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To be or not to be ... connected

Are businesses and social networks finally getting together?

W e are a social species and no matter what, we will find a way to get together. When research demonstrated that people spend more and more time online, there were many who predicted the end of human interaction. How wrong they were.

People found a way to stay connected and share personal experiences with not only the small numbers that comprise their immediate friends and acquaintances but also with thousands of others. We are now in the age of constant communication via online social networks. At first, businesses were lukewarm, if not outright suspicious, of bloggers, tweeters and other social networkers, often banning access from company systems. This attitude is changing rapidly, writes Gilles Lajoie in “Social equity” (p. 22), as more companies turn to such channels to market their products and services and have direct conversations with their clients, suppliers and various stakeholders.

Accounting standards might not be as cool as social networking, but they play a critical role in the communication between companies, lenders and investors. They too have changed drastically. Publicly accountable entities received most of the attention, but private companies were also waiting for their own set of rules. Accounting standards for private enterprises, or ASPE, were finally adopted late last year and will be mandatory starting January 1, 2011. Though standard-setters have stressed that these new accounting rules are close to GAAP, there are some differences. In “What’s changed?” (p. 30), Allan Foerster and Mark Walsh highlight the most significant changes to ease the transition process. Canada is also moving from GAAS to international standards of auditing, or CAS. Readers might also want to read “CICA introduces CAS Support Tool” in our News from the profession section (p. 14).

Our Regulars section features articles on taxation (p. 36), public sector standards (p. 38), assurance (p. 40), and personal financial planning (p. 43).

In Netwatch, Jim Carroll explains that he has decided to go back to school to prepare for what he expects might be his next career (“Learning for a living,” p. 12). In Outlook, Marcel Côté stresses the importance of good reading and writing skills in today’s visually oriented world (“Reading and writing,” p. 52). Finally, in Work in process, Michael Burns cautions about talking to users to document the requirements for a new system (“How to document requirements,” p. 13).

Have a great summer!

Christian Bellavance, Editor-in-chief
upfront

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When they retire, many CAs take up golf or gardening. But hobbies were not the path Elizabeth Marshall took when she retired as auditor general of Newfoundland and Labrador. Instead, she entered the rough-and-tumble world of provincial politics before being appointed to the Senate of Canada.

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BY GILLES LAJOIE

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With accounting standards for private enterprises, most of the practices and policies used by private enterprises won’t change. But there will be differences in key areas. What these changes are and when they have to be applied may still not be clear to all.

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Breaking news, tax updates, job postings, archives, more articles: you’ll find them all at www.CAmagazine.com
BARGAIN ALTERNATIVES

In “Keeping a bargain a bargain” (Personal financial planning, January/February), David Altro recommends a trust that will be treated as a self-benefit trust for Canadian tax purposes. We believe that in most circumstances a trust or partnership would be better alternatives.

While there may be circumstances where the self-benefit trust is the only plan that will achieve the objectives mentioned, it is not the plan of first choice where the minimization of US estate tax is the ultimate goal. This is because the assets held in the self-benefit trust are includable in the deceased’s estate for US estate tax purposes and the only attempt to reduce the potential liability is through nonrecourse financing and valuation discounts. These items must be disclosed on a US estate tax return, are subject to strict scrutiny by the Internal Revenue Service and may be costly to set up and maintain.

The trust and partnership alternatives do not require discounts or nonrecourse financing to reduce the estate tax but on their own completely eliminate the tax. The self-benefit trust structure relies on each spouse having his or her own funds to acquire the property, whereas the trust and partnership alternatives are possible where only one spouse has funds for the acquisition.

One spouse could settle a trust for the other and eventually the children with sufficient funds for the acquisition. Where borrowing is required, the contributing spouse could borrow funds personally and contribute them to the trust. The trust could be drafted so no part of the trust property would be includable in a beneficiary’s estate for US estate-tax purposes. The 21-year rule should not initially apply to the trust, as it will have a disposition on the beneficiary spouse’s death. The trust could continue for up to 21 years following the spouse’s death without incurring another deemed sale. The trust avoids probate and guardianship proceedings and offers asset protection.

A Canadian limited partnership that checks the box should be considered where a taxpayer is single, already owns the US property or is not prepared to transfer significant wealth to a trust for his or her spouse. The tax rate on capital gains may be higher if the property is sold before death but this is a small price to pay for estate-tax protection. The owner of the partnership interests could take the steps required to avoid probate and provide asset protection for children through Canadian estate planning. Incapacity issues could be dealt with via a power of attorney.

Benita Loughlin, CA
Partner, international executive services,
KPMG
and Elaine Reynolds
Legacy Tax + Trust Lawyers
Vancouver

GIVE CREDIT WHERE IT’S DUE

I feel compelled to express my appreciation of Marcel Côté’s comprehensive article “The culprits” (Outlook, March). In it he pinpoints Wall Street’s largest investment banks as causing the worst recession in 75 years. His graphic description of the moment in which they brought the world’s markets to a standstill in 2007 is greatly admired for its measured high-standard registration.

What I find somewhat surprising is that while the article undoubtedly alludes to the underlying problem as a lack of regulation and control by various governments throughout the world, it fails to give due credit to the Canadian government. Surely the fact that the Canadian banks “abstained from this financial feeding frenzy” and remained “only slightly affected” merits some form of acknowledgment as something other than a chance happening.

Eric Houston, CA
Aberdeen, Scotland

AN IMPORTANT DISTINCTION

On page 14 in News from the profession (April), there is a statement that reads, “An analysis by Accounting Standards Board, Which IFRSs are Expected to Apply for Canadian Changeover in 2011.” In fact, the analysis was not done by the board, it was
Mailbox

done by the staff of the board. This might seem to be a subtle distinction without a real difference, but the difference is actually very important. Staff materials are not authoritative and therefore do not have to be followed for a reporting entity to comply with GAAP. Board pronouncements are GAAP, of course.

Peter Martin, CA
Director, accounting standards, CICA
Toronto

IN WITH THE OLD?

In the opening sentence of “Moving forward” (From the editor, April), Christian Bellavance writes, “We are … just a few months into a new decade.” No, we are not. We are in the last year of the old decade.

The last year before the birth of Christ was 1 BC, and the next year was AD 1. There was no year zero. A decade is 10 years; therefore, the first decade ended on December 31, 10 (notwithstanding the switch from the Julian to the Gregorian calendar). Similarly, the current decade will end on December 31, 2010.

John R. Ellen, CA
Vancouver

LET’S TALK

It is time to start a discussion. I trained as a student-in-accounts and passed my UFIs in 1962. I received my CA designation but shared the graduation with individuals who had arrived through another route. That was the year of the amalgamation of the CA and CPA institutes in Ontario. The decision was made to move forward under the CA brand and keep the CPA designation dormant but under control. There were a few years of hard feelings but as time passed the resentment became irrelevant.

In recent years I have become aware that our brand, CA, has not been protected but has gained acceptance in identifying other activities.

The first time I was aware of the change was the use of the CA to identify products of Computer Associates. A highway sign that I saw pointing to Lorne C. Henderson CA was not pointing to an accounting office but to a conservation area east of Sarnia, Ont. And I saw an ad in the Globe and Mail revealing that anyone could get their own CA. Granted, the letters were preceded by a dot and were in lower case, but the Internet country code for Canada, .ca, has far greater recognition than the accounting link.

The damage is done. It is time to admit that money spent to advertise the relationship between the accounting profession and the initials is money wasted.

In my opinion, the CA brand in North America is no longer relevant. We need to go in a new direction.

Change is upsetting but people get over it. It is time to dust off the old CPA brand.

James A. Casson, CA (retired)
Welland, Ont.
Elizabeth Marshall’s career path, leading up to her recent appointment to the Senate of Canada, borders on the unique. That’s because before reaching the red chamber she served as Newfoundland and Labrador’s auditor general and as an elected member of the provincial House of Assembly.

After retirement, most auditors-general typically take up golf or gardening. However, Marshall, now 58, entered the rough-and-tumble world of provincial politics. “Frankly, I found retirement boring,” she says. “After a year or so, someone asked if I were interested in running for office. At first, I was not interested, even skeptical. A few months later, I accepted because I knew if I refused, I would regret it later.” Calling on the determination that helped her rise to the top levels of the provincial public service, Marshall beat the incumbent by a 2:1 margin in the 2003 election. “I put my all into the campaign,” she says. “There were very few doors in the riding that I did not knock on.”

To her surprise, she came to love political life. “As a civil servant, I met with politicians almost every day,” she recalls. “We mainly discussed public policy issues. And that’s what I thought I would continue doing after being elected.”

She found she preferred working one-on-one with her constituents. “I realized that I truly enjoyed helping real people with real problems,” she says. And election victories gave her personal satisfaction. “Winning the first time was thrilling,” she says. “But people don’t really know who you are. But being re-elected is different because it is a vote of support. Voters are saying they are happy with what you are doing.”

As she assumes her senatorial duties, she expects there will be a learning curve. “I want to become more knowledgeable about the Senate — not just the rules and procedures but also its mandate.”

