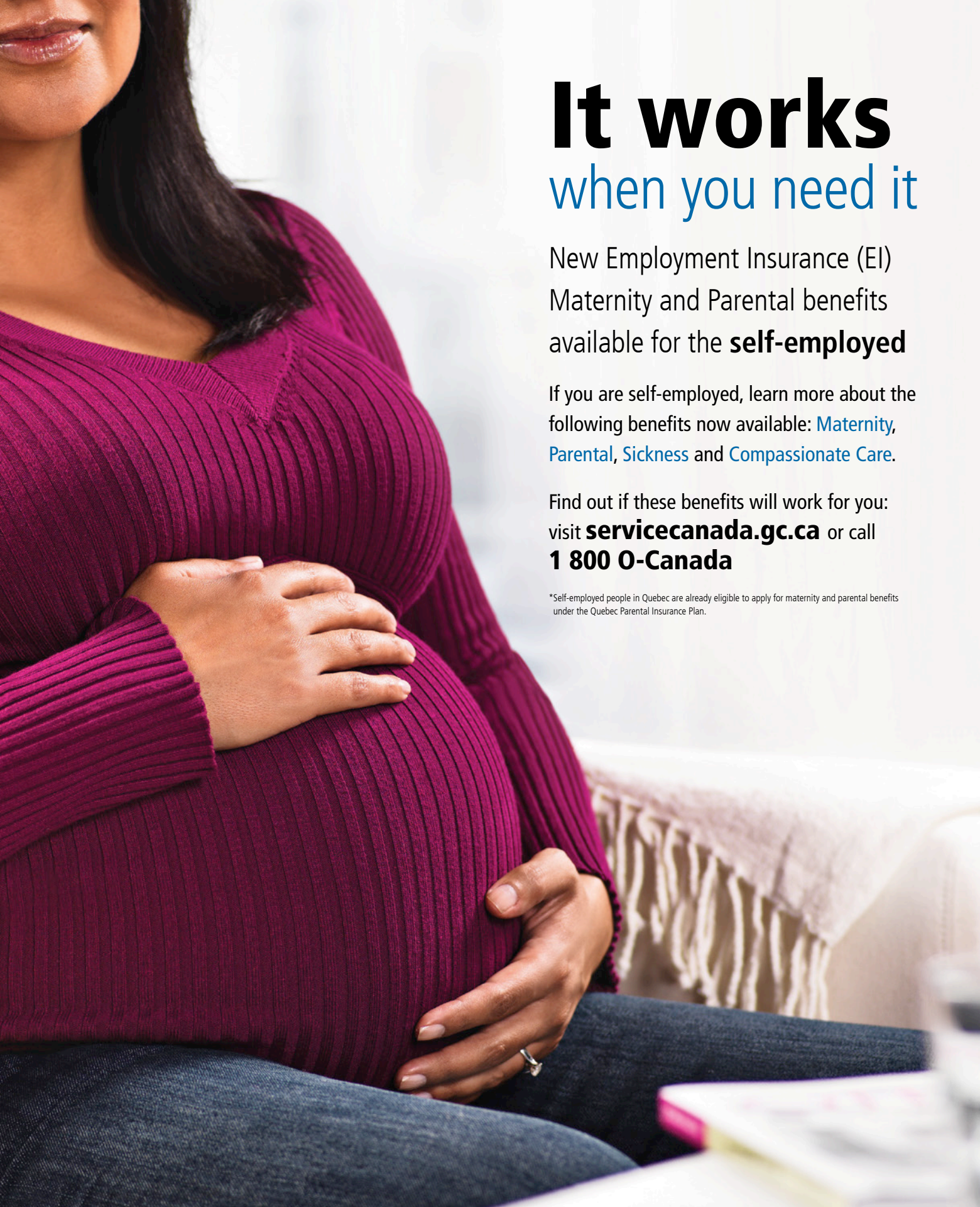
Bank of Canada, Cyberplex generated revenue of \$110.4 million in 2009, a 93% increase over the previous year.

HOT FACTOR: By completing its acquisition of Waterloo, Ont.-based online media company Tsavo in June, Cyberplex is boosting its portfolio of online sites. Earlier this year, *Backbone* magazine recognized it as one of the top-10 growth companies in 2009 based on year-over-year revenue growth.

COOL PROJECTS: While the near term will focus on the successful integration of Tsavo within Cyberplex, in the future the focus will be on the next wave of web advertising, namely investing in new markets including mobile and video in 2011.

IN HIS OWN WORDS: "We're offering a unique advertising concept for our clients, and telling them that by working with us closely we can do a lot more for them than simply putting up a Google ad. While it's difficult to predict the future, it's obvious that everything is going mobile, and we're planning on not just following that flow but leading it." John Shoesmith

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Most frauds discovered through tips

Organizations rely too heavily on external audits for fraud detection, according to a report by the Association of Certified Fraud Examiners (ACFE).

In a study of 1,843 cases of occupational fraud in 106 countries in 2008 and 2009, 76% of the organizations implemented an external audit of financial statements as an antifraud control measure, but just 4.6% of the frauds were initially detected through an external audit. The frauds were much more likely to be detected by a tip (40%) than by any other means, including management review (15%) or internal audit (14%), a finding consistent with ACFE's research on fraud detection since 2002. Furthermore, organizations that had antifraud training for employees and managers experienced lower fraud losses.

As for the perpetrators of the frauds, more than 85% had never been previously charged with fraud and more than 80% worked in one of six departments: accounting, operations, sales, executive/upper management, customer service or purchasing.



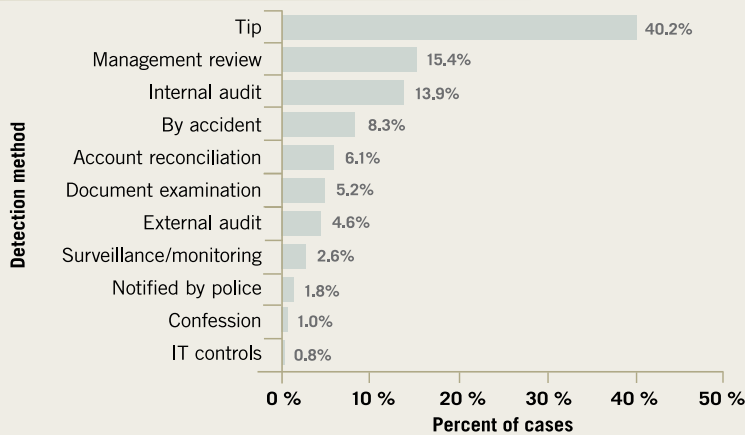
A is for accountant

Move over Bob the Builder, there's a new children's storybook character in town: Alan the Accountant.

Kids can now read about — and aspire to — the profession in this illustrated ebook for the iPhone by Jinky Fox from UK publisher Flaneur. Available for download from iTunes for about \$1, Alan the Accountant is the first in a series of ebooks about careers not often associated with children's books. "Accountants are vital to the world economy, yet children are not encouraged to say, 'I want to be an accountant' in the same way they learn about other careers," Flaneur states on its website. "This book resets the balance."

In an interview with US online financial tabloid Going Concern, Fox said future Alan books will include *My first investment account*, and *Darling, come quickly, Freddie just said his first word — EBITDA*.

Initial detection of occupational frauds



Source: Association of Certified Fraud Examiners, 2010 Report to the Nations on Occupational Fraud and Abuse

A LIFE OF WORK

A growing number of affluent workers say they never want to retire, according to a report by financial management firm Barclays Wealth. Six in 10 high net worth individuals in the UK are "nevertirees" and 70% of those under the age of 45 say they will always be involved in some form of work, states the report.

POSTAGE PERK

The US Internal Revenue Service has stopped mailing paper income tax packages to individuals and businesses. According to the IRS, only 8% of Americans who filed tax returns last year received tax packages in the mail; the rest used a paid tax professional, software or e-filed their tax returns.

NO JAVA REQUIRED

Which professionals need coffee the most? Not accountants, according to a survey by Dunkin' Donuts and US recruiter CareerBuilder. Nurses, physicians, hotel workers, designers/architects and financial/insurance sales representatives were most likely to say they need their cup of joe to be productive.



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Netwatch

BY JIM CARROLL

YOUR GUIDE TO BUSINESS & ACCOUNTING ON THE INTERNET

Plug in to on-site extras

Much of the battle between the iPhone, BlackBerry and phones based on the Google Android system focuses on the developer ecosystem, or more simply put, how many computer programmers are willing to invest their time in developing cool applications for a particular platform.

Success in the computer world often goes to those who win over the developers: certainly a huge amount of Microsoft's past success with Windows can be linked to the large number of companies and computer programmers who wrote software for it. So it is with websites; while many have been based on Flash technology or built on offerings from Microsoft and other companies, an increasing number of sites are now being built on blogging platforms.

I decided to take this approach when I launched the eighth version of my website earlier this year. After much research, I decided to go with WordPress, a popular blogging platform that has a huge development community around it. WordPress, like many other blogging platforms, provides for static web pages in addition to the regular series of blog posts that you write. This allows you to build a site that includes information about your company, products or services, contact details and any other background details.

I decided to get a professional design for my new site, hiring California-based design firm Echo Factory for a mid-four-figure fee. You don't necessarily need to go this route to get a good-looking site, however; WordPress offers thousands of design themes for free with others available for a small fee. Install WordPress, pick a theme and you've got a pretty nifty-looking website and blogging platform.

But the most impressive thing about WordPress is the number of developers who have rallied around it, using its plug-in capability to write code that extends its functionality. WordPress plug-ins let you add video, photo albums, e-commerce shopping carts, mailing-list managers, social-networking links and just about anything else to your site.

I've enhanced my site with quite a few plug-ins, including VaultPress, which automatically saves any changes made to my site to a backup service. This will allow me

to restore my blog in just minutes if my service provider suffers a major failure. Then there's Cincopa, a plug-in for picture-based slideshows, which I used when I wrote a blog post that had a bit of a fun twist to it — "The 10 most important innovation-themed rock documentaries of all time."

One of the most popular features of any blog is the ability for users to leave comments on what you write. Of course, if you do that, you are opening yourself up to all kinds of comment spam. That's where the Akismet plug-in comes in — a spam filter for a blog.

Given the increasing international scope of my business, I also use a sophisticated caching plug-in that serves up images, PDFs and other large files from my site using the Amazon S3 cloud service. This means if someone in Hong Kong pulls down a large Acrobat file from my site, it is probably coming from a computer close by rather than one all the way over here in North America. This can dramatically speed up website performance.

Of course, any website has to be accessible to mobile devices and for that, I now use the WordPress Mobile Edition, which automatically reformats the site for users visiting from an iPhone, BlackBerry or any other type of mobile device. There are probably two dozen other plug-ins that I'm using. New ones appear all the time, so I'm constantly thinking about how to add additional capabilities to my ever-evolving site.

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

MY WEBSITE PLUG-INS

WordPress Plug-ins
<http://wordpress.org/extend/plugins>

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Cincopa www.cincopa.com

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Work in process

BY MICHAEL BURNS

USING TECHNOLOGY TO IMPROVE THE WAY YOU DO BUSINESS

Benchmarking survey 2010

Ever wondered how your organization stacks up against its peers in your sector? Here is your chance to find out. At *CAMagazine* we are conducting our first-ever benchmarking survey — an initiative that should benefit organizations of all kinds and sizes. We hope you will participate.