Ken Mark

Newfoundland CA Elizabeth Marshall was a public servant and elected politician before becoming a Canadian senator

Résumé

1979 obtains CA designation (NS)
1979 joins finance dept., Newfoundland and Labrador
1992 becomes auditor general, NL
2003 elected member, House of Assembly, NL
2010 appointed member, Senate of Canada

Public appreciates your hard work

Accountants are seen to be trustworthy, hardworking and exciting, according to a survey for staffing firm Ajilon Finance.

In a Harris Interactive online poll of more than 2,000 US adults, nearly one-third (30%) used accounting professionals to get their taxes done this year, and, of those, 64% use the same accountant every year and nearly 50% feel they would not be able to do their taxes without the help of an accountant.

The survey also found the vast majority of respondents (88%) do not agree with the stereotype that accountants tend to be boring and 84% feel the profession itself is not boring. More than half (53%) of those with accountants trust them fully with their financials and 39% have developed a personal relationship with their accountant.

Last, but not least, almost all of those polled (98%) recognize that accountants work hard all year round and not only during tax season. Oh happy day!
SUCCESSION PLANS
UP IN THE AIR

Six in 10 private companies in Canada will change ownership structures within the next 10 years but very few (11%) have a succession plan in place, according to executive CAs responding to a CICA/RBC Business Monitor Survey. An additional 17% have at least started work on a succession plan but the large majority have done nothing more than discuss it. Given the time it takes to prepare for succession, this is a topic that should dominate the agendas of private companies in the near future.

The survey, conducted in the first quarter of 2010, also found that the recent economic downturn is not expected to impact succession plans for the large majority (69%) of respondents. Only 20% expect it to delay plans and 6% indicate it will accelerate them. (The remaining 4% didn’t know if it would have an impact.)

Although most companies had not formally started on succession plans, they have given thought to the likely succession option they will pursue and the challenges they expect to face. Selling to another business or a third party (35%) was the most frequently selected succession option, followed by transfer/pass ownership to family members (25%). More than one in 10 (14%) don’t know what option would likely be pursued; 7% expect to sell to management or employees and 6% expect to sell to a partner or partners. Only 4% expect to go public.

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

WILL ONLINE SOCIAL NETWORKING HURT MY PROFESSIONAL REPUTATION?

Social networking sites can be leveraged as effective business tools for some professionals, but many companies limit access. Make sure you understand and adhere to your company’s social networking policy and let common sense prevail when using Facebook and similar sites — even outside of business hours. Regrettable posts can be a career liability. Here are a few more tips:

Use caution. Be familiar with each site’s privacy settings to ensure personal details or photos you post can be viewed only by people you choose.

Keep it professional. If your employer allows you to use social networking sites while at work, do so to make connections with others in your field or to follow industry news — not to catch up with family or friends.

Stay positive. Avoid complaining about your manager and co-workers. Once you’ve hit submit or send, you can’t always take back your words — and there’s a chance they could be read by the very people you’re criticizing.

Polish your image. Tweet or blog about a topic related to your profession. You’ll build a reputation as a subject matter expert, which could help you advance in your career.

Monitor yourself. Even if your employer has a liberal policy about social networking, limit the time you spend checking your Facebook page or reading other people’s tweets to avoid a productivity drain.

Dave Willmer is executive director of international IT staffing service Robert Half Technology (www.rht.com)
Numbers

Game

1 Length in days of the 1996 Hanoi trial at which Montreal businessman and Vietnamese immigrant Tran Trieu Quan was sentenced to life in prison for defaulting on a deal with a state firm. Quan was released in 1997.

10 Weeks an Alberta contractor working in the Balkans spent in a Yugoslav jail on suspicion of terrorism before being released. “Not to defend [our captors] too much,” said Shaun Going in 2000, “but had we been Albanian, I’m sure we would have been beaten a lot worse.”

12 Years BC businessman Michael Kapoustin was jailed in Bulgaria after first being warned to leave the country and afterward convicted of embezzlement. Kapoustin was released in 2008 after the Canadian government intervened.

75 Counts under the US Trading with the Enemy Act for which Canadian businessman James Sabzali was convicted in 2002 after selling water purification supplies to Cuba. Sabzali faced life in prison, but received probation.

2008 Year Mississauga, Ont., electronic importer Jimmy Chen was sentenced to 20 years by a Chinese court for contract fraud and trademark infringement. Chen’s family claims corrupt officials helped turn a civil dispute into a prison term.

200,000 Number of hand grenades Canadian businessman Arthur Andersen was convicted of trying to deliver to Jordan by a German court in 2003. Andersen was sentenced to more than two years for trying to ship the arms, as well as 40 rocket launchers and 3,000 “bazooka-type weapons.”

Business Record

This spring, a Chinese prison sentence for an Australian mining exec who stole commercial secrets made global headlines. Canadian businessmen have faced similar situations.

Going Concern

Keith Martell, CA
Chairman & CEO
First Nations Bank of Canada

Company Profile: The First Nations Bank of Canada is a chartered bank with a full range of personal and business banking services, focusing primarily on Aboriginal customers. The bank was founded in 1996 as a strategic alliance between the Saskatchewan Indian Equity Foundation Inc., Federation of Saskatchewan Indian Nations and The Toronto-Dominion Bank. Over the years TD Bank has scaled back its share-holder interest and today, Aboriginal shareholders from Yukon, Northwest Territories, Saskatchewan, Manitoba, Quebec and Nunavut own more than 80%. The bank is also an approved lender with the Canada Mortgage and Housing Corp.

Cool Projects: In late April, the bank opened a new branch in Iqaluit, Nunavut, which is its seventh branch overall and its first move into Inuit territory. First Nations Bank is also scoping out a location for an eighth branch in NWT to open within a year and a half.

In His Own Words: “Our shareholders value our long-term commitment and their participation in our success. From the development of our first business plan to the management of our ongoing growth, we have focused on realistic plans based on good information, hard work and positive relationships. For the first 300 years of Canada’s existence, Aboriginal people were the economy and most Canadians have forgotten that. Our passion is in reawakening the entrepreneurial resilience and capacity of Aboriginal people to participate in their own economy.”

Rosalind Stefanac

and the US. Despite an objective to pull out financial interest entirely by 2007, TD Bank has chosen to maintain a 19% share.
HOW LONG TO HIRE?
It typically takes more than a month to fill an open accounting or finance position, according to a survey by Robert Half Finance & Accounting. More than 270 Canadian CFOs interviewed said it takes an average of five weeks to fill a staff-level role and six weeks to bring a new manager on board.

PUNCTUALITY PICKS UP
Sixteen percent of workers say they arrive late to work at least once a week, down from 20% last year, according to a survey of more than 5,200 US full-time employees for online job search site CareerBuilder. Traffic was the most commonly cited reason for being tardy (32%), followed by lack of sleep (24%).

BANK SERVICE EXPANDS
Royal Bank of Canada has added Cree and Inuktitut, two of the most commonly spoken indigenous languages in Canada, to its multi-language telephone banking service. Launched in 2008, the service has more than 2,600 specialized interpreters available to help translate 180 different languages.
Rising benefit costs challenge employers

Last year was a challenge for many organizations as they struggled to gain a tighter control on expenses. Yet benefit costs for both active employees and retirees escalated by 10% year over year, according to an inaugural survey of employer-sponsored benefits by the Conference Board of Canada.

The report, Benefits Benchmarking 2009: Balancing Competitiveness and Cost, notes that if costs cannot be contained, the long-term sustainability of employer-sponsored benefit programs will be in jeopardy. But it also says organizations are not making drastic cuts to benefits. Instead, they are focusing on better communicating the value of benefits to employees and enhancing employees’ understanding of the cost implications of their actions — perhaps causing them to think twice before changing the frames on their glasses or heading for a massage.

Employers are also taking a hard look at their relationships with insurance and EAP providers to see if they can obtain any savings. The recession has made vendors more amenable to renegotiating with clients and employers have been bolder about looking for a better deal. While employers are not making deep cuts to benefit programs, they are looking to shift costs to employees through smaller adjustments such as introducing or increasing deductibles and co-payments or instituting coverage changes.

With the economy slowly emerging from the recession, employers are looking to find the right balance between containing costs and ensuring benefit programs are competitive in attracting and retaining key talent. Organizations that pare back their benefits too much could end up on the short end of the stick in competing for scarce talent as labour markets tighten up toward 2012 or 2013.

It might be tempting for organizations to trim vacation time and other paid-leave programs, given that these programs make up just slightly more than 40% of all benefit spending. For employees seeking careers that provide a good work-life balance, however, time away from the job is an important consideration.

This is a summary. For an expanded article, visit www.camagazine.com/benefitcosts2010.

Karla Thorpe is an associate director with the Conference Board of Canada’s leadership and human resources research division

CFOs plan big changes

More than 60% of CFOs plan major changes to respond to the new economic climate, according to a new IBM global study. And providing input to enterprise strategy will be their No. 1 priority.

The 2010 IBM Global CFO Study is the largest sample of CFO sentiment during the worst economic downturn in decades. More than 1,900 CFOs from 81 countries and 35 industries were polled, including 100-plus Canadians.