Benchmarking is a systematic way of comparing your organization's performance with that of other organizations to expose possible problems and targets for improvement. It allows you to study the best practices of the best firms and use them as a standard to meet or even surpass.

Today, with so many outsourcing firms claiming they can handle most functions cheaper, faster and better, more financial leaders are asking for benchmarking data to measure the overall effectiveness of their current organizations. Combining high quality with low cost has become an imperative for internal departments. Hence the usefulness of collecting data that can be used as supportable and tangible evidence in presenting a compelling business case.

Although it seems like a no-brainer and a great idea, benchmarking is not easy. In Canada, there is not very much benchmarking data at all, much less data specific to an industry, region or size of organization. Many organizations find it challenging enough just to compare their operations to budget and history without looking past their own finance departments. Many don't have a clear understanding of what can be learned by comparing current practices with those of other organizations. Moreover, they can be reluctant to share this information, as it may lead to criticism of management's performance. Even when there is a willingness to share, you have to find similar organizations to benchmark against. And the expected effort and cost of conducting a benchmarking study are often considered prohibitive.

That's why i8o Systems pooled its efforts with Leading-Edge Payroll Group Inc. to develop this electronic benchmarking study. The idea is to collect and measure key financial, HR, payroll, manufacturing, distribution and

professional services benchmarks. To participate, simply go to www.i8obenchmarks.com and fill in the online questionnaire by January 14, 2011. Once you have completed the questionnaire, you will receive a free "confidential" summary benchmarking analysis that compares some of your performance metrics with those of similar organizations. Of course, we will first need to have received enough responses to ensure the data is representative and provides a true apples-to-apples comparison for those participating. In a subsequent issue, we'll also share summary results that illustrate averages across industries and regions and by key performance benchmarks.

For this assessment, we have selected benchmarks that should not require a lot of effort to obtain. We have also chosen key benchmarks that reflect on the efficiency

We have chosen benchmarks that should not require a lot of effort for participants to obtain

and effectiveness of business processes. Efficiency usually means maximizing the work that gets done using the fewest resources. One way to measure the efficiency of a particular process is to calculate volumes of transactions/number of full-time equivalents (FTEs) doing the work. Effectiveness is a measure of the value delivered by the process according to the organization's critical success factors (activities that the organization must do well to be successful). Typically, effectiveness refers to the time it takes to do the business process, the quality of the output of the process or the costs of the business process. Examining a process holistically (from end to end and across functional stakeholders) is also critical to avoid improving a process in one area at the expense of another. This often happens when organizations fail to bring all key players to the table when examining best practice opportunities.

Our benchmarking survey includes metrics such as those shown in the chart (for others, please visit the online version of this article). There are many more metrics, both quantitative and qualitative, that would be useful, but it's not practical to include too many in this study, as it would

Business process	Efficiency	Effectiveness		
		Timeliness	Quality	Cost
General ledger	Number of general ledger transactions a month/number of full-time equivalents (FTEs)	Number of days after month end to process all general ledger transactions	Number of adjustments a year	Cost of FTEs as % of revenue
Financial reporting	Number of distinct financial reports a month/number of FTEs	Number of days to issue financial statements after month end	Number of material errors in financial reports per year	Cost of FTEs as % of revenue
Budgeting and forecasting	Number of companies, departments or profit centres that have budgets/number of FTEs	Number of days to complete entire budgeting process	Perceived accuracy of budget as a %	Cost of FTEs as % of revenue
Accounts payable	Number of supplier invoices/number of FTEs	Average number of days to process supplier invoice	% of late payments (missed discount or due date)	Cost of FTEs as % of revenue
Accounts receivable	Number of customer invoices/number of FTEs	Average number of days to issue customer invoice	% of billing errors a month; days sales outstanding	Cost of FTEs as % of revenue
Purchasing	(Number of purchase orders X average number of lines)/number of FTEs	Average number of days to issue purchase order	% of purchasing errors a month	Cost of FTEs as % of revenue
Order processing	(Number of customer orders X average number of lines per order)/number of FTEs	Cycle time	% of order errors a month	Cost of FTEs as % of revenue
Inventory control	Number of inventory items/number of FTEs	Inventory turns	% of excess inventory	Cost of FTEs as % of revenue
Professional services	Utilization rate	Average number of days that work in progress is outstanding	% of write-offs and bad debt per year	% of administrators to total billable employees
HR recruiting	Number of hires/number of FTEs supporting the full recruiting cycle (vacancy to hire)	Average number of days from vacancy to hire (onboarding)	% employee retention	Cost of FTEs as % of gross annual payroll
HR compensation	Number of wage and salary changes/number of FTEs	Average number of days from effective date of salary change to actual pay date	Number of overpayments and underpayments	Cost of FTEs as % of gross annual payroll
Payroll processing	Number of direct deposits/number of payroll payments	Average number of days from payroll period end date to actual pay date	Number of payroll errors overall separated by cause (external or internal)	Cost of FTEs as % of gross annual payroll
Payroll compliance	Number of payroll FTEs/number of T4s and T4As	Number of late submissions for ROEs and CRA remittances	Number of amended T4s/T4As	Cost of fines and penalties charged to organization
Workforce management — time and attendance	Number of time entries processed at the source by the source/total number of time entries processed	Average number of days from time entry input cutoff to actual pay date	Number of time entry errors requiring payroll correction	Cost of FTEs as % of gross annual payroll

make the survey too long and unwieldy for participating organizations. Also, there is a limit to how many things you can do at the same time. As a wise man once said, “If you chase too many rabbits, you will catch none.” And remember, benchmarking is not an end in itself. It’s what you actually do with the results that really counts.

For an expanded version of this article, please visit www.CA magazine.com/benchmarkingsurvey10. Once again, please fill in the questionnaire at www.180benchmarks.com by January 14, 2011. We are counting on you.

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CICA welcomes new chair and vice-chair

The Canadian Institute of Chartered Accountants (CICA) welcomes two appointments to its board of directors: Bill MacKinnon, FCA, as the new chair and Shelley Brown, FCA, who takes over as vice-chair.

MacKinnon is no stranger to the CICA board. Starting in 2008, MacKinnon served as vice-chair before retiring from his position as CEO of KPMG Canada. This position capped a career of more than 30 years with the firm that saw him serve as managing partner for the greater Toronto area and vice-chairman, national consulting, before being appointed CEO in 1999. Such responsibilities have not hampered MacKinnon's interests in serving his community, however. A member of several not-for-profit boards, MacKinnon is chair of the Toronto East General Hospital Board and of the Toronto Board of Trade. He is also a director of several corporate boards, including that of TELUS Corporation and the Public Sector Pension Investment Board.

Having been a member of the CICA board for six years, Brown is also well-acquainted with the board. While replacing MacKinnon as vice-chair, she maintains her position as office managing partner for the Saskatchewan practice of Deloitte, which includes offices in Saskatoon, Regina and Prince Albert. She also serves as chair of the Governance Committee of the Deloitte board.



Bill MacKinnon, FCA
chair

Shelley Brown, FCA
vice-chair

But her commitment to serving on boards does not stop there. With more than three decades of experience in public practice, Brown has been provincial director of operations of Deloitte's assurance and advisory group, president of the Institute of Chartered Accountants of Saskatchewan, president of the Saskatoon United Way and president of AgWest Biotech. She was also a member of the Board of Governors of the University of Saskatchewan.

US paid tax return preparer registration process is now in place

As initially discussed in News from the profession in August 2010, the US has introduced a system for regulation of tax return preparers. This system involves a requirement for registration of all paid preparers of US tax returns, a minimum standards test and continuing education standards in order to continue to be registered as a preparer. In addition, all registered paid preparers will be required to adhere to the standards of US Treasury Department Circular 230, which sets out regulations governing the practice of attorneys, certified public accountants, enrolled agents, enrolled actuaries, enrolled retirement plan agents and appraisers before the Internal Revenue Service.

Canadian firms should review the new rules carefully. They may need to consider which staff or tax professionals

currently involved in the preparation of US tax returns need to register for a paid preparer tax identification number (PTIN), as it's not only the signing preparer who needs to be registered.

The process for registration for paid preparers with a US social security number was launched in September. Such paid preparers can register online via the IRS website, www.irs.gov/taxpros/article/0,,id=210909,00.html (this is the process preferred by the IRS), or by paper filing US Form W-12, IRS PTIN Application.

The remainder of this article is directed at foreign preparers who do not have a PTIN. However, the comments that follow regarding testing time lines also apply to foreign preparers who already have a PTIN, and have registered online as per the instructions above.

After December 31, 2010, all paid preparers of US tax returns must be registered with the IRS. Canadian firms need to consider which tax professionals should apply for a registration number

The IRS also announced details of the process for a paid preparer living outside the US who does not have a US social security number to obtain a PTIN. Such preparers must complete US Form 8946, PTIN Supplemental Application for Foreign Persons without a Social Security Number, then apply online for a PTIN (and mail Form 8946 as part of the online process) or mail Form 8946 with a completed Form W-12 to the IRS.

Proof of identity and foreign status

The information and the supporting documents requested on Form 8946 provide the IRS the means to confirm the identity of the individual applying for the PTIN. If the applicant has a valid passport, this is the only supporting document required. If the applicant does not have a passport, other documents can be used — for example, a birth certificate in combination with a driver's licence. A complete list of documents can be found in the instructions to the form.

In order to avoid sending original documents to the IRS, certified copies of the documents can be provided.

The IRS will accept copies that have been certified in one of the following ways:

- by the issuing agency or official custodian of the original record;
- notarized by a Canadian notary, and authenticated by a consular office at a US Embassy or Consulate;
- notarized by a US notary public legally authorized within his or her local jurisdiction to certify that each document is a true copy of the original. (Note that this will likely involve traveling to the US.)

According to information on the US consular services website (http://travel.state.gov/law/judicial/judicial_2086.html), US notaries cannot practise outside the US, as they are commissioned to a specific state. There are US consular services in Ottawa, Vancouver, Calgary, Winnipeg, Toronto, Montreal, Quebec City and Halifax.

Readers of the instructions on Form 8946 will see a reference to a process if the documents are issued in a country that has joined the Convention Abolishing the Requirement of Legalization for Foreign Public Documents (Hague Convention). Per information on both The Hague Conference on Private International Law and the US Embassy websites, Canada is not a signatory to this convention, and therefore, this process has not been referred to as an alternative method of verification of documents.

Deadline for application

Although there is no deadline per se, as applications can be made after December 31, 2010, all returns issued by tax preparers after December 31, 2010 must show a registered PTIN. It is advisable to apply as soon as possible. Testing is not yet available and once testing is in place, the exam must be passed before the PTIN is issued.

The IRS estimates that an online application will take about two to four weeks to process to issue a PTIN, and a paper application will take about four to six weeks to process to issue a PTIN.

Who must get a PTIN?

Anyone who is a paid tax return preparer must obtain a PTIN. This includes preparers who work on a tax return but who are not a signing preparer. The regulations make a general distinction between mechanical and administrative functions, such as data entry and collating information, and functions that include some degree of advice, analytical skill, legislative interpretation or professional judgment. The first category does not require a PTIN, while the second category does. It should be noted that the IRS examples on data entry and information gathering are very strict. In one of the examples, the IRS states as a general comment that if an individual prepares all or substantially all of a tax return, including making determinations that affect tax liability, they must have a PTIN. This is true whether or not the return will be reviewed by another registered preparer. For more examples, see www.irs.gov/taxpros/article/0,,id=218611,00.html#scenarios.