The study showed that CFOs and senior finance executives are already feeling intense pressure on three fronts — reducing the enterprise cost base, making faster, more accurate decisions and providing more transparency to external stakeholders. They expect this pressure to increase dramatically over the next three years.

Despite their emphasis on strategy, however, CFOs believe there is an effectiveness gap in their organizations. Only 50% of those surveyed think their finance organizations are effective in providing the business insight to support broader enterprise priorities.

Certainly the enterprise agenda has dramatically increased in relevance for global and Canadian CFOs over the past five years. Since IBM’s first CFO study in 2003, CFOs have continually stated their aspirations to shift more focus to analysis and decision support. Yet few have made significant progress on that score. Among the effectiveness gaps, the largest is in the area of driving integration of information across the enterprise.

One group of CFOs, dubbed “value integrators,” were found to consistently outperform their peers in all key financial metrics by driving both finance efficiency and business insight across their organizations. These leaders deployed the kind of intelligent analytics systems that understand and address problems before they happen. Systems such as these will definitely become mission-critical as CFOs work to reshape their finance organizations to adopt a broader, enterprise-wide view in an uncertain economic climate.

For an expanded version, including a link to the study results, visit www.CAmagazine.com/cfstudy2010.

Todd Genton, CA, is IBM’s global business services partner, financial management
Canadian Professional Engagement Manual (C•PEM)

Completely updated to include the new Canadian Auditing Standards, C•PEM is the complete, authoritative guide to conducting audit, review and other assurance and compilation engagements for small- and medium-sized entities.

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Learning for a living

So what does a CA who has evolved into a global futurist do for his next gig? Go back to school, of course. It’s truly become an unusual job I’ve taken on over the past decade. At this point, I travel about 100,000 miles a year, speaking at 50 to 60 conferences or leadership meetings all over the world. It’s a very odd feeling, standing backstage at the Theatre for the Performing Arts at Planet Hollywood in Las Vegas, about to go out and speak to 4,000 people. I can’t help but wonder, as an accountant, how did I ever get here?

I got here, I suppose, by somehow combining the inherent skills that any CA possesses in quickly sizing up business strategy issues and the ability to cut through the clutter to provide concrete guidance on strategies that should be pursued. Albeit, in my case, in a very different way.

And even as I ask myself that question backstage, I find myself wondering, what do I do next? I certainly don’t see myself keeping up the same pace of travel, yet I can see a natural transition in my role.

Over the past several years, I’ve been engaged by an increasing number of global Fortune 1,000 organizations to help them understand the trends that are going to impact them in the future and the innovation strategies they need to adopt to ensure they can keep up with fast-paced change. In other words, providing high-level guidance on strategic issues. So why not do that as a board member?

That’s why I’m now a student in the Directors Education Program, jointly developed by the Rotman School of Management, University of Toronto and the Institute of Corporate Directors. I’m learning the intricacies of being an effective director, acquiring new knowledge and upgrading some older knowledge (for example, much of what I know about financial disclosure needs to be replaced, since I wrote the UFE more than 25 years ago).

Going down this path fits into one of the key career trends I speak about onstage, that learning is what most adults will do for a living in the 21st century. Another trend I’ve been talking about for years is that most adults will have four or five different careers throughout their lifetime. I certainly don’t want my knowledge to stagnate, and hence, it was an easy decision to get back to the books.

Where will it lead me? I believe the process of corporate governance is going to undergo significant change in the next decade. I’m already in a role where I provide unique insight to a senior management team to help shape the strategic direction of the organization. As boards focus more on the future and less on the compliance issues of the past, there is a natural progression in terms of my role.

This line of thinking is borne out by an increasing number of discussions around the topic. For example, the folks at BoardSource, an organization actively involved in providing governance guidance to the nonprofit sector, noted in a recent article that “transformative governance means engaging in breakthrough thinking that embraces emerging trends and developments and asking the question, ‘What does this mean for governance?’” And the Harvard Business School touched on the issue in an article, challenging readers about the role of an audit committee with the question, “An organization’s books may be in order, but its performance may be going down the tubes. What’s to be done?”

What’s to be done is that corporate and not-for-profit boards take a more active role in linking future trends to the strategy pursued by the organization. Since I already seem to be doing that, I think this should be a fascinating next step in my truly odd career.

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

NEW DIRECTION FOR DIRECTORS

“What’s the Future of Corporate Governance,” HBS Working Knowledge
http://hbswk.hbs.edu/item/2399.html

Before replacing any system, you need to document your requirements. Obvious, right? You just have to talk to the people working with the existing system. But that would be a huge mistake, for a number of reasons. If employees are afraid the new system will automate a big part of their job, they might be reluctant to tell the whole story. Also, they might be unable to think outside their own box or they might consider certain tasks not worth mentioning.

There is a better way. Rather than ask employees to define their requirements, hold a business process review where they can describe their current process. That will uncover the processes that should be maintained as well as weaknesses that could lead to new requirements. It’s a good idea to get an estimate on the impact of a weakness — the time wasted because of it. This will help you decide how much attention to pay to it (for example, an employee might be troubled by a rather insignificant issue that doesn’t warrant a lot of detail in the documentation). The impact could also be used to help build a business case if the problem is significant. The new system should eliminate the weakness while generating cost and time savings.

The biggest challenge lies in deciding on the right level of detail in your requirements, so here are some pointers. First, for the development of a custom system, you need much more detail than you do when selecting existing systems. Second, if you will be evaluating vendors that already have hundreds if not thousands of clients, don’t document basic requirements. The vendors would not be in business if they didn’t already have those covered. Third, you need to be good at synthesizing. For example, you don’t need to know every person who approves a document. But you do have to understand the business rules associated with approvals — whether there are multiple sign-offs or whether approvals are based on dollar amounts. Fourth, remember the purpose of the business process document. It’s not meant to be a training tool, but a vehicle for exposing key strengths and weaknesses. Consider the report as a working paper, a starting point in discussing the “to-be” business process, in building a business case for improvement and in defining requirements in a vendor questionnaire.

With some adjustments, the business process review report can also be used as a script for potential vendors to follow in their demonstrations. But if you want it to serve as a questionnaire, you will need to transfer the requirements to another document where you group them into sections. For example, a requirement for the number of segments in the chart of accounts would be included in the general ledger section and setup subsection.

When the requirements document is completed, you still need to have the requirements confirmed and prioritized. This is usually done by a group of key people who not only understand the details but know the organization’s objectives and critical success factors. Confirming a requirement includes ensuring it is clear. Prioritization could be something such as 5=critical, 4=very high, 3=high, 2=medium, 1=low. To get through the requirements on a timely basis, you should assign one person as a spokesperson for each section. Those who disagree could express their opinion and there could be a debate.

Proper requirements analysis takes time but don’t you think it is better to spend that time at the beginning than much later, when every change will lead to budget overruns?

Don’t ask employees to define their requirements; instead, hold a business process review meeting.
The Canadian Institute of Chartered Accountants has developed an interactive, online tool to assist auditors with a smooth transition to the new Canadian auditing standards (CAS). The CAS Support Tool provides a single point of entry to a wealth of useful information to help auditors familiarize themselves with the new standards.

The tool provides information for all four phases of the audit process:

- Relevant standards for each phase are identified along with comparative information outlining differences in scope, new concepts and requirement changes as compared to existing Canadian generally accepted auditing standards (GAAS) for audits of financial statements. Users can conveniently link to a page of sample audit reports, related articles and training opportunities, including free webinars.

“This tool is designed to help make the transition as smooth as possible for audit practitioners,” says Gord Beal, CA, who leads the CICA’s Canadian Standards in Transition project. “Auditors and students of auditing will find the tool well organized and user-friendly.”

The suite of 36 CAS, which fundamentally mirrors the requirements of the international standards on auditing, are effective in Canada for periods ending on or after December 14, 2010. CAS apply to audits of financial statements for all types of organizations, including large and small companies, public and private companies across all industries, not-for-profit organizations, and government.

CAS are principles-based and many of the new standards are consistent with current Canadian auditing practice. Some, however, represent significant change and auditors must prepare accordingly.

The amount of work the transition will require depends largely on whether practitioners are currently performing truly risk-based audits. The CAS are focused on requiring auditors to plan, perform and report their audits using a risk-based approach. Public accounting firms that fully implemented the risk-based standards that were issued in 2006 are likely to find the transition much more straightforward than those firms that have not fully implemented the existing standards.

CAS provide high-quality standards and guidance for conducting audits in today’s complex environment. They enhance comparability with the more than 100 countries adopting international auditing standards and facilitate the performance of audits that cross international borders. They were created using the Clarity format, which has created standards that are seen to be more understandable, clear, and capable of consistent application.

The CAS Support Tool is housed on the Canadian Auditing Standards section of the CICA Canadian Standards in Transition website (www.cica.ca/TRANSITION). The website is a useful resource for anyone looking for information, downloadable resources and educational opportunities to help
in the transition to new accounting or auditing standards.