The requirement to obtain a PTIN is not restricted to preparers of US personal tax returns; paid preparers of any US returns are required to obtain a PTIN.

Testing

The testing is not expected to be in place until mid-2011. Those who register before the exam is available will have until the end of 2013 to take and pass the exam. If the application is submitted after the exam is available, the exam must be passed before the PTIN is issued.

Many details with regard to testing are not yet known. The current FAQ on the IRS website states that those who need to be tested will need to go to a testing site, authenticate their identity and take the test in person. More information about testing, including test locations and test procedures, is not yet available.

Exemptions from testing

Currently, US attorneys, CPAs or enrolled agents who are active and in good standing with their licencing agencies are exempt from the test requirement. Since the Canadian CA profession has a reciprocity agreement with the US CPAs, an alternative

to the test requirement for a Canadian CA is to write and pass the US IQEX exam and obtain a US CPA. According to news release IR-2010-99, the IRS is considering extending the testing exemption to a discrete category of people who engage in return preparation under the supervision of someone else — for example, some employees who prepare all or substantially all of the return and work in certain professional firms under the supervision of one of the above individuals who signs the return.

Continuing education

Along with the registration and testing requirements described above, there will be a continuing education requirement. The IRS proposals call for an annual continuing education requirement of three hours of federal tax law updates, two hours of ethics, and 10 hours of other federal tax law. US attorneys, CPAs, enrolled agents, enrolled actuaries or enrolled retirement plan agents will

not need to meet this continuing education standard because of the education requirements of their professions. Other than these general comments, further details are not yet available.

Application fee

The annual fee is US\$64.25 per individual.

This summarizes the main details relevant for a Canadian resident preparer of US tax returns who needs to obtain a PTIN. Such professionals are advised to make application as soon as possible, as the PTIN must be used for all returns issued after December 31, 2010. For further details, please see the resources available at the IRS website [//www.irs.gov/taxpros/article/0,,id=210909,00.html](http://www.irs.gov/taxpros/article/0,,id=210909,00.html), and the instructions to Form 8946.

Jennifer S. Horner is a senior manager with BDO Canada LLP

CICA Continuing Education now on Facebook

Facebook is for your kids and their friends, right? Well, maybe, but the fastest growing segment of Facebook users is the 35-plus age group. Moreover, Facebook pages created as promotional tools by businesses acquire more than 10 million new fans each day.

In March 2010, CICA's Continuing Education department conducted a survey of members and customers about their use of social media. While the majority of respondents said they were not regular users of social media sites, most said they would likely visit one if they knew it contained content of interest to them. A full 71% of respondents said they would visit a social media site to obtain conference speaker previews and updates.

Guided by this survey data, CICA's Continuing Education ventured into social media by launching a Facebook page in May. It was designed

to provide attendees of the National Conference for SME Advisors with information about the event.

Because the conference was meant for CA advisers as well as their families, the Facebook page also included information about concurrent attractions in the host city, Ottawa.

During the conference, CICA posted photographs and videos documenting keynote addresses by Paul Dubé, Canada's Taxpayers' ombudsman, and Olympic gold medalist Alex Bilodeau, as well as coverage of family session activities such as the visit to the Reptile Exhibit and the Vintage Port Tasting event.

You are invited to visit the CICA Continuing Education Facebook page at <http://bit.ly/c5THbN> to see how Facebook is used. Click the "Like" button and join the discussion.

CAs encourage federal government to focus on tax system and prudent fiscal management

A simpler and more competitive tax system combined with prudent fiscal management by the federal government is needed if the country is to better compete globally. This was the central message of CICA's recent pre-budget submission to the Standing Committee on Finance, House of Commons, in Ottawa.

Because businesses are increasingly making decisions in a global economy, CICA believes it is crucial that the federal government remain visibly committed to reducing corporate tax rates. Moreover, continuing to reduce the corporate income tax rate is essential to attracting investment, enhancing Canada's competitiveness and creating prosperity.

CICA's submission outlined measures aimed at simplifying our tax system to lessen the burden of compliance and reduce complexity. It pointed out that in order to stay competitive and

attract and retain human capital, Canada must stay attuned to the personal income tax burden placed on Canadians.

While recognizing that the 2010 federal budget reflects a transition year in which the government is moving away from stimulus spending to restraint, the CICA believes that the government needs to demonstrate the ability to rein in costs and prudently manage its finances going forward. This is essential to meeting the fiscal commitments outlined in the 2010 budget and those made on the international stage. The submission urged that the budget be brought back into balance through expenditure controls, not through an increase in the overall tax burden on Canadians.

The CICA's submission is titled "Enhancing Canada's Competitiveness" and is available online (www.cica.ca/prebudget2010).

CA profession prepares for a changing professional environment

To protect and sustain the position of Canada's CAs at home and in the ever-changing world market, leaders of the CA profession plan to further expand the number of pathways for skilled individuals to obtain the CA designation and explore how to best position Canada's CAs in the face of consolidation within the international profession.

Many potential entrants to the profession will be either at the midcareer stage and looking for a change or internationally trained professionals who already have significant business experience. Much of Canada's future population growth will come from immigration and Canada's governments are asking the CA profession to develop improved and more transparent ways to assess foreign credentials. This is why the profession's leaders are supporting the expansion of pathways to the CA designation for diverse stakeholders, including people with nonbusiness degrees, career changers and other domestic designations, as well as internationally trained professionals. Most paths under consideration would require the candidate to pass the Uniform Final Evaluation (UFE). However, an additional route to CA membership — one called an Examination of Experience (EE) — is also under consideration.

The EE qualification assessment model would lead to a CA designation for professionals with sufficiently extensive levels

of professional and accounting experience that would be deemed to be equivalent to the Canadian CA. The applicant's experience would be assessed against the same competencies tested on the UFE. The EE assessment would, however, be based on real business experience rather than case studies in an examination environment.

Meanwhile, in the international professional environment in which the CA profession operates, regional and global accounting designations are starting to emerge. There are two existing designations that are globally dominant today: CA and certified public accountant (CPA). The CA designation is particularly strong in the Commonwealth network, while the CPA designation is strong in the US, Japan, Hong Kong, China and Australia. To ensure that Canada's CAs are best positioned should only one of these designations become the leading global designation, the profession will explore ways to use, in addition to the CA designation, a Canadian CPA designation, the use of which is already within its control.

By undertaking these important initiatives now, the CA profession is working to ensure Canadian CAs are well prepared to not only respond to changing demographics, but also to the increasing mobility of skilled professionals and the emergence of global accounting designations.

TELUS tops at 59th Corporate Reporting Awards

TELUS Corporation stood out as top winner at the Corporate Reporting Awards presented on November 25, 2010 by the Chartered Accountants of Canada. TELUS received four awards for its 2009 annual reporting package, including the Overall Award of Excellence in Corporate Reporting.

TELUS also won the Award for Excellence in Corporate Reporting for the Communications and Media industry and received honourable mentions for Excellence in Corporate Governance Disclosure and Sustainable Development Reporting.

For the past 59 years, the awards program has recognized excellence in corporate reporting. It reflects the CA profession's dedication to leadership in disclosure, governance and sustainability.

Other notable winners include Nexen Inc. and PotashCorp, receiving multiple honours for industry and judging categories. The list of entries and winners has grown this year, with the inclusion of provincial Crown corporations for the first time in the program's history.

Winning companies and Crown cor-

porations are profiled in the Book of Judges' Comments for the CICA's 2010 Corporate Reporting Awards. The book is free and available by telephone at (416) 204-3435, or online at www.cica.ca/cra.

Congratulations to:

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- Saskatchewan Telecommunications Holding Corporation (SaskTel)
- Saskatchewan Transportation Company
- Suncor Energy Inc.
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- TELUS Corporation
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- TransAlta Corp.
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RECENTLY ISSUED PRONOUNCEMENTS

CICA Handbook – Accounting	Date issued†
Amendments to Preface and Introductions to Parts I, II and IV	December 2010
2011 Edition of International Financial Reporting Standards (Part I)	November 2010
Accounting Standards for Not-for-Profit Organizations (Part III)	December 2010
CICA Handbook – Assurance	
2011 Edition (Part I)	December 2010
Amendments Regarding Dating of the Practitioner’s Report	December 2010
Legislative Requirements to Report on the Consistent Application of Accounting Principles in the Applicable Financial Reporting Framework, AuG-10 (rev.)	December 2010
Dating the Review Engagement Report on Financial Statements, AuG-47	December 2010
CICA Public Sector Accounting Handbook	
Accounting Standards that Apply Only to Government Not-for-Profit Organizations, Sections PS 4200 to PS 4270	December 2010

RECENTLY ISSUED DOCUMENTS FOR COMMENT (to November 30, 2010)

Accounting	Comment deadline
ED Adoption of Accounting Standards for Private Enterprises — Employee Future Benefits	November 23, 2010
DPI Effective Dates and Transition Methods	January 31, 2011
EDI Insurance Contracts	November 30, 2010
EDI Leases	December 15, 2010
EDI Severe Hyperinflation	November 30, 2010
DII Stripping Costs in the Production Phase of a Surface Mine	November 30, 2010
Auditing and Assurance	
ITC Compilation Engagements	February 1, 2011
ITC Proposals Relating to International Auditing Practice Statements	January 21, 2011
Public Sector	
ED Financial Instruments and Foreign Currency: Translation Financial Statement Presentation	January 17, 2011

Legend

ED – Exposure Draft EDI – ED based on IFRS/ISA DPI – IASB Discussion Paper
 DII – IASB Draft Interpretation ITC – Invitation to Comment

† Refer to each Handbook pronouncement for the effective date and transitional provisions.
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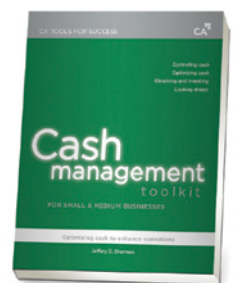
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What will Canada's tax system look like 10 years from now? Tax reformists hope to see one that encourages work and fosters productivity and competitiveness

By Robert Colapinto

20vision20

IT WAS ALMOST GOOD NEWS. IN 2009, THE AVERAGE CANADIAN family's total tax bill decreased — a first since 1992 — up a paltry 1,624% (since 1961), compared with 1,713% in 2008. The drop was a relief for a tax-generating sector that bears the brunt of supplying more than 37% of all revenue to federal and provincial coffers. Why the decrease? Well, with the global recession and all, taxable incomes and spending have been in

Illustration by KEN ORVIDAS



ORVIDAS



a tailspin. And for the time being, governments have chosen the deficit route to fund expenditures, deferring book-balancing tax increases to the future. But what future?

A fiscal crisis is just the thing for proponents of tax reform. As governments struggle with massive deficits, tax policy experts dig in their heels to ensure gains made over the years do not blow away in a blizzard of unfocused tax increases. It is in hard times when innovative, targeted reform is most needed. The greatest fear for tax reform specialists is that companies and individuals will emerge from a recession to face a punitive tax landscape. Their goal as they look to 2020 is to chart a course that will encourage work and foster productivity and competitiveness.

Several glaring problems stand front and centre for tax experts as the current system struggles to deal with a revenue tax base under siege.

“We presently have an over-reliance on personal tax revenues and a significant burden on Canadians,” says Saul Plener, national tax leader at PricewaterhouseCoopers.