In addition to the CAS Support Tool the CAS section of the website provides free access to other relevant resources including:

- CICA’s Guide to the New Canadian Auditing Standards — highlights areas of similarity and difference between the new and the existing standards
- New Canadian Auditing Standards — a 20-minute video that provides a high-level overview
- The New CAS: After Busy Season — What Firms Should Do Now — a free webinar
- Reporting on Financial Statements under Canadian Auditing Standards — an explanatory memorandum prepared by CICA Auditing and Assurance Standards staff.

Changes to independence requirements considered

The Canadian CA profession’s Public Trust Committee created an Independence Task Force to review the independence provisions that are part of the Rules of Professional Conduct.

The review is the result of changes introduced to the international independence standards, a part of the Code of Ethics for Professional Accountants. These standards were issued last year by the International Ethics Standards Board for Accountants, part of the International Federation of Accountants.

Modifications to Canada’s standards are being considered in two phases. The first phase was the subject of an exposure draft proposing changes to the current Canadian requirements related to rotation of the engagement partner and the engagement quality control reviewer. It is suggested that these change from rotation after five years, followed by a five-year time-out period to seven and two years, respectively. Any revisions to the rotation requirements will be finalized in the summer of 2010, taking into account the comments received on exposure. Revisions will be sent to the provincial institutes/ordre with a recommendation for adoption as early as possible.

The second phase was the subject of a consultation paper proposing that independence requirements in the Rules of Professional Conduct used in Canada should closely model those in the international code of ethics. The task force identified a number of key implications to this approach and requested stakeholder feedback. It will consider the views expressed in the comments received to the consultation paper in determining the recommended approach. Proposed changes to the Rules of Professional Conduct will be exposed for public comment, with any new requirements anticipated to be approved by provincial institutes/ordre, councils and boards by the end of 2011, and subsequently voted on by members.

To learn more, go to www.cica.ca/protectingthepublic.

SME advisers conference goes for the gold

Participants at CICA’s 2010 SME advisers conference not only will get the latest updates and insights into how to support their SME clients, they will also have the opportunity to meet Canada’s Olympic champion Alex Bilodeau.

This time, Bilodeau will be sharing the podium with his father, Serge, who is a chartered accountant and Québec FCA. Together, they will talk about Bilodeau’s triumph at the Olympics and Serge will share some of the joys and challenges of raising an Olympian while maintaining a demanding role as a partner in public practice.

The conference will also feature updates on private enterprise standards, the new Canadian auditing standards, not-for-profit standards, PEM, quality control and CaseWare. There will also be tax sessions including a comprehensive income tax update, HST update, and an address by Paul Dubé, Canada’s first taxpayers’ ombudsman.

CICA’s 2010 National Conference for SME Advisors takes place August 4 to August 6, 2010 in Ottawa.

For more information or to register, visit www.cpd.cica.ca/SMEAdvisors.
MAPP survey provides firms with benchmark compensation data

All CA firms are encouraged to take part in the latest Managing a Public Practice (MAPP) survey, conducted by the CICA and the provincial institutes/ordre. Part 2 of the survey will be launched in mid-June and will focus on firm revenues, expenses, billing practices and productivity.

The survey is part of a broader three-part survey. Firms that completed Part 1 last year received a report in January covering billing rates, compensation and benefits. In September firms will receive an invitation to complete Part 3, which covers the subject of technology used by CA firms, including hardware, software and security.

MAPP survey results are not available for free or sale to nonparticipants. Only partners and sole practitioners of CA firms that participate in the survey gain access to this valuable information. Invitations to take part in MAPP surveys are sent by e-mail to CA firm partners and sole practitioners from our research provider, iTracks. MAPP surveys are hosted on a secure site and all information entered is kept strictly confidential. Results are reported in aggregate form only.

For more information regarding the MAPP survey, or if you did not receive your invitation, please contact MAPP Survey@icao.on.ca.

2010 Bill Swirsky innovation award

Nominations are now open for the 2010 Bill Swirsky Innovation Leadership Award and you are encouraged to consider suitable candidates and nominate them by the June 30, 2010 deadline. The online nomination form is available at: www.cica.ca/innovationaward.

This annual award program, sponsored by the CICA and CaseWare, is dedicated to innovators, present and future. The Bill Swirsky Innovation Leadership Award recognizes an employee, member or volunteer of the institutes/ordre who has demonstrated innovation by leading the development of effective and sustainable projects, concepts, processes or procedures with outcomes that have direct implications for advancing the CA profession, accounting and/or financial reporting nationally and/or internationally. The award is named after a prolific innovator and thought leader who retired in 2007 after more than 30 years at the CICA.

The winning entry will be chosen during the summer by a panel consisting of a representative of the Council of Senior Executives, the CICA president and CEO and a CaseWare representative. The winner will be presented with a $1,500 cash prize by CaseWare and a commemorative gift.

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RECENTLY ISSUED PRONOUNCEMENTS

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WATCH FOR

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Legend
ED – Exposure Draft          EDI – ED issued by the IASB  rED – Re-exposure Draft
DPI – Discussion Paper issued by the IASB  ITC – Invitation to Comment

† Refer to each Handbook pronouncement for the effective date and transitional provisions.
The information published above reflects best estimates at press time. Please visit our website for the most recent information.
ne hails from the food industry and the other from the energy sector, but their respective successes in steering their companies through the recession has made Cynthia Devine and Richard Bird winners of Canada’s CFO of the Year award for 2010. Devine, 46, is a CA and CFO of Tim Hortons Inc., and Bird, 61, who holds an MBA and PhD, is executive vice-president, CFO and corporate development of Enbridge Inc.

Despite their different backgrounds and industries, the two executives were chosen the first-ever co-winners in the award’s eight-year history because they “demonstrated vision, innovation and leadership within their organizations and in their communities” at “a time when the challenges brought on by Canada’s economic turbulence have tested the mettle of CFOs all across this country,” says Michael Conway, CA, national president and CEO of award founder Financial Executives International Canada (FEI Canada).

Both companies demonstrated how they were able to continue growing and thriving, notwithstanding the recession. Peter Dey, chairman of Paradigm Capital Inc. and chair of the CFO of the Year selection committee, says, “The CFO would have had a very significant role to play in both companies to ensure that the companies were properly funded [and] had a strong capital base. And both were active in developing and implementing strategy.”

Devine and Bird were selected from a short list of 10 candidates drawn from submissions from the ranks of CFOs of publicly traded companies. CFO of the Year co-sponsors PricewaterhouseCoopers LLP and The Caldwell Partners International worked through the submissions to create the short list.

As the CFO of North America’s fourth-largest publicly traded restaurant chain based on market value, Devine got high marks from the nine-member judging panel for her hands-on involvement in raising same-store sales at Tim Hortons during the prior two years, a period dominated by the economic downturn. “I know that [Devine] was heavily involved in business decisions such as store design, food products,” says Dey.

What also stood out to the judging panel was her efforts last year to transform Tim Hortons from US public company status to being a Canadian public entity. “For Tim Hortons
the tax authorities and making sure from a legal standpoint [that everything was OK]. Then we had to get approval from shareholders.”

The high point of the 12-month repatriation effort that included a team of lawyers, tax professionals and accountants came last fall when Devine hosted a visit from Prime Minister Stephen Harper and Finance Minister Jim Flaherty to celebrate the company’s corporate homecoming. “It was great having them here; it created quite a stir at the company,” she says.

Devine joined Tim Hortons in 2003 after having been senior vice-president of finance at Maple Leaf Consumer Foods and CFO of Pepsi-Cola Canada Ltd. She is also a director of ING Direct Canada.

Enbridge’s Bird attributes his recognition as CFO of the Year to the company’s “successful navigation of the global financial crisis, which commenced in mid-2007, peaked in late 2008 and continued through much of 2009,” he says. The Calgary-based energy company was in the midst of the largest capital program in its history — a total of $12 billion — as the capital markets collapsed and bank credit became scarce. “Despite the financial crisis, Enbridge’s corporate finance and development team managed to fund all our capital commitments on very favourable terms,” Bird says, “enabling the company to achieve record earnings growth of 25% in 2009, and establishing a strong foundation for further growth.”

Financial highlights for Enbridge over the past two years include maintaining more than $8 billion of bank credit facilities for the company’s capital program and the successful sale of its two international pipeline interests in Spain and Colombia, which provided almost $2 billion of capital for reinvestment. As well, Enbridge created a hedging program to protect it from potential future volatility in interest rates and from swings in the US-Canadian dollar foreign exchange rate. “Nearly half our earnings are in US dollars, so a significant depreciation in the US dollar versus the Canadian dollar would detract from our growth in earnings,” says Bird. “Consequently, we hedged 80% of our forward US earnings through 2013 at an average rate of $1.22, versus the current rate, which is approaching par. For similar reasons, because of our large asset base and associated financing requirements, we locked in the underlying benchmark rates on 100% of our floating rate debt and anticipated term debt issuance, through 2013.”