Inexorably linked to the corporate and personal tax structure is the dilemma of maintaining the good health of the small business sector, attracting and maintaining the innovative entrepreneurs and highly skilled people who support the business sector. Andrew W. Dunn, FCA, managing partner, tax at Deloitte Canada, says, “We compete for business and talent on a global stage and highly skilled and entrepreneurial people will quite reasonably look to greener pastures if we don’t make our tax environment more attractive. They are going to be, in some respects, attracted to join vibrant businesses, so getting a competitive business tax regime is important to getting vibrant businesses here.” There is also a personal tax component to having a competitive system. “Especially on the entrepreneurial side, and on the highly skilled side, [companies] are going to be driven by the personal tax regime to the extent that it is, again, competitive.”

For Kevin Dancey, president and CEO of the CICA, averting a tax disaster begins with the large corporations and their contribution to the system. “Over the past decade, the corporate sector has received significant tax cuts,” he says. “And into 2020 I’m sure

we’ll see more as Canada attempts to stay competitive with the rest of the world.” Yet, despite these cuts, Dancey believes governments still hold to a mindset that corporate taxes will continue as a significant source of revenue. “But I think this particular recession is opening some eyes,” he says, referring to the speed of the economic decline — so fast that many companies began reporting losses and tax revenue from this key sector quickly declined to a mere trickle.

“The corporate tax area, in terms of collecting revenue, sort of works against the government when it runs into a steep eco-

“We compete for talent on a global stage and entrepreneurial people will quite reasonably look to greener pastures if we don’t make our tax environment more attractive”

nomie downturn,” says Greg Wiebe, Canadian managing partner, tax at KPMG. “I’m certain that by 2020 this tax will no longer be seen as a sound area of fiscal policy when trying to withstand adjustments to the economy.”

The recession and the prospect of massive deficit spending make a case for lowering taxes in major sectors a hard sell for legislative lobbyists such as Dan Kelly, senior vice-president of legislative affairs for the Canadian Federation of Independent Business (CFIB). “For those of us where tax reduction is a bit of an obsession, the present difficulties make for rather tough going,” he says. Small and medium-sized businesses have not enjoyed as deep a drop in tax rates as large corporations. “Our members have not been cut out of tax reductions,” Kelly says, “but it’s a fairly narrow gap between the two rates — 11% and 15%, when it was 12% and 28% a decade ago.” Kelly’s advocacy group is more interested, though, in how any tax reform to 2020 might affect employment and property-based taxes. “Particularly payroll taxes,” he says. “When we ask small firms what the most harmful form of taxation is — one that has the most negative impact on their business — they cite employment insurance (EI), Canada Pension Plan, payroll and workers’ compensation premiums.” Kelly sees a future in which employment taxes have nowhere to go but up. In the recent good times, the government spent \$57 billion from the EI fund. The current EI freeze ends on January 1, 2011; after that, Kelly predicts at least four more years of premium increases by the maximum allowable amount (21¢ per \$100 in payroll, and for employees, 15¢ per \$100 in earnings). “And from there, who knows,” he says.

“It’s the psychology of these taxes as well,” says Wiebe. “It’s easier to raise taxes on business because the public is less aware of them. With business property-based taxes, for example, employees tend to believe they are not impacted, but ultimately it is reflected in payroll budgets — so [there is] less money for wages and hiring.” But if governments can get spending under control, be more modest with public sector wage agreements, pension benefits, etc., Kelly says, we will be able to get back on the cycle of tax cutting as opposed to the vicious cycle of tax increasing.

No matter the economic environment, the tax system should be continually refined to ensure that it does not hinder business

Zero sum

The Institute for Competitiveness & Prosperity suggests a prosperity agenda where two options for personal taxation are proposed. In one option, personal taxation is dispensed with in favour of consumption taxes. Raising the GST and converting the PST into a value-added tax where harmonization hasn’t been realized would provide the revenue for society to fund its programs. And if that fails to pass muster, governments should consider another option: basing personal taxation not on yearly earnings but on earnings over the taxpayer’s lifetime. Instead of the current annual basic personal exemption, the idea is to offer a lifetime exemption of \$250,000.

— RC



and the individual's contribution to the economy, says Dancy. "It's a case of ensuring you have a competitive system, an attractive one," he says. "It's one that works to our best and fair interests both domestically and as we relate to the rest of the world." Still, looking to 2020, it is hard to ignore the current recession and its potential effect on any reform.

But while having a competitive tax system is a desired objective, we must tread carefully, warns Brigitte Alepin, president and founder of specialist tax firm, AGORA Fiscalité Inc. and technical editor for *CAMagazine's* Taxation - small business regular. "With globalization, we don't have a choice but to have a competitive tax system," she says. "Globalization created a competitive world around tax systems, because when companies become multinational, they shop tax systems, and countries are competing with their tax systems. [But] this can create a problem, because if we want to become competitive — and we always want to be competitive — it creates a race to the bottom. If countries are competing and don't cooperate, the tax rate will continue to decrease, until at one point, we will be losing revenue."

The results of this race to the bottom are already being seen. One of the reasons countries such as Greece and Spain are losing revenue, says Alepin, is because the tax rates of multinational companies keep decreasing. "In Canada since 2000, the tax rates applicable to multinationals will have decreased by 50% by 2013," Alepin says (dropping from 29.1% in 2000 to 15% in 2013). "Yes, we want to be competitive, but we also want to make sure that we'll raise enough revenue to keep our system going. If we see that the tax rates continue to go down, by 2020 we might end up in a difficult financial situation" in Canada, as well as in other countries.

For Alepin, there is also the worry that tax reform will take the shape of a continuing trend toward unwarranted compliance issues for business. "Targeted changes that promote growth and competitiveness are what is needed," she says. "I just worry that in these times the knee-jerk reaction is to seek some stability by inundating people with what we'll look back to as unneeded bureaucracy."

Kelly and the CFIB have been strategizing how best to approach the government with more streamlined methods of reporting. "Now is a good time to continue to push for regula-

tions to reduce red tape, because the government can save money when it reduces red tape," he says.

Yet, the current system insists on a level of tax compliance that relieves Canadian businesses of a chart-topping \$12.6 billion each year, and more than 90% of those expenditures are paid by small and medium-sized firms, according to the CFIB. "It's an enormous challenge to business," Kelly says, "and one we predict will be, well it has to be, reduced significantly over the next decade if these businesses are to survive and expand onto a larger corporate plateau."

For Bruce Flexman, president of International Financial Centre British Columbia, a nonprofit group that promotes the province as a location for international financial and other business activities, personal taxation is of equal concern in terms of revitalizing the economy. "In Canada, the government relies to a larger extent on personal tax revenues than most Organisation for Economic Co-operation and Development countries," he says. "So with us being an open economy, businesses have to be competitive, and with part of the issue being the ability to attract talented people, it's best to have a personal tax system that is competitive as well. Over the next decade, government may have to look at the personal tax policy and whether it is not just overly burdensome and unfair but competitive in an international sense."

Dunn agrees. "If I had to look out 10 years, I'd say our next frontier is making it more attractive for individual tax." It has become easier for people to move from one country to another, finding the most conducive business climate to utilize their skills. "Canada's personal tax rates are high. And they're high relative to many of our trading partners — so I'd like to see the top marginal rate come down and see the brackets where the top rates kick in become wider," Dunn says.

See-through tax havens

Transparency — not the most inviting word for so-called tax havens. International agreements on the books and those envisioned for the future increasingly demand that pressure be brought to bear on countries that use tax policy to attract offshore investment and other more evasive machinations. The problem is, says Bruce Flexman of the International Financial Centre British Columbia, you can't tell another country how to run its tax system. "But you can make sure it's transparent and open. Internationally, developed countries are ganging up on tax havens." Future agreements will insist on greater information exchange; and at home, stricter reporting requirements will be made for individuals and businesses who seek tax-friendlier climates. The global economy is so intertwined, says Flexman, that it's becoming easier to marginalize those countries that refuse to cooperate. "Even jurisdictions that have in the past valued secrecy have acknowledged there are some limits to the amount of secrecy they can permit," he says. "So there's a bunch more international cooperation in this area, and I would see that as something that will continue to grow." — RC

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Yet a vigorous slashing of personal tax for a country top-heavy in its dependence on this source of revenue is bound to exacerbate today's fiscal calamity. For many tax specialists value-added consumption taxes seem to be the solution. "That's the tough decision," says Dancey. "What is the appropriate approach to taxing the personal side and what are the alternatives?"

Although marginal personal tax rates have fallen somewhat over the past 30 years (from more than 60% in the early 1980s to between 40% and 45% for mid- to high-income earners), the government has maintained its revenue from personal income. "The government hasn't reduced the amount of personal tax," says Flexman, "it just reduced the higher rate while broadening the base. So I think one shift we will see in tax policy is more reliance on consumption tax than on personal tax, in keeping with worldwide trends." And there are good tax policy reasons for this shift. Income taxes are more often than not seen as a detrimental tax on profit, whereas a value-added tax is a potentially avoidable tax on consumptive desires, not necessarily the needs of individuals and business. "So for most people, you get a choice," he says, "with perhaps a consumption tax being the lesser of two evils." He adds that a value-added consumption tax is a tax on the ultimate consumer and is removed from exports and most business-to-business transactions.

Tax experts at Canada's major CA firms are unanimous that a nationwide harmonized sales tax seems not only inevitable but also a revenue source that is bound to rise — perhaps significantly — over the next decade. "Broad-based consumption taxing is the future," says Plener. "Particularly if we get agreement that these taxes are not quite as regressive as they seem." More and more tax policy specialists are coming around to the idea that tax on income may not be the most progressive model. Perhaps the better measure is a value-added HST, Plener says, given that it has the potential to reflect the taxpayer's ability to consume goods and services.

"And Canada actually has quite low consumption taxes," says Dunn. In Europe, for example, the Swedes have made the shift to a 20% value-added tax, which is quite a bit higher than the combined HST rates currently at work in the Canadian tax system. "Clearly, provincial harmonization is a step toward more reliance on consumption taxes," he says. Of all Canada's major trading partners, only the US has steadfastly resisted the politically sensitive value-added tax. "But I'll bet in the next 10 years there will be value-added taxing of some type south of the border," Dunn says.

External factors knocking on the door of the tax agenda

"Boy, where to start?" asks the Canadian Federation of Independent Business' Dan Kelly. "OK, demographics: the pension and retirement problems we're going to face; the growing problem of a shortage of labour by 2020; succession planning for businesses is a huge issue; the threat of a continuing rise in the minimum wage; and the deficit and the tax system." Kelly, like many others, worries governments might pervert or distort the tax system in their attempt to get out of this seeming death-grip. — RC

But consumption taxes have been seen as a bit of a regressive tax. "Wealthier people tend to invest and save, where lower tiers tend to do the spending," Dancey says. But that can be dealt with through programs. "What's important," he says, "is that consumption taxes tend to be a more stable base of revenue. They can't run away too much because people do spend the money and they spend it in the locations where the tax arises."

The key for businesses is that any new broad-based sales taxes not inhibit investment. "Ontario's old PST was widely viewed as a personal tax, when really it also had a great impact on businesses and their capital investments," says Trent Henry, E&Y's chairman and CEO. "It's billions of dollars a year collected on capital goods

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and expenditures.” Henry expects to see coast-to-coast harmonization in the not too distant future. Rather than resorting to input tax credits, this new tax is expected to encourage rather than penalize business when making investments in infrastructure, including upgrading machinery, computers and general brick and mortar. “It all comes down to honing a tax policy that encourages growth and our competitive edge. Otherwise, what are we doing?” he asks.