Bird, who credits what he calls his all-star team of financial professionals for his recognition this year, also points to his inclusion in Flaherty’s advisory committee on finance and involvement in a number of community and social initiatives...
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such as the United Way of Calgary, the Calgary Drop-In and Rehab Centre and the Angkor Hospital for Children in Cambodia.

Dey says the judges were impressed by Enbridge's superior financial performance versus its competitors' and its growth. “This is a company that has diversified into other geographic regions, Quebec, New Brunswick, the US, and it has been active making acquisitions during the recession,” he says. “I think there was both a financial and strategic component.”

Bird joined Enbridge in 1995 and previously worked as vice-president and treasurer, senior vice-president of planning and development, and executive vice-president of Enbridge's Liquids Pipelines division. He serves as a director of Enbridge Income Fund, Enbridge Pipelines Inc., Enbridge Gas Distribution, Noverco Inc. and Bird Construction Income Fund.

Canada's CFO of the Year Award is presented annually by FEI Canada, PwC and The Caldwell Partners International and cosponsored by the CICA. The award was created to recognize and honour the quality, insight, direction and leadership of Canada's senior financial executives.


Chartered accountants are well represented in the ranks of winners, notes FEI Canada's Conway, a former vice-president and chief accountant of Royal Bank of Canada and vice-president and controller of BCE Inc. Interestingly, three of the last four winners of the award are CAs.

“These two professionals are leading examples of how CFOs help drive business profitability and position their company for the next stage of success,” says Gino Scapillati, national managing partner of PwC. “This year’s winners come from differing industries and backgrounds and are equally deserving of this distinction to recognize the outstanding achievements they are making as champions of their business.”

Ron Charles, managing partner, The Caldwell Partners International, says, “The role of a CFO goes far beyond balancing the books of their business. It takes superior strategic leadership, financial management and corporate development skills, a commitment to good governance and a passion for making a positive impact on their industry. This award recognizes individuals who possess all these characteristics and sheds light on the instrumental role CFOs play in Canadian business.”

Bird and Devine were honored at a gala dinner May 6, 2010 in Toronto.

Paul Brent is a Toronto-based freelance journalist.

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From blogs to Twitter to Facebook, companies and firms are leveraging the power of social networking as a business tool

Fergie Devins’ fingers were flying over his keyboard at the Toronto office of Molson Coors. His brows were knit and his eyes were scanning, up and down, back and forth. He was obviously looking for something. “Ah, there it is. November 10, 2007,” the 51-year-old chief public affairs officer said with a smile.

As it turns out, November 10 was the day Devins took Molson Coors onto Twitter, the social media microblog that has exploded in popularity in Canada over the past year. And the company has been successfully tweeting ever since.

In November 2008, only about 200,000 people, including a handful of companies such as Molson, were using the service...
introduced in September 2006 by Jack Dorsey, Evan Williams and Biz Stone. A year later, 3.2 million unique visitors in Canada had accessed the Twitter site, increasing traffic by 1,337%, according to the latest data from ComScore MediaMetrix Canada, the barometer of the country’s Internet industry. Unique visitors are users who visit a site at least once a month. Microbloggers include business users from accounting firms such as Deloitte, Grant Thornton, KPMG and PricewaterhouseCoopers as well as organizations such as CCM, Telus, Workopolis and Cirque du Soleil.

A digital tidal wave
No organization can entirely escape the tsunami of social media. A study released last December by the head office of Forrester Consulting in Cambridge, Mass., notes that Canadians are the most active social networkers in the industrialized world. And ComScore MediaMetrix Canada reports that by November 2009, 79.6% of Canada’s 24.6 million web surfers had conversed on sites such as Twitter, Facebook or LinkedIn.

Sophie Beauchemin has taken note. As executive director and social media expert with IBM Canada in Montreal, she’s naturally connected. “Employees today want to work from anywhere, anytime, via any system,” she says.

The leader on the crest of the wave is Facebook (see “The pillars of social media” below and “Facebook is not just for kids” on p. 27). Though only six years old, the site currently monopolizes the social media sphere. It attracts more than 350 million unique visitors each month in North America, including 19.4 million in Canada. In December, for the first time in the short history of the web, it even toppled Google as the most popular site in the US.

It’s interesting to note that Facebook’s strongest audience growth last year was among adults aged 35 to 49. Forrester Consulting classifies visitors under six personality types: creators, critics, collectors, joiners, spectators and inactives.

The pioneers
Molson Coors has long understood that social networking leads the way to a potential gold mine of information. For nearly two years, Devins and his three co-workers on the company’s Social Media Influence Team have been closely monitoring what is

THE PILLARS OF SOCIAL MEDIA

At the moment there are more than 300 social sites on the web. Competition has intensified to the point where popular pioneering sites such Friendster and MySpace have been supplanted by Facebook.

Below are some of the more popular and business-oriented sites as well as others that are worth a tour. The figures in brackets indicate the growth or decline in unique visitors over the past year, according to the most recent data from ComScore MediaMetrix Canada.

**THE LEADERS**

**Facebook (+10%)** Although the site’s growth has tapered off, it remains an uncontested leader among social networking sites, with approximately 19.4 million unique visitors — 30 times more than Friendster, which was the niche superstar just five years ago.

**YouTube (+8%)** In 2006, Google paid more than US$1.6 billion for the video site, hoping to make it as profitable as its search engine. Although the site is still popular, profits remain sluggish.

**Twitter (+1,337%)** Twitter is the “it” social network right now. Disasters such as the earthquake in Haiti have shown how effective this type of network can be.

**LinkedIn (+273%)** Originally created in 2002 to encourage professional networking, LinkedIn is beginning to steal ground from job sites, as shown by the increasing numbers of posts in its job directory. The recession might have had a hand in boosting site traffic because LinkedIn has become the go-to place for people who have lost their jobs or are looking for new challenges.

**Classmates (-44%)** This site, used for locating former classmates from high school, college or university, was a pioneer when it went online in 1995. However, it is now far less popular in Canada, where the number of unique visitors has plummeted by nearly 50% in the past year.

**WORTH CHECKING OUT**

**DeviantART (+42%)** Launched in 2000 the day after the tech bubble burst, this site is mainly for artists and their fans. Visitors mainly download photos and illustrations. They can also buy DeviantWEAR such as T-shirts.

**Digg (+41%)** This site has been fully exploiting the potential of Web 2.0 since 2004. Users provide news and all surfers are invited to vote for the most interesting articles. It has become a media favourite.

**Ning (108%)** Created by Netscape founder Marc Andreessen, Ning combines the interactivity of social sites with the favourite activities and interests of web surfers. It offers a range of microsites focusing mainly on sports, the arts and finance. The site’s name means “peace” in Chinese. — GL
being said about the brewery on the web. And the company even had a series of dispatches on YouTube from the February 2010 Olympics in Vancouver — a way of associating Molson with the spirit of the Olympics.

As Devins points out, it is conversation that is fuelling the spectacular growth of social media. And the blog remains one of the major launching pads into this interactive universe. Last year, Blogger and WordPress, the two main freeware tools for creating blogs, saw their audiences grow by 12% and 27%, respectively.

Although the trend is still in its infancy in Canada, more and more companies are using blogs. At KPMG Canada, for example, Toronto-based CEO and senior partner Bill Thomas has been the most connected user in his firm since he launched an in-house blog last year. And now it is the most popular social networking tool at the firm, says Margot Brown, director of knowledge services.

Drummond House Plans of Drummondville, Que., an architectural firm specializing in the residential market, has had a blog since 2006. And the company’s CEO, Yves Carignan, is one of its bloggers, along with four of his co-workers. “It happened by accident,” he says. “We did it because we wanted to optimize our presence on Google.”

Vancouver-based Vancity credit union also came out a winner with its blogging experiment in 2006. The initiative started with an ad campaign based on the message that you can change everything if you change your bank. One ad, for example, showed an image of a person in a boat looking at mountains in the distance. The tagline: “Amazing what changing your credit card can do.”

Given that Vancity prides itself on its environmental and community focus, it decided to take the idea of change one step further. Explains William Azaroff, Vancity’s director of web engagement and banking: “We thought, why not create a microsite where people can talk about changes within our society that are central to our values?” The site, www.changeeverything.ca, has since become a key way for Vancity to engage the community online.

At IBM, social media are seen mainly as tools for encouraging interaction among the company’s 350,000-plus employees worldwide. In-house creations include the Blue Pages, a directory comparable to the Yellow Pages or White Pages, where employees can look up co-workers and find out more about their interests and areas of expertise.

The multinational also banks on social media to enhance its visibility. It has more than 75,000 bloggers across all divisions worldwide. “Our employees are strongly encouraged to blog,” says Beauchemin.

There’s no prescribed approach for using social media. But experts agree on one thing: there’s no point in jumping on every tool or site that comes across your screen. “We still haven’t decided on the best way to embrace the trend because we know we will have to feed the beast when we launch a social network,” says Ève Laurier, vice-president, strategic relations, at RSM Richter Chamberland in Montreal. Mitch Joel, president of Twist Image, a Montreal company specializing in interactive communications, has a similar take. “The first thing you need to do is to determine the why, not the what,” says Joel, the author of Six Pixels of Separation.

Following an online survey of 5,886 Canadians conducted in the third quarter of 2009, Forrester Consulting drafted a marketing plan called POST (people, objectives, strategy and technology). The

### Top 10 social networking sites in Canada

<table>
<thead>
<tr>
<th>Rank</th>
<th>Site</th>
<th>Unique visitors</th>
<th>% Reach</th>
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<tr>
<td>1</td>
<td>Facebook</td>
<td>19,373,000</td>
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<td>2</td>
<td>YouTube</td>
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<td>MySpace</td>
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<tr>
<td>7</td>
<td>Twitter</td>
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<td>8</td>
<td>LinkedIn</td>
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<td>9</td>
<td>DeviantART</td>
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<td>Thefreedictionary</td>
<td>1,745,000</td>
<td>7.1%</td>
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Source: ComScore MediaMetrix Canada (November 2009)
Although social networking is the marketing **flavour of the month**, companies have not yet assigned many resources to the area.

The idea was to help companies take advantage of business opportunities in social networking environments. As Forrester senior analyst Nate Elliott points out in his report on the survey, Canadians would rather comment on content than create it. (Elliott is the author of *Canadian Social Technographics Revealed — How Marketers Can Leverage Canadians' Love of Social Technologies*.)

Molson Coors tried twice before it got http://blog.molson.com up and running the way it wanted. “At first, we were trying to tell our story, but we weren't telling it in conversation form,” says Devins. “Our posts looked more like newspaper articles. It’s crucial to have conversations on social networks.” Now the Molson blog provides links to its latest Tweets as well as posts on everything from mentoring programs to contests.

**Danger ahead?**

Many companies think twice before getting into blogging, for fear their employees or others will post something controversial that could damage the organization’s reputation or trigger an avalanche of complaints. “Nine times out of 10, when you intervene in a negative circumstance, you manage to turn it into a positive outcome,” Devins says.

Like all IBM employees, bloggers must agree to adhere to the company’s code of conduct. Special guidelines also apply to social media, which IBM declined to disclose.

Vancity has good reason to be concerned about fault-finding bloggers. Because its site encourages change, particularly within the local community, advocacy groups and militants can sometimes post controversial comments to promote their cause. “Obviously, you have to be prepared for the worst-case scenarios,” Azaroff says. “We've put measures in place on the site, but I always say, 'Be a concierge, not a security guard.’”

Joel doesn’t see what all the fuss is about. To prove his point, he mentions Texas-based Bazaarvoice (www.bazaarvoice.com), which analyzed about 10 billion reviews of different sites. “You

### THE 10 COMMANDMENTS OF SOCIAL MEDIA

Programmer and web/graphic designer Robb Clarke recently listed the 10 commandments of social media on his blog at www.robbclarke.com. Here is a summary.

1. **Thou shalt not be a narcissist**
   Social media are platforms that encourage conversations with others within a community. If you’re only spouting posts and tweets about yourself, others will soon lose interest.

2. **Thou shalt listen to what others are saying**
   There are many tools on the market that will help you listen to and engage in conversations. TweetDeck, which allows you to monitor your Twitter and Facebook accounts, is one example.

3. **Thou shalt not spam**
   Don’t send your friends and followers useless links and chain letters. Be courteous and think about whether they really want to read what you’ve written.

4. **Thou shalt say something of substance**
   How many times have you gone online only to find a friend blabbering on about his or her latest restaurant experience? Is this really useful?

5. **Thou shalt not abuse thy neighbour**
   Nobody likes to be verbally assaulted — either online or in public — so abstain from inappropriate or insulting remarks in your posts even if you don’t agree with what has been written.

6. **Thou shalt give credit where credit is due**
   The web is fertile ground for plagiarism. Don’t post a photo or a quotation without acknowledging its source.

7. **Thou shalt learn to spell**
   It is hard to be taken seriously if what you are saying is full of spelling or grammatical errors. Use the spell checker on your computer or a similar online tool.

8. **Thou shalt use real words**
   Even though Twitter has a limit of only 140 characters, try not to use acronyms (OMG, LOL, etc.) that don’t really help anyone understand your post.

9. **Thou shalt not bear false witness**
   There are several tools (TinyURL, Cli.gs, etc.) that can help you shorten URLs and are ideal for Twitter. However, the downside is that some of these links lead to undesirable sites (spam, porn, etc.). If you think there’s a risk, warn your friends.

10. **Thou shalt not be a friend whore**
    Social networking isn’t a popularity contest. Just because you have 100 or so friends or followers doesn’t mean you are a better person or a more credible source.
know what the average rating was out of five? It was 4.3,” he says. “Those who are afraid can say whatever they want — there’s nothing that can stop someone from launching an online rating system for accountants. So you’d better be on these networks to know what’s being said about you.”

“There’s always been talk about corporate brands,” Devins says. “It’s just that now, we can view these discussions online. They’re like a ringing telephone. You can either let it ring or you can answer it.”

Sometimes it can be dangerous not to answer. Take United Airlines’ experience with Halifax band Sons of Maxwell. After one of the band’s guitars was damaged on a United flight in March 2008, it sought revenge online by posting the first of a series of three songs entitled United Breaks Guitars. The song was an overnight hit on the web. As of March, the song had garnered more than 8.2 million YouTube hits and reached 100 million people through traditional media such as TV, radio and print. The song also drew about 24,000 comments, most of them critical of the airline. As the band’s Dave Carroll says, “It was one of the first times, if not the first time, that a song/video went viral on the Internet while at the same time becoming a worldwide mainstream media news story.” In September 2009, two months after the song went viral, United apologized. It has since described the situation as a unique learning experience.

Even though social networking is the marketing flavour of the month, companies have not yet assigned many resources to the area. “We have just one employee who is responsible for keeping up on developments in social media,” says Laurier. Similarly, Drummond House Plans employs two full-time people for the job, and Molson’s Influence of Social Media Team has only four members. And although Vancity has a web team that handles the credit union’s website and Intranet, it has just one part-time employee who is in charge of social media as well as www.changeeverything.ca. “You’ll burn out if you try to be everywhere at once,” says Azaroff. “That’s why we’re not on Twitter yet. We’ve got limited resources and we don’t want to spread ourselves too thin.”

There are many similarities between social networks and Facebook is not just for kids

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<th>Canadian user demographics</th>
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<td>Age 18 to 34</td>
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The site attracts men and women in equal numbers

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Source: ComScore MediaMetrix Canada (November 2009)
the early days of the Internet in business. Both saw phenomenal growth at the outset, and organizations were happy to let their techies handle the trends. Few senior executives paid much attention; in fact, they were highly skeptical about the return on investment.

Return on influence or ROI

At the moment, there is no generally accepted method for measuring the return on investment — or what David Alston calls “return on influence” — of social media. Alston is marketing vice-president at Radian6, a Fredericton-based manufacturer of listening platforms for social networks that serves major clients such as Dell, GE, Kodak, Comcast and Microsoft. Nevertheless, IBM says chat tools and webinars allowed it to save an estimated $97 million in travel expenses in 2008. “We are able to measure the impact,” says Beauchemin.

Similarly, Katheline Jean-Pierre, blogger and senior manager, online marketing, with Deloitte Canada, pointed out last November at a luncheon in Montreal for marketing and communication professionals that the firm had seen a 342% increase in visibility via press articles and a 64% rise in attendance at its private presentations, as well as a 12,000% increase in organic traffic via Google.

Carignan is happy with the effort he has put into Drummond House Plans’ social networking presence. According to in-house statistics, the company’s blog has raised traffic on the site by 13%. But Carignan’s biggest source of pride is the fact that the blog has boosted online sales by 25% in two years — in a shrinking market. “If the content on your blog is truthful and authentic, people tend to like it,” he says.

Meanwhile, Vancity’s microsite boasts 5,000 signups and about 7,500 unique visitors each month. While these statistics are no match for Facebook’s, the company is still satisfied. “We didn’t launch the site to get a return on our investment,” says Azaroff. “We use it mainly to gain leverage with community organizations.”

Devisn, for his part, enjoys doing the math of social networking. He likes to think in terms of viral marketing — a way of getting free marketing and advertising by letting users spread the word.

Social networks have a viral impact, Devisn says, that’s comparable to word of mouth in the digital world. “My Twitter account now has close to 5,000 followers,” he says. “According to Twinfluence, a tool that measures viral impact, these followers reach 12 million people one way or another. If each of those people drinks an average of five beers a week, you can see why we’re interested.”

Absolutely.

Gilles Lajoie is a Montreal-based consultant in strategy, business and content development on the web. He founded www.lapresseaffaires.com, a French-language financial news site.

For a hyperlinked version of this article, please visit www.camagazine.com/socialmedia.
With ASPE, most of the practices and policies used by private enterprises won’t change. There will be differences in key areas though.

What’s Changed?

by Allan Foerster + Mark Walsh

AFTER A PROCESS THAT BEGAN IN 2006 WITH THE RECOGNITION that one size does not necessarily fit all, the Accounting Standards Board (AcSB) issued accounting standards for private enterprises (ASPE) in December 2009. They can be found in Part II of the CICA Handbook — Accounting.