For Dancey, these aims must work hand-in-hand with stable and intensive homegrown R&D. Tax reform through 2020 will have to include any number of incentives to ensure the best and brightest and their initiatives stay in Canada. “We have to commercialize R&D and intellectual property and keep that commercialization in Canada,” he says. “Because if innovation is the key to economic development down the road, we have to make sure we have the key incentives to keep business development in Canada.”

The current tax system has a robust regimen of credits relevant to research and development. But in many cases the credits are not refundable. “There are a lot of startup companies, even in this climate, that are trying to carry through with their ideas and research,” says Flexman. “But all the credits they generate they can’t really use. So there has been discussion about expanding the R&D credit system to make more of them refundable.”

But the cost element to governments has made this reform a hard sell over the years. Thinking short term about what is a hopeful and perhaps unrealizable long-term gain from research

and development projects is more a mindset than a tax policy to be changed in the coming decade. “It’s like how we view corporate tax revenue now as compared to past generations,” says Dancey. “We now know — or accept — that corporate tax is not the most reliable source of government income, that the rates had to drop, that global competition demanded that Canada be a good place to do business.”

The recession and concern about deficit spending has taken the wind out of the sails of the tax-cutting agenda for businesses. So the notion of introducing highly innovative strategies, such as eliminating the general corporate tax rate to zero, seems unlikely. Yet this is the type of unconventional tax reform the Toronto-based Institute for Competitiveness & Prosperity (ICAP) believes is necessary to ensure the maximum potential of the Canadian economy. The ICAP, funded by the Ontario government, insists that this thorny issue deserves strong consideration into 2020. “Zero tax on small corporations is close at hand in a number of provinces,” says Kelly. “There are two provinces — Manitoba and BC — that are on their way to having a small business rate of 0%. And the others are in the 3% to 5% range. So the thinking is there.”

The ICAP’s rationale is that in the end people pay taxes — employees, stockholders and customers — not the corporations. By eliminating the general tax, it contends that wages will increase, prices will drop, investment returns are destined to rise and Canada as a friendly environment for competitive business will be enhanced. The above, in theory, should offset any loss in federal tax revenue.

“It is out-of-the-box strategies that are the most compelling and often most useful,” says Alepin. “For example, in 2020 it is fair to imagine more green in our tax system, which means there will have to be more varied tax incentives to help businesses invest in green technologies and incentives for green consumption.” Alepin, who has been a guest lecturer at the University of Sherbrooke in Quebec, has for years been preaching the benefits of a taxation future with a heavier reliance on environmental-based carrots and sticks. “We’re taking baby steps right now,” she says, “but for the good of our planet and as a truly innovative way of stimulating business, remaining competitive around the world and raising tax revenues, green taxes will very likely have a place in our future.”

The pressure, Alepin hopes, will come from consumers but the implementation will be reliant on government. “It has to be in the consumer’s interest, no matter how virtuous you are about the environment,” she says. The proposal’s success depends on Canada’s ability to design the eco-tax system such that a double dividend will accrue: green taxes will put a lid on pollution-belching smokestacks and in the process, they will make for a more efficient tax regimen.

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There is no doubt pollution taxes have the potential to raise enormous sums in tax revenue. But like a great number of regulatory policies, Alepin says, if handled poorly the costs to business and consumer alike might erase any incentive to go green. External influences could tip the environmental tax balance into 2020. “The European Union announced that they are going to embrace a green system,” she says. “In order to protect their businesses they will implement trade barriers against nongreen countries. Canada will have to consider these international partners, because trade barriers are a form of tax in the end.”

Indeed, Canada’s inextricable ties to the world economy are likely to be more binding over the next decade. And this trend will influence tax reform into 2020, says Dunn.

“One thing they learned during the Great Depression is that

governments can’t make policy in isolation,” he says. “Any good Canadian tax policy needs to consider what’s happening in terms of global policy.”

This is not to say the future of Canada’s tax landscape is out of our hands. It is a manmade concept that we shall be endlessly tinkering with, Flexman says. “The tax system is something where people sit down and decide and have input in terms of how you think your taxes should operate,” he says. “Nobody can ever see what’s going to happen in the future, but we do have the power to lever our system in ways that make us more competitive at home and abroad. So it will be constantly evolving. I will also point out this evolution tends to be very slow. It takes time to get comfortable with change.”

Robert Colapinto is a freelance writer in Toronto



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Nearly half a million Canadians have investable assets of \$1 million or more. Want them as clients? You're not alone

By Sandra E. Martin

Advisers of the affluent

It was looking as though Chris Clarke's first baby would arrive right on schedule. She'd noted in her electronic calendar "Day off — baby due." And, sure enough, the contractions started. She was using the breathing exercises she had learnt in prenatal class to cope with the pain, but she knew she was in the early stages of labour. So when the telephone rang, Clarke, a CA and financial planner in Mississauga, Ont., was still at home.

It was a client. Clarke took the call.

She was in the process of creating a comprehensive financial plan for the caller and her husband, both corporate executives. But something urgent had come up: "They were buying an in-

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Personal CFO: CAs SCOTT HAYMAN,



TIM CESTNICK, CHRIS CLARKE AND ROB RADLOFF offer one-stop professional services to wealthy families

come property in Texas,” Clarke recalls, 19 years later. “It was a pretty big decision for the family and there was a time limit.”

Knowing she’d soon be out of commission with a newborn, Clarke was determined to see her client through the decision — labour pains be damned. “She kept trying to get me off the phone, but it wasn’t so bad that I couldn’t talk,” Clarke says. “I had to say ‘excuse me’ occasionally and do the breathing.”

Clarke’s son Stefan was born two days later. And now, nearly two decades later, but just as perfectly on schedule, the client she had been on the phone with is in New Brunswick with her husband, “living the dream that we planned for 19 years ago.”

Is Clarke uncommonly dedicated? Yes. Yet, this level of personalized service is par for the course for her and other CAs who act as a client’s personal CFO in what’s known as a multifamily office (MFO).

MFOs provide high-net-worth clients with the kinds of services one would associate with CAs, such as tax research and investment advice, as well as help with managing international properties, succession planning, insurance and just about any other financial issue that might come up. What makes an MFO unique, however, is that clients have a team of professionals working together to fulfill all their needs, but only need to check in with one point person, often called a personal CFO. For the busy professionals and entrepreneurs who seek them out, MFOs offer convenience, time savings and peace of mind.

Before MFOs started cropping up in Canada about a decade ago, this type of one-stop service was only available to the ultra-rich, simply because having a team of CAs, lawyers, real-estate specialists and other professionals at a family’s beck and call is an expensive proposition, costing an estimated \$1 million to \$5 million a year to maintain. (It’s believed that Thomas Mellon, the founder of Mellon Bank, created the first family office in 1868 to manage the family’s complex affairs. John D. Rockefeller followed in 1882.)

Jumping off from the family office concept, an MFO leads the same kind of professional team, but allows several unrelated families to share in the central office’s expertise, making the service affordable for clients with investable assets of \$1 million or more.

With about 450,000 Canadians who fit into this category of wealth, according to France-based consulting company Cap-

When Chris Clarke started her firm, nobody knew about multifamily offices. “Even three or four years ago when I said, ‘family office,’ people thought I meant a room in their house,” she says

gemini, there is a large potential client base for MFOs in this country. But the concept is still new to many would-be clients, and professionals in the business estimate there are only a handful of MFOs in Canada right now. Many of these firms are headed by CAs who are leading the way in this emerging field.

Clarke’s firm, First Affiliated, now has branches in Collingwood, Ont. and Mississauga. As family office director, she assists 35 families, each with a net worth in the \$5-million to \$60-million range. She works with two other managers, overseeing a client service team of six that works in concert with clients’ other advisers, be they accountants, lawyers or employees of a client’s small business.

But when Clarke started the firm 21 years ago, \$500,000 in investable assets was considered high net worth and nobody knew about MFOs. “Even three or four years ago, when I said ‘family office,’ people thought I meant a room in their house,” she says. “There were very limited, if any, MFOs at the time, and there was certainly a lack of marketplace awareness as to the benefits that an MFO would provide. That’s still the case today, although that’s improving.”

Having obtained her CA designation in 1987 and while working at Touche Ross, Clarke audited a fee-based financial planner. It was then that she decided she wanted to offer fee-based, individual and objective financial planning advice, but soon learned that it



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is difficult to make such a labour-intensive service cost-effective. "I realized that in order to have a profitable business model, I had to work with affluent families." And so she quite organically moved into the MFO model, she says, without knowing it.

MFOs take pains to build and maintain clients' trust, in part by billing in a completely transparent way. A typical MFO will be structured as a fee-based service provider; fees can be calculated as a percentage of the client's net worth, as a percentage of assets under administration by the firm, as retainer fees or a combination of all three.

Burlington, Ont.-based WaterStreet Family Wealth Counsel divides the billing further, charging a flat fee for noninvestment services, such as estate planning, and asset-based fees for investment consulting work. "We like to separate the two, because we think that makes intuitive sense to the clients," says president

and CEO Tim Cestnick, a CA who first hung the WaterStreet shingle in 1997, offering tax education and consulting. He sold that business to mutual fund company AIC, then bought the name back when he launched his MFO in 2006. "We endeavour not to cost the client anything but, rather, add enough value to pay for ourselves," he says.

Today, Cestnick and his staff of 10 advise 27 families, each with a minimum net worth of \$20 million or minimum investable assets of \$10 million, with the firm growing an average of 50% a year. How has he achieved such rapid growth in this little-known sector? Cestnick and his wife began by mining their personal networks of family and friends in their hometown of Oakville, Ont. His regular Tax Matters column in *The Globe and Mail* turned up a few fruitful client leads and his reputation as a tax consultant certainly helped. But he attributes most of the firm's growth to

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references from existing clients and “relationships with professionals outside the firm [including lawyers, other CAs and insurance advisers] who like and understand what we do.” Clients come from a variety of backgrounds; while the majority of families are headed by business owners or retired entrepreneurs, others are corporate executives, athletes and entertainers.

“Once you have three or four families, it can grow if you’ve done a good job of servicing those families,” he says.

Signing with WaterStreet doesn’t necessarily mean a client will ditch the other professionals who attend to his or her finances. Often, the role of Cestnick and his team is to create greater efficiencies among a client’s lawyer, accountant and

investment advisers, for example; in some cases, a client’s existing professional team is spread out across Canada and a few are based outside the country. MFOs talk a lot about breaking down silos; in other words, they set out to coordinate the client’s advisers and to ensure each of the silos is working toward the same goal, in the best possible way. “We are a manager of managers,” says Cestnick.

On the investment side of WaterStreet’s client services, Cestnick works with a number of outside money managers. There are about 15 in the firm’s core stable, but Cestnick is always scouring the globe for others who he feels are trustworthy and can truly add value to client assets. WaterStreet will recommend particular

money managers it feels are right for a client’s needs, then, if the client is happy, it will negotiate the management fee. Down the road, if that relationship isn’t working out, WaterStreet will also fire a money manager on a client’s behalf.

Cestnick hopes to increase his firm’s client base to 250 or 300 families within five years, a number that seems ambitious when you consider the amount of competition MFOs are facing: according to the *National Post*, at least 200 firms in Canada are vying for this market of wealthy investors. So attractive is the high-net-worth client sector that the Canadian Securities Institute, which trains and oversees the financial services industry, has added a chartered strategic wealth professional designation for advisers.