What do these new standards mean for private enterprises and their professional advisers? What are the key changes? When do they have to be applied?

The new standards are designed to take into account both costs to preparers and benefits to users of the financial statements. In most cases it will be obvious if an enterprise is private or not, but those that are unclear should refer to the definitions in the preface to the Handbook.

Illustration by GARY SAWYER
What's changed?
Most private enterprises will use ASPE, but they can choose IFRS instead.

ASPE comes into effect for years beginning on or after January 1, 2011 — after that date the existing Handbook standards (now found in Part V of the Handbook) will no longer be Canadian GAAP for either publicly accountable enterprises or private enterprises. Private enterprises can adopt ASPE prior to 2011. In deciding whether to early adopt, a private enterprise should consider factors such as the benefits of the accounting simplifications and reductions in disclosures discussed below and the amount of change required to accounting processes and systems.

Why adopt IFRS?
Most private enterprises will find ASPE less onerous than IFRS. Circumstances that may make adopting IFRS attractive include:
- plans to do an IPO, which will require IFRS reporting
- potential debt or equity financing from foreign sources that do business using IFRS
- main competitors are public enterprises and using IFRS will facilitate comparisons
- parent company uses IFRS
- lenders and other users require use of IFRS

Eight key differences from existing standards
ASPE was developed from the existing Canadian accounting standards. This means that most of the accounting policies and practices used by private enterprises will not change. The changes are focused on those areas that have caused the most difficulties for private enterprises. This should make learning about, understanding and adopting ASPE much easier than, for instance, IFRS.

What are the changes?
Disclosures
The disclosure requirements in the existing Handbook are often seen as focusing on the needs of investors in public companies, and as excessive and costly for private enterprises. In developing the disclosures in ASPE, key considerations were the needs of users of private enterprise financial statements (primarily lenders) and the effort and cost involved for preparers. The result was the elimination or simplification of a considerable number of disclosure requirements. One significant disclosure has been added: the disclosure of the amount payable at the end of the period in respect of government remittances, other than income taxes. Lenders see this as important information as these amounts usually have priority status in a bankruptcy. A new feature of ASPE is the provision of a compilation of disclosures that brings them together in one place. This is not intended as a checklist of disclosures. Indeed, the compilation notes that, in some circumstances, additional disclosures might be required for fair presentation. It also notes that disclosure of information that is not material to the financial statements is not required.

The amount of reduction in disclosures will vary from company to company depending on the type of transactions and the complexity of the business. Overall, the reduction in disclosures resulting from focusing on the needs of private enterprises is expected to be significant.

EIC abstracts
Over the years the Emerging Issues Committee (EIC) abstracts have grown to be a substantial part of Canadian GAAP. Some viewed them as helpful while others disagreed with one or more abstracts or found them burdensome.

ASPE does not include the EIC abstracts. However, some material from 29 of the abstracts has been incorporated into the relevant standards so as to improve the guidance in those standards. One of these abstracts is EIC-122, which addresses the balance sheet classification of callable debt and debt obligations expected to be refinanced. The requirements of EIC-122 have been included in Section 1510, Current Assets and Current Liabilities, together with an example of a presentation format that clarifies the nature of callable debt classified as a current liability.

The result of not including the EIC abstracts is that ASPE is, in some areas, less prescriptive than the current standards. However, guidance in the abstracts that has not been carried forward, while not required to be applied, will generally remain an appropriate accounting choice for private enterprises. This may not be true when changes have been made to a section of the Handbook that affects the issue addressed in the abstract.

Financial instruments
Many private enterprises have been using the XFI Handbook, which contains relatively little guidance on financial instruments. Other private enterprises have adopted the financial instruments standards in the current Handbook. ASPE has consolidated all the financial instruments requirements into a single standard — Section 3856, Financial Instruments. The impact of this new standard will vary depending on whether or not the XFI Handbook has been used in the past.

Some key elements of the financial instruments standards are:
- Most financial instruments may be measured at historical cost. Any premium or discount is amortized over the expected life of the item and recognized in net income as interest income or expense. The method of amortization is not specified. Only equity instruments traded in an active market and freestanding derivatives must be measured at fair value. (Derivatives that are part of a hedging relationship and certain other derivatives may be measured at cost.) However, a private enterprise can choose to measure one or more of its other financial instruments at fair value if it so wishes. This choice must be made when the financial

Why ASPE and not IFRS for SMEs?
- IFRS for SMEs is based on IFRS. Adopting it would involve many more differences, resulting in significantly higher training and conversion costs than ASPE
- IFRS for SMEs does not permit use of a number of differential reporting options such as taxes payable, cost method for subsidiaries and equity classification of redeemable preferred shares issued as part of a tax-planning strategy
The accounting for defined benefit plans can be burdensome due to the need for a separate accounting valuation and the mechanics of defer and amortization accounting.

Employee future benefits
The accounting for defined benefit plans can be burdensome because of the requirement for a separate accounting valuation and because of the mechanics of defer and amortize accounting. Traditionally, few private enterprises have had such plans, but in recent years there has been a significant growth in individual pension plans.

ASPE permits a private enterprise to use the regulatory funding valuation for accounting purposes, avoiding the cost of a separate valuation for accounting purposes. Selecting this alternative will also require that all gains and losses are recognized immediately in income. Gains and losses may result from changes in the value of the plan assets or from changes in actuarial assumptions. Immediate recognition of gains and losses may introduce some volatility into earnings. The existing accounting in Section 3461, Employee Future Benefits, may also continue to be used.

Intangible assets
Existing standards require the costs of internally generated intangible assets to be expensed during the research phase and capitalized during the development phase. The standards provide criteria for determining which phase a project is in, but applying these criteria is not always a simple task. ASPE permits a private enterprise to choose to capitalize development expenditures or to expense them. The same choice must be applied to all internally generated intangible assets.

Asset-retirement obligations
ASPE retains the same requirements for recording an asset-retirement obligation as those in the current Handbook, except that the measurement has been simplified. Instead of requiring the obligation to be measured at fair value, ASPE requires it to be measured at the best estimate of the expenditure required to settle the current obligation at the balance sheet date. This change avoids some of the complications involved in a fair-value measurement.

Stock-based compensation
The measurement of stock-based compensation requires the use of sophisticated option valuation models, such as Black-Scholes. These are readily available on the Internet. A key element of the valuation is the expected volatility of the stock price. The current Handbook permits a private enterprise to exclude volatility for practical reasons. However, this is equivalent to setting volatility equal to zero — an impossible value that results in signifi-
Differential reporting options for PEs have been carried forward into ASPE. A major difference is that they have to be agreed to in writing by all enterprise owners.

Exemptions from retrospective adoption
- Business combinations
- Property, plant and equipment
- Employee future benefits
- Cumulative translation account
- Financial instruments (designation at fair value; bifurcation of a compound instrument)
- Share-based payments
- Asset-retirement obligations
- Related-party transactions

Exceptions to retrospective adoption
- Derecognition of financial instruments
- Hedge accounting
- Estimates
- Noncontrolling interests

Transition to ASPE
ASPE must be adopted for years beginning on or after January 1, 2011 and may be adopted earlier.

ASPE must be adopted on a retrospective basis. Assume a private enterprise adopts ASPE for the calendar year 2011. Its 2011 financial statements will include comparative 2010 financial information as well as an opening balance sheet as at January 1, 2010, all prepared in accordance with ASPE. The notes to the 2011 financial statements will include a reconciliation of the 2010 earnings prepared using ASPE to the earnings in the 2010 financial statements. Also included will be an explanation of the changes between the January 1, 2010 balance sheet prepared using the enterprise’s previous accounting policies (i.e., the December 31, 2009 balance sheet from the 2009 financial statements) and the January 1, 2010 balance sheet restated in accordance with ASPE.

Many private enterprises that currently prepare Canadian GAAP financial statements will have relatively few adjustments to make in order to comply with ASPE. However, enterprises that

Differential options
The current Handbook provides certain differential reporting options for private enterprises. As noted below, these have been carried forward into ASPE. A major difference is that differential reporting options had to be agreed to in writing by all owners of the enterprise. Under ASPE, these are accounting policy choices made by management and disclosed in the notes to the financial statements.

a) Income taxes — either the taxes payable method or the future income taxes method of accounting may be used. If the taxes payable method is used, a reconciliation of actual taxes to taxes that would result from application of the statutory rate is required consistent with the existing differential reporting option. An example format for that reconciliation has been provided.

b) Interests in other entities — a private enterprise may consolidate a subsidiary, equity account for it or account for it at cost. If the enterprise has significant influence over an investee, it may equity account for it or account for it at cost. An interest in a joint venture may be proportionally consolidated, equity accounted or accounted for at cost. One difference from the current Handbook is that if the investee is traded in an active market then it may be accounted for at fair value but cannot be accounted for at cost.

c) Intangible assets not subject to amortization and goodwill — an impairment test is only required when events or changes in circumstances indicate that the carrying amount may exceed fair value, rather than every year. In addition, the process to measure goodwill impairment has been simplified compared to the current Handbook.

d) Tax-planning arrangements — redeemable preferred shares issued as part of a tax-planning strategy are recognized in equity. The existing differential reporting option permits a choice between equity and debt, although equity classification has been commonly used.

e) Share capital — disclosures about authorized share capital are not required.

f) Disclosure of fair value — this is not required for financial instruments that are not measured at fair value.