Another issue to consider is the fact that landing high-net-worth clients can be a lengthy process. “You don’t just get a \$40-million family in 48 hours,” says Clarke. “It’s a long haul, getting a new client on board; six months would not be unusual.”

And, according to Scott Hayman, CA, executive vice-president of Northwood Family Office, the Toronto-based firm he co-founded in 2003, some clients just aren’t worth the effort. Instead of going after every family that can afford Northwood’s services (Northwood targets families whose net worth ranges from \$10 million to \$250 million), his seven-person team looks specifically for clients whose net worth and assets are substantial enough to build and add value to, whom they believe they can help in a meaningful way and, finally, whom they like. “I call it the call-display test,” Hayman says. “If the phone rings and it’s a client, I don’t want to say, ‘Ugh, I don’t want to talk to that person.’ Life’s pretty short.”

When prospecting, Hayman’s radar goes up if someone has burned through



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four or five advisers. "While that [challenge] is interesting, you may want to avoid it." To help potential clients decide whether they need and could benefit from the firm's MFO services, Northwood has posted a Family Office Questionnaire on its website. After seven years in business, its client roster sits at a compact 25 families.

Once a client signs on, the work can be intense, says Clarke, and it starts with research. The MFO has to understand intimately every aspect of the client's goals, objectives, family values and opportunities, whether that means finding ways to provide tax savings or a more stable place for a portion of the client's portfolio. The MFO also has to understand the various tools that are available to set the client on the path to meeting those goals, such as tax minimization, risk management tools and suitable asset-allocation investment strategies.

Next comes the conception and writing of a strategic plan to cover all those areas. There will be some back-and-forth with the client at this stage, until both are satisfied that the plan is truly reflective of the family's needs and wants. Even when they have achieved clarity, Clarke says, that plan is a moving target that needs to change whenever the family's needs, dynamic or situation changes.

Implementing the plan is a similarly unending task, involving work with other professionals on the client's team and sometimes daily or weekly phone calls. "It's very intimate and proactive," Clarke says of her relationship with clients. "They view us as a partner more than a service provider."

That kind of relationship can be foreign territory for CAs entering an MFO practice. According to Rob Radloff, CA, senior financial and estate specialist at The Covenant Group Family Wealth Advisors in Langley, BC, conventional accounting roles may not coach CAs in the softer skills needed daily in an MFO setting. "Interpersonal conflict is a major cause of financial loss in family businesses," he says. And because that's his client base, he needs to be able to identify and deflate that type of conflict, readily and comfortably, or identify when he needs to bring in someone who has expertise in conflict resolution. To bone up on those skills, Radloff recommends taking courses such as those offered at the Business Families Centre at the University of British Columbia's Sauder School of Business. Collaborating and speaking with consultants who specialize in family business issues is also helpful, he says.

CAs may also need to improve their investment-planning skills before considering a move to an MFO. You might consider working toward a chartered financial analyst designation or obtaining a certified financial planner title, like Radloff, Hayman and Cestnick did, which can help you understand the big picture.

To handle special projects, for the short term MFOs may bring in an outside consultant, such as an aviation specialist to advise a globetrotting client on which personal jet he or she should buy; an expert in philanthropy may be needed to set up a family foundation for clients who have determined that charitable giving will be important to helping their children appreciate and guard the wealth they will inherit someday. For

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Scott Hayman goes after clients whose net worth is substantial enough to add value to, whom he believes he can help and, finally, whom he likes: “I call it the call-display test. If the phone rings and it’s a client, I don’t want to say, ‘Ugh.’ Life’s pretty short”

such services, which are over and above what has been negotiated in the client’s regular fee, MFOs may bill extra, something Cestnick is loath to do, even though such tasks can quickly become money-losers for a small firm.

“Clients need to know you care about helping them more than you care about lining your own pockets,” he says. “You can wrap a lot of hours around a client and not make any money because you can’t charge enough.” His constant challenge in expanding the business is figuring out how to charge an amount “that’s fair to clients and profitable to us.”

That desire to give better value and personalized attention to clients is something that unites CAs working in MFOs. As Clarke puts it, “We are the guardians of our clients’ wealth” — willing to go above and beyond the call of duty. Hayman agrees. For example, when one of his clients was preparing to move across the pond, Hayman travelled to Europe to interview private banks on the client’s behalf.

Now there’s service that goes the extra mile.

Sandra E. Martin is a writer and editor in Toronto

A good fit Why a multifamily office may be the right place for you

Although it isn’t a regulatory requirement, multifamily offices (MFO) in Canada and the US tend to have accountants in key roles. It adds up: a CA’s training and experience instill much of the know-how, analytical skills and code of ethics that’s necessary to create and execute personalized financial and life plans for a number of unrelated client families. “The tax planning, risk management and investigative or auditing-type skills we learn — they help us with the strategic aspect of what we do in an MFO,” says Chris Clarke, founder of First Affiliated, an MFO firm in Collingwood, Ont. and Mississauga.

In Vancouver, Investaflex Financial Group provides MFO services to a number of small-business owners, and that often means liaising with other accountants and lawyers on the client’s business team. Former vice-president Rob Radloff (now with The Covenant Group Family Wealth Advisors in Langley, BC) believes that working as a CA, first in his native South Africa and here in Canada, has equipped him to talk on a peer-to-peer basis with other advisers.

In addition, the CA designation engenders a great deal of confidence in potential clients, which is essential for recruitment when you’re talking about managing someone’s entire seven-, eight- or nine-figure nest egg in this post-Bernard Madoff investing climate. “I don’t think I’ve ever had anyone say, ‘You’re a CA, so that’s why I’m going to come to you,’ but people know and trust the letters,” says Scott Hayman, co-founder of Northwood Family Office in Toronto. Indeed, a 2007 Ipsos Reid poll found that 54% of

Canadians regard accountants as trustworthy, putting them in the top-10 most trustworthy professions. (Firefighters came out on top, followed by nurses and pharmacists; lawyers were well down the list with only 25% giving them a vote of confidence.)

Trust also comes into play when the personal CFO is called upon to mediate an emotion-heavy family money dispute. “Part of our job is to create some stability for the family. If there’s conflict, they can come and talk to us,” says Radloff. Similarly, he says, in a business that’s owned by several siblings but only one is actively engaged in operations, transparency is an issue. In that type of situation, he sees his role as “almost being a central data system that people can look to and say, what is the position, can you give me an update. They don’t have to rely on their brother.”

Finally, according to those in the business, starting and maintaining an MFO is an extremely rewarding route for CAs to take on a personal level. Hayman says he has never had better work-life balance. He has busy periods, but summers are quieter, as his affluent clients slow down or retreat to their vacation properties. Although Clarke maintains an office in Mississauga, she spends most of her time in Collingwood, the ski-resort town where she chose to raise her family, and stays plugged in electronically.

“Our clients appreciate that,” she says. “We’re suited to people who view money as a vehicle to living the life they desire.”


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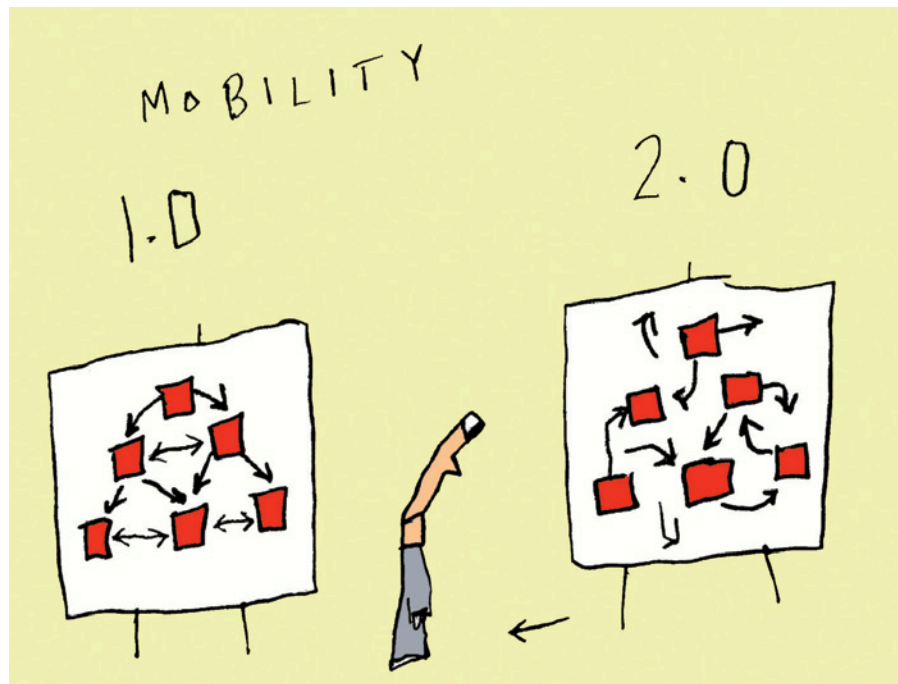
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More mobility shift

Sound management and an understanding of risks and controls will help decision-makers benefit from new technologies



The world of information technology has seen many radical changes over the past few decades. In addition to the evolution of technology we have had to deal with the arrival of mobility, which goes beyond simply receiving messages on a personal digital assistant. That is in the past.

Innovations in the field of mobility, or mobility 2.0, impact internal controls and can create difficulties for systems auditors. The difficulties are often due to a lack of understanding of the technologies, which complicates the implementation of adequate controls.

In October's *CAMagazine*, "The mobility shift" (p. 44) examined convergence of voice and data, cloud computing and other factors that have hastened the implementation of wireless networks throughout organizations, all factors that have redefined the profile of the traditional mobile user.

Although the economic gains are clear, the risks associated with these new technologies continue to impede their implementation. The risks and the internal controls that can be applied to reduce them to an acceptable level, while reaping the benefits of these technologies, should also be examined.

Harmonizing information technology with corporate strategies, while ensuring that systems are adequately protected with an acceptable level of risk are constant challenges for IT teams. What's more, the emergence of technologies such as cloud computing reinforce the need for good governance.

Fewer and fewer critical systems, whether tangible or intangible, are being kept in house. As a result, it is important to define internal usage policies, evaluate mobility-associated risks and educate employees about risks and related controls. In addition, auditors must be familiar with new technologies, best practices and the tools that can reduce these risks.

While this is not an exhaustive analysis of these issues, the focus is on the risks and controls associated with each issue.

Portable units

Devices such as personal digital assistants (PDAs) run multiple operating systems that support a variety of tools and numerous applications configured specifically to the devices' environments. They can be synchronized to internal systems through wired, infrared and wireless infrastructures. Most of these devices accept Compact Flash and SmartCard memory cards, among others.

Physical risks

- loss of peripherals;
- theft and fraud arising from the use of stored data;
- damage that can adversely affect the company's reputation;
- data theft by shoulder surfing;
- clandestine monitoring of network traffic, resulting in attacks on these devices and illegal access to the company's network;
- often excluded from asset-management policies, the use of personal tools for business purposes forces managers to improvise; and
- consumer-oriented devices are not as well designed when it comes to security.

Application risks

- the complexity of these new technologies makes it difficult for IT teams to implement an adequate level of security;
- the high storage capacity of mostly unencrypted data increases risk;
- user-access authorizations are sometimes excessive, resulting in downloads of normally prohibited data; and
- security updates are not always managed or installed.

Controls

Plan to establish IT governance for mobility 2.0;

As regards physical risks:

- implement formal policies on the use of these devices that will differentiate between personal units included under these policies and those excluded;
- define an asset management and classification policy;
- ensure users read and comply with the policy;
- provide for the right, at the company's discretion, to audit these units; and
- educate users on prevention and make them aware of the risks, such as shoulder surfing, loss and theft.

As regards application risks:

- identify and define a corporate standard for mobile units used and accepted in business;
- ensure these devices use recognized, tested and supported operating systems, since it is difficult to control emerging risks when multiple platforms are deployed;
- integrate security functions into the applications such as more complex passwords; a time-out system requiring users to re-enter their password after a certain period; and a password prompt

when synchronizing or turning on the unit;

- strengthen and add security features to applications developed with tools sold by third parties, including biometrics (signature, voice, fingerprint- or pictogram-password recognition); tokens (two-factor authentication); data and application encryption (a minimum of 128 bits), and WPA2 wireless encryption and more, as recommend by the 802.11 standard; PKI infrastructure and the use of certificates (note that this type of infrastructure is complex and therefore difficult to set up and to manage); encryption between the units' data transmission and the access points; deployment of antivirus software and firewalls on the units; and policy ensuring security updates.

IP telephony (VoIP)

The telephone system is now merely an extension of the applications that use the Internet protocol (IP), leading to centralized and consolidated management. In addition, open standards allow for the integration of equipment from different suppliers, which is more cost effective.

Risks

Quality of service

- loss of packets;
- instability; and
- latency.

Security

- vulnerable to the same attacks as IP networks: viruses, DoS, packet spoofing (identity theft, disclosure of confidential information); and information travels out in the open;
- difficult to plan system downtime for preventive maintenance; and
- internal intruders are also a threat.

Controls

- physical security of the hardware;
- encryption of data transmissions (traffic encryption);
- network segmentation and voice and data separation on different VLANs;
- a separate server for telephony and data; and
- configuration of firewalls to filter unauthorized traffic.

Wireless networks

Information travels through the air by radio frequency. Such information includes critical application data as well as voice transmissions (VoWLAN). While these networks appear simple to deploy, installing and maintaining them require qualified personnel.

Risks

Wireless networks are exposed to the same risks as wired networks, but other significant vulnerabilities should be noted:

- eavesdropping;
- illegal access to the network;
- denial of service attacks (DoS); and
- use of nonapproved protocols.

Controls

- a multilayered approach is a recommended best practice for access control, authentication and wireless data encryption;
- network deployment and policies: deploy a minimum access point (AP) for adequate coverage; ensure that the AP transmits at the lowest level; ensure coverage of the building, both inside and outside; maintain installation policies for APs, network interface cards and WLAN user groups; and support authorized 802.11 protocols (e.g.: a/b/g/n);
- access control: configure in WPA or WPA2 mode for a high level of data encryption; change the SSID as often as possible (at least avoid a nomenclature displaying the nature of the SSID);
- control SSID distribution; verify the media access control addresses of all peripherals connected to the WLAN; and maintain access and denial policies for all unrecognized peripherals;
- security perimeter: install a firewall as well as intrusion detection and prevention systems; use VPNs to encrypt network traffic and route it through these servers; maintain and apply VPN access and routing policies; configure client accesses properly; and install a dedicated wireless intrusion protection system;
- application security: verify access privileges and user authentication for application purposes; maintain and apply access permissions and password management; and install patches from the manufacturer as soon they are released.

Cloud computing

An evolving field, cloud computing is a model for enabling convenient, on-demand network access to a shared pool of configurable computing resources (e.g., networks, servers, storage, applications, and services) that can be rapidly provisioned and released with minimal management effort or service provider interaction (as defined by the National Institute of Standards and Technology).

Risks

The Cloud Security Alliance categorizes risks under governance and operational domains:

Governance:

- legal implications;
- contract content;
- financial viability of the supplier;
- crossborder considerations;
- compliance with current laws and regulations;
- audit and compliance;
- data security and protection;
- transfer of data to another supplier;
- Patriot Act for data stored in the US; and
- applicable privacy legislation.

Operations:

- authentication;
- integration with the company's other systems;
- system availability;
- business continuity ;
- disaster plan;
- incident management;
- accessibility.

Controls

- keep an inventory and classification of outsourced assets;
- ensure that a service-level agreement exists that meets the company's needs;
- ensure that the data does not come under the USA Patriot Act;
- ensure compliance with privacy legislation;
- plan an annual audit of suppliers' websites and a review of their policies on security, disaster planning, incident management, and skill and certification maintenance for technicians in charge of the systems.

Conclusion

New technologies offer many business opportunities. Every risk and internal control-related element cannot be covered in a brief article, but this is an overview of how to appropriately manage mobility risk and to show the importance of implementing internal controls. These controls may be similar to traditional methods, but IT auditors are required to thoroughly understand them. Understanding risks and controls, together with sound management, will help informed decision-makers benefit to the fullest extent from these new technologies.

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Now's the time

Auditors should start planning for the review of the first IAS 34 interim financial statements now

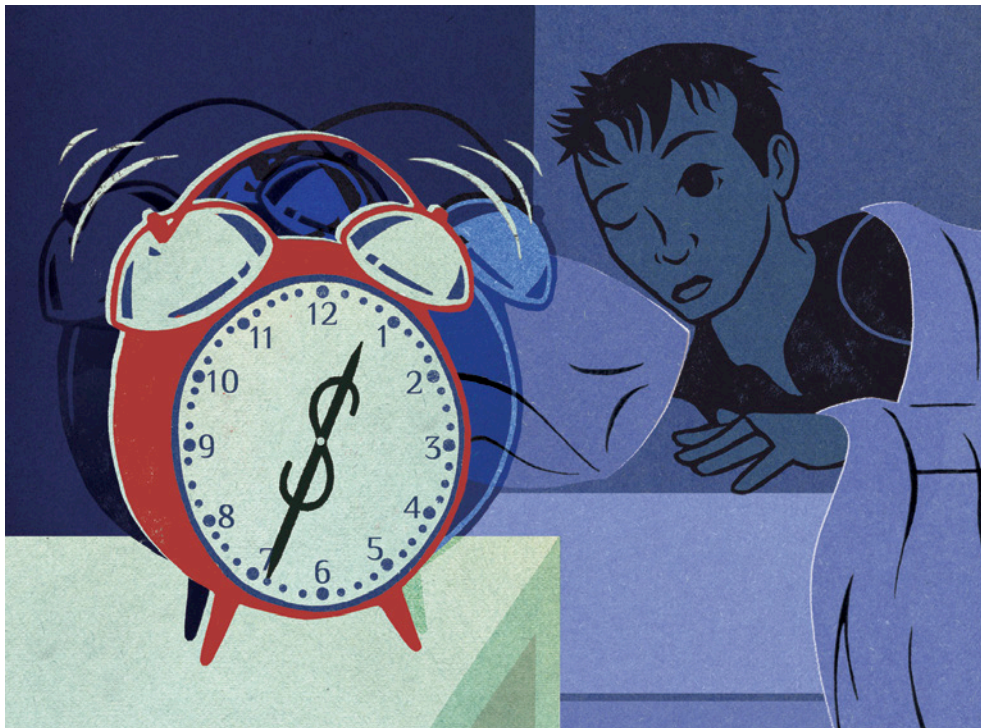
The first wave of interim financial statements prepared in compliance with International Accounting Standard (IAS) 34, *Interim Financial Statements*, will be filed with securities regulators approximately five months from now. The proverb “today is the tomorrow you worried about yesterday” may be applicable to this timing. For auditors who are requested by the audit committee to perform a review of a company’s first IAS 34 interim financial statements, now is the time to start considering matters related to accepting and performing this interim review engagement.

Acceptance considerations

An entity’s changeover to international financial reporting standards (IFRS) may have a significant impact on the entity and its environment, including internal control.

In particular, the accounting policies and the systems and processes the entity uses to prepare its first IAS 34 interim financial statements may be significantly different from those used to prepare current interim financial statements. Before accepting the engagement, the auditor will have to consider the impact of the entity’s changeover to IFRS to determine whether he or she has an appropriate basis on which to perform an interim review. For example, if the entity’s internal controls over the changeover to IFRS appear to contain deficiencies so significant that it is impracticable for the auditor to apply his or her knowledge of IFRS to the first IAS 34 interim financial statements effectively, the auditor may decide not to accept the engagement.

Secondly, the auditor will have to consider whether he or she has the necessary training and proficiency in IFRS before accepting an engagement to perform an interim review of the first IAS 34 interim financial statements.



BLAIR KELLY

Performance considerations

If the auditor accepts the engagement, matters such as updating an understanding of the entity and its environment, performing analytical and other procedures, and obtaining management representation may need to be considered when performing a review of the first IAS 34 interim financial statements.

Understanding of the entity and its environment

Section 7050, *Auditor Review of Interim Financial Statements*, presumes that the auditor, through performing the audit of the annual financial statements, has an understanding of the entity and its environment, including its internal control. In the context of the review of the first IAS 34 interim financial statements, the auditor would need to update his or her understanding of the entity and its environment to take into account the impact of the reporting issuer's changeover to IFRS. The following top-10 list has examples of areas the auditor may want to focus on in updating his or her understanding of the entity and its environment.

10. Expected IFRS policies and adjustments that may be applicable given the entity's industry and operations.

9. The IFRS 1 *First-time Adoption of International Financial Reporting Standards* exemptions applied and options chosen.

8. The types of transactions and account balances expected to be affected by the changeover to IFRS.

7. New or revised securities rules and regulations to which the entity is subject as a result of the changeover to IFRS.

6. The effect of the IFRS changeover on the entity's financial statements and how these might affect loan covenants and other agreements for which certain provisions are based on financial statement figures, or measurement of financial performance such as analyst and investor expectations and internal appraisal processes.

5. The knowledge and competencies of the persons selecting and/or applying the IFRS accounting policies and determining and/or making IFRS changeover adjustments.

4. Any new systems/processes put in place to track additional IFRS disclosure requirements.

3. Controls over processes used to record adjustments to financial information originally prepared in accordance with existing Canadian GAAP to be compliant with IFRS and other journal entries to mitigate the risk of management override, taking into consideration that management may be more likely to be able to circumvent normal processes during the changeover to IFRS.

2. Understanding the reporting issuer's IFRS changeover processes, including processes for selecting its accounting policies, resolving issues and ensuring completeness of IFRS adjustments.

1. The attitude, awareness and actions of those charged with governance regarding the changeover to IFRS.

Analytical and other procedures

When performing a review of the first IAS 34 interim financial statements, the auditor will need to use the information obtained in updating his or her understanding of the entity and

its environment to form expectations with which to compare with actual results. The auditor may also need to perform analytical procedures that are different from those he or she would normally perform. For example, useful analytical procedures may include the following (assuming a calendar year-end):

- a comparison of the January 1, 2010, March 31, 2010 and December 31, 2010 IFRS figures with the corresponding Canadian GAAP figures, together with IFRS adjustments; and
- a comparison of the March 31, 2011 IFRS figures with the appropriate comparative IFRS figures.