Significantly undervaluing stock-based compensation. ASPE replaces this with the ability to use an industry index for volatility. The Appendix to Section 3870, Stock-Based Compensation and Other Stock-Based Payments, provides guidance on how to identify an appropriate index. This will result in recognizing the cost of the services rendered while being cost effective for a private enterprise to calculate.
have not prepared Canadian GAAP financial statements due to the cost and effort may now consider doing so and may face greater changes. Some may find it difficult to apply ASPE retrospectively because, for example, certain historical information may not be available or many complex computations may be required. Section 1500, First-Time Adoption, provides several optional exemptions from applying ASPE on a retrospective basis. It is important to realize that all private enterprises adopting ASPE may take advantage of these exemptions. For example, a private enterprise may elect to measure an item of property, plant and equipment at its fair value at the date of transition. This provides a one-time opportunity to revalue one or more fixed assets. However, one consequence would be increased depreciation charges in future years if this is a depreciable asset. Another example is the option to recognize any unrecognized actuarial gains or losses related to a defined benefit plan in retained earnings at the date of transition. Section 1500 also identifies items for which retrospective application is not permitted. Private enterprises intending to adopt ASPE should carefully review Section 1500 so as to understand the first-time adoption requirements and the one-time options available.

The future of ASPE
ASPE will not be fixed in its current form forever. Changes will be made to address new circumstances and keep ASPE current. To make sure that changes are focused on the requirements of private enterprises and the users of their financial statements, the AcSB has established the Private Enterprises Advisory Committee (PEAC) composed of preparers, professional advisers and financial statement users from the private enterprise sector. Information on PEAC meetings is available on the AcSB website www.acsb-canada.org. PEAC welcomes input on potential changes to ASPE.

What should a private enterprise do?
The first decision that should be made is, should it be IFRS or ASPE? For most private enterprises the answer will be ASPE. It includes a number of accounting policy choices, both for the transition to ASPE and on an ongoing basis. How to select between these? One approach is to determine which choices best meet the needs of the users of the enterprise’s financial statements. This might involve discussion with the key users. Other considerations include the relative work effort and cost of the different options as well as the impact on the income statement, balance sheet, financial ratios and other financial statement-based metrics. The best answer may be a balance between these — which comes back to the principle of cost/benefit that was used in developing ASPE.

This article represents the authors’ views and not necessarily those of the AcSB.

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Harmonization challenges

As some provinces get ready to introduce harmonization, businesses anxiously await clarifying legislation

With Ontario and British Columbia harmonizing their sales taxes with the federal goods and services tax, businesses are anxiously awaiting the release of the federal legislation to provide much-needed clarity to make their requisite changes to systems and business processes. While bulletins and information notices issued by the Department of Finance, Canada Revenue Agency, BC and Ontario provide some comfort to taxpayers, the uncertainty created by the absence of detailed legislation means many organizations are reluctant to make significant investments in preparation until legislation is available and passed into law. Other businesses had already taken steps to change their information systems based on the existing harmonized sales tax (HST) place of supply rules when sweeping changes were announced on February 25, 2010. The changes to the rules are dramatic and significantly alter the existing rules that have been in place for almost 13 years. While the proposed rules provide more clarity, uncertainty remains because these proposed changes are not yet law and further amendments are not out of the question. This article addresses some of the changes to the proposed place of supply rules, specifically as they relate to the supply of services.

Place of supply rules are used to determine whether, and at what rate, suppliers must charge sales tax on their supplies of property and services. The original place of supply rules vary depending on the type of supply, e.g., tangible personal property, services or intangible personal property (IPP). In the case of sales of tangible personal property, the applicable tax rate depends on where goods are delivered or made available — and if you arrange the freight for those goods to be shipped to another province, the tax rate of the destination province applies — even if legal title of the goods passes where the goods leave a shipping dock in the supplying province.
The prior rules in respect of services and IPP were more complex and largely based on where the services were performed or where the IPP could be used. Most services (with specific rules for transportation services, postage and telecommunication services) are considered to be made in a province (and therefore subject to the GST/HST rate in that province) if 90% of the service is performed in that province. If that condition is not met, one must consider whether 10% of the service is performed in a province and the contract for the supply is negotiated in that province, or failing that, whether at least 50% of the service is performed in that province and the contract is negotiated outside Canada.

These cumbersome rules placed considerable reliance on the jurisdiction in which the services were performed with no need to consider the location of the recipient of the supply. Where services were performed exclusively (or more than 90%) in a single jurisdiction, the rules were relatively straightforward to administer. However, where services were performed in multiple jurisdictions, the place of supply largely rested on where the contract for the supply was negotiated. As a result of these rules, suppliers faced challenges when determining the applicable tax rates, and recipients in non-harmonized provinces often paid HST on services acquired from suppliers in the harmonized provinces. Existing rebate provisions provide some relief to recipients of non-harmonized provinces in respect of the provincial component of the HST paid on services to the extent those services are consumed outside the harmonized province. However, the rebate provisions were not well known and could be difficult to administer, with the result that the recoverable provincial component of HST paid by recipients in non-harmonized provinces was often not recovered.

To address some concerns resulting from the different GST/HST rates (12% in BC, 13% in Ontario, New Brunswick and Newfoundland and Labrador, and 5% in the remaining provinces and territories. Nova Scotia has announced a 2% increase, to 15%, as of July 1) and the obligation of suppliers to collect the appropriate amount of tax, the general proposed place of supply rules focus on where the recipient of the service is located rather than where the service is performed. It should be noted that while these general proposed rules apply to most services, the current specific place of supply rules for specific services including transportation, postage and telecommunications are being maintained, and a host of additional specific services will, as noted below, have specific place of supply rules.

The new rules propose that the applicable sales tax rate depends on the province in which the address of the recipient of the supply is situated for the supply has not become due and has not been paid before May 1, 2010.

The proposals also include changes to the rules relating to self-assessment requirements and rebates of the provincial component of the HST on property and services brought into or removed from a harmonized province. The proposed place of supply rules that use the address of the recipient to determine the applicable tax rate will be easier for some businesses to administer. They also create unexpected situations where a service is performed, for example, entirely in Ontario (where the HST rate will be 13%), but because the client has a BC head office mailing address, the 12% BC HST rate will apply. While suppliers generally welcome the clarity and simplification, many are concerned that significant changes continue to be proposed at such a late date and the actual legislation has not yet been implemented. Significant amendments that relate specifically to the financial-services sector (a sector heavily impacted by HST) are still expected. Early release of legislation will notably lessen taxpayers’ concerns and provide the much-needed certainty that will allow taxpayers to finalize their critical business process and systems changes required to accommodate sales tax harmonization and the new place of supply rules.

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

Why government organizations should become familiar with the introduction to the PSA Handbook

All government organizations fall within the scope of the CICA Public Sector Accounting (PSA) Handbook, standards that are set by the Public Sector Accounting Board (PSAB). Recent amendments to the Introduction to Public Sector Accounting Standards may have changed the source of generally accepted accounting principles (GAAP) government organizations are now required to follow.

Understanding the introduction is important because many government organizations follow existing commercial GAAP in the CICA Handbook — Accounting (now Part V of the Handbook). They may be unaware that they are within the scope of the PSA Handbook and how the recent changes to its introduction may affect them.

While commercial GAAP is the appropriate basis of accounting for some government organizations, all such organizations should take time to review the direction and requirements in the introduction. While it is only a few pages in length, the introduction contains an abundance of valuable information for government organizations.

Acting as the gatekeeper to the PSA Handbook, the introduction indicates what types of government organizations are required to follow the PSA Handbook. It also provides direction as to the source of GAAP to be used by those organizations where the PSA Handbook is not appropriate.

The introduction makes these distinctions by requiring government organizations be categorized as either government business enterprises (GBE) (e.g., Hydro-Québec), government not-for-profit organizations (GNFPO) (e.g., Ontario Arts Council) or other government organizations (OGO) (e.g., CBC). Government organizations cover a variety of operations and putting these organizations in categories allows those that are similar to use the most appropriate basis of GAAP.

Definitions are provided in the introduction for GBEs and GNFPOs, but OGOs are not defined. The term is used as a catch all for remaining government organizations that do not meet the GBE and GNFPO definitions.

GBEs are directed to follow the standards that apply to publicly accountable enterprises in the CICA Handbook — Accounting (this will become international financial reporting standards for the fiscal period beginning on or after January 1, 2011).

GNFPOs are directed to follow standards for not-for-profit organizations in the CICA Handbook — Accounting. The basis of accounting for GNFPOs is however currently under review. PSAB has issued an exposure draft entitled Financial Reporting