An interim review does not normally contemplate the auditor performing procedures that would typically be carried out during an audit. However, due to the potential complexity of the changeover to IFRS, it may be desirable for the auditor to carry out audit procedures relating to the changeover to IFRS at an early date, such as in 2010 or early 2011. These will be part of the procedures required to obtain sufficient appropriate audit evidence regarding the IFRS financial statements on which the auditor will be opining. Such audit procedures that may be performed at the same time as interim review procedures include:

- testing of accounting records supporting IFRS adjustments

For the first IAS 34 interim financial statements, the auditor may consider obtaining additional representations on matters related to new IFRS policies or adjustments

through inspection, observation or confirmation;

- testing of internal controls to evaluate their effectiveness, particularly of information systems and control activities relevant to IFRS;
- obtaining corroborative evidence of management's responses to the auditor's inquiries related to IFRS adjustments; and
- considering whether previously undiscovered misstatements from prior periods have been appropriately treated.

Management representations

Paragraph 7050.42 requires the auditor to obtain certain written representations from management. For the first IAS 34 interim financial statements, the auditor may consider obtaining additional representations on matters related to new IFRS policies or adjustments. For example, the auditor may obtain representation regarding the completeness and accuracy of the IFRS adjustments.

Conclusion

As Albert Einstein said, "The only reason for time is so that everything doesn't happen at once." Auditors should start planning for the review of the first IAS 34 interim financial statements now so everything doesn't happen at once in a few months' time.

Chi Ho Ng, CA, is a principal with the Auditing and Assurance Standards Board

Technical editor: Ron Salole, vice-president, Standards, CICA

Planning for the aftermath

Recent disasters such as the BP oil spill and Iceland's volcanic eruption have renewed interest in continuity plans

On July 27, *Le Monde* reported that from April to June 2010 British Petroleum (BP) lost almost US\$17 billion. The article also stated that the corporation's results announced on July 27 showed the largest quarterly loss ever recorded by a British company. Who could have imagined that the world's third-largest oil company, founded in 1909, with \$217 billion in sales and \$15 billion in net income for 2009, would one day be at the centre of one of the worst environmental disasters of the century?

BP's situation is not merely about operating and revenue losses. The challenges it faces includes crisis management, image building and the resumption of activities. Similar concerns affect all companies, to a lesser extent, in times of crisis or in preparing for one. BP's financial position and measures already taken will help it avoid the worst, namely filing for bankruptcy, which is not necessarily the case for other companies. Businesses should therefore be armed with a business continuity plan (BCP) to deal with this type of situation.

Misconceptions

Renewed interest in business continuity, business recovery plans, disaster recovery plans and BCPs is attributable to media coverage of recent events such as the volcanic eruption in Iceland, which crippled air traffic in Europe; the H1N1 flu pandemic and the oil spill off the US coast. Business continuity is often wrongly put in the same category as a company's IT continuity. A systems backup plan is a subcomponent of a BCP; it is not a solution to guard against all possible threats.

As we saw with the H1N1 influenza, officials adopted specific measures — quarantining flu-stricken employees, providing protective masks, posting basic health rules to prevent contamination, and maintaining internal communications to keep employees informed and provide them with guidance in a crisis — to protect against certain risks. But were these measures taken in time? Can they be adopted to prevent a new pandemic? Was the money spent and efforts put forth carefully evaluated from a cost/benefit perspective? In its July 13 issue, *Le Point* magazine reported that more than 3.4 million doses of vaccine were thrown out or discarded. A business continuity process is not simply a one-time exercise but involves re-examining its effectiveness and efficiency.

The practice of regularly reviewing potential risks would be appropriate if it benefited all areas of a company. Such an approach can become a winning strategy for implementing and maintaining an up-to-date BCP.

The practice of regularly reviewing potential risks would be appropriate if it benefited all areas of a company. Such an approach can become a winning strategy for implementing and maintaining an up-to-date BCP.

BCP: where to start?

The main reason for putting a BCP in place is to ensure that customer needs are met while the company operates in a diminished mode during a crisis. Operations may be disrupted momentarily by a disaster and its repercussions. To minimize a disaster's impact, the company develops a plan that identifies potential threats and their effects on business continuity. Measures to mitigate risks to the company's critical functions should be clearly defined. Companies often mistakenly focus on high-probability and high-impact risks,



while attributing less priority to low-probability risks with potentially greater repercussions, as in BP's case. Yet it is this category of risk that a BCP should address. We will therefore re-evaluate the risk analysis based on this observation.

Top-down risk-based approach

First, identify the processes that are critical to the efficient operation of the business. What is the company's mission? What chain of value-added activities would help deliver goods and services to clients? What activities comprise these key processes? What are the potential threats related to each activity and can they seriously disrupt these processes? How likely is the occurrence of these threats?

Are these threats a risk to my line of business?

In addition to inconveniencing customers, what impact does a business interruption have on the company and the third parties it interacts with? Addressing these fundamental questions is vital to effectively manage a business continuity strategy. This course of action is a top-down approach, moving from the general to the specific. The approach (see chart above) consists of analyzing the processes then following through to the business activities.

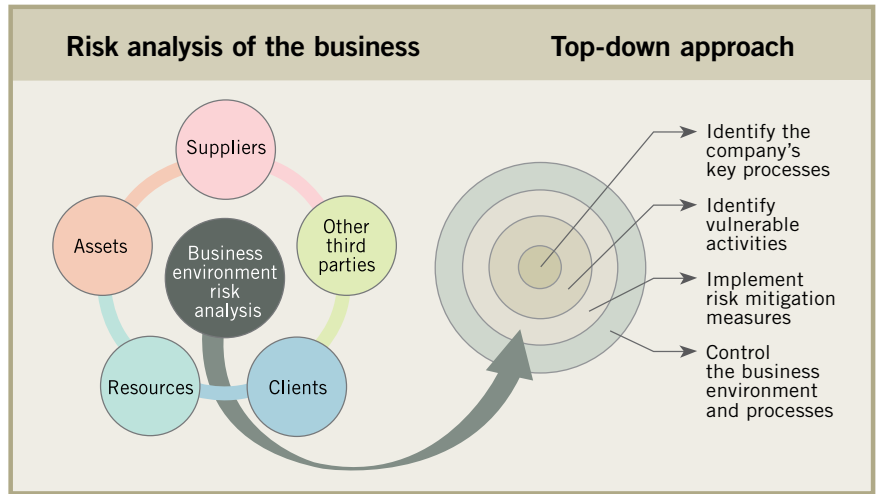
To implement a strong business continuity strategy, the company should list direct and indirect risks to which it is exposed in relation to its environment; identify the key processes that could disrupt business continuity; evaluate risks that could hinder business continuity as regards key process activities; assess the opportunity and relevance of implementing corrective or risk mitigation measures and apply these measures.

A virtuous circle

Section 5 of the Good Practice Guidelines issued by the Business Continuity Institute states: "Review and challenging the assumptions made in the [Business and Insolvency Act] BIA about the environment in which the organisation operates to determine whether the time imperatives have changed since the last review."

This directive is very clear and indicates that once a continuity plan is in place, it is important to evaluate its relevance periodically, beyond assessing the plan's effectiveness. The relevance of an operations continuity plan depends on potential threats uncovered during the risk analysis, the effectiveness of existing safeguards and the impact of the processes. The goal is to achieve an efficient and effective assessment of resources. Accordingly, four elements complete the risk and business continuity management loop and make up the cornerstone of all continuity plans:

- awareness of any changes to the organization's objectives;
- awareness of any changes in evaluating the probability or impact of known risks (conventional risk assessment);
- monitoring of emerging risks; and
- awareness of any changes related to business processes that can affect plan execution.



Helpful tools and methodology frameworks

While there are many risk assessment methods, it is important that risks be assessed by type, i.e. business risks, IT-related risks, privacy risks, etc. These methodologies rely primarily on internal control frameworks: Enterprise Risk Management — Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission; and Control Objectives for Information and related Technology, a process that deals with risk assessment and management.

Risk management methodologies can be based on a quantitative or qualitative approach. With quantitative risk analysis, specialized applications may be required to process the information needed to assess and prioritize risks. Such tools provide automated solutions to help identify, analyze, assess and manage company-wide risks. In addition to recreating the organizational structure of the business being analyzed (business unit, departments, processes and operations), these solutions can also identify the most-relevant risks, assess their impact and probability, identify control weaknesses, calculate residual risk, define action plans as well as establish risk monitoring scorecards and implement risk mitigating measures. As these analyses and monitoring processes can be complex, outside expertise may be needed, given that a review performed internally could be biased.

Two pitfalls to avoid include establishing a business continuity plan focused on IT that does not take into account an overall company approach and focusing on the wrong business continuity risks and costly corrective or risk-mitigation measures without evaluating their sustainability.

For a thorough risk assessment, a specialist can assist on an as-needed basis and can provide support to prepare an effective business plan in case of disaster.

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Outlook

BY MARCEL CÔTÉ

WHERE ECONOMICS AND POLITICS MEET

Hooray for China and India

China's and India's stellar economic performance has many Canadians worried. However, it is great news for Canada. In fact, these impressive gains in the developing world bode well for the Canadian economy, despite the increased competition faced by Canadian businesses.

In 35 years, China's gross domestic product (GDP) has increased 30-fold, and the country's annual growth rate ranges between 8% and 10%. Yet China has a long road ahead. Its per capita income is still only \$3,000, compared with \$43,000 in Canada. China will likely sustain this high growth rate for the next 20 years, but even then, its per capita GDP would still lag behind Canada's by 50%.

China's rapid and sustained economic growth is driven by several factors, including vast reserves of underutilized labour, access to the rich markets in developed countries that favour Chinese exports, its ability to integrate leading technology and a gross savings rate of 54% of its GDP (compared with Canada's 24%) that allowed it to make massive investments.

About 20 years after China, in the mid-'90s, India began its catch-up process. Over the past 15 years, per capita income has tripled to reach \$1,000 today. Furthermore, the country's savings rate is an impressive 38% of its GDP. This catch up will likely continue another 40 years at annual rates of 6% to 8%, following virtually the same trajectory as China and other Asian countries such as South Korea and Thailand before it. What sets India apart, however, is the country's annual population growth of 1.3%, compared with China's 0.5% and Canada's 1%. In 20 years, India will surpass China to become the most populous country in the world, and 50 years from now, the Indian economy will likely rank first in the world, edging out China, the US and the EU.

Economic expansion in these countries is a boon for us as their growth opens large export markets for Canadian high value-added products. Of course, the production of lower value-added goods will have to be ceded to China

and India, forcing us to make adjustments. However, this loss will largely be offset by our exports of raw materials and high-end products, including airplanes, software and music. As their standard of living inches closer to ours, the demand for Canadian products will increase on Chinese and Indian markets.

What's more, economic development stabilizes a country's geopolitical situation. Many potential conflict zones still exist in Asia, where contested borders remain a problem for both China and India and minorities are clamoring for their independence. Any armed conflict involving these two nations would prove disastrous for the global economy. The more their middle classes develop, the more concerned they will be about protecting their

The more their middle classes develop, the more concerned they will be about protecting their wealth

newly acquired wealth and the less the use of armed force to resolve border issues will be politically viable for their governments.

Any low-income countries can follow the same path to growth as China and India by capitalizing on an export-based development strategy that rests on its abundant low-cost labour. However, in addition to boosting their savings rate to support major investments in production capacity, these countries would also need to liberalize their economies to foster local entrepreneurship, two key conditions for success.

South Africa and the Maghreb countries are on the verge of meeting these conditions. Hopefully, they will begin catching up quickly. If so, Canada might lose more low-productivity jobs, but will gain new markets for its high value-added products.

We should stop fearing China and India's success and applaud their economic upswing. The stronger their performance, the better off Canada will be.

Marcel Côté is founding partner at SECOR Consulting in Montreal

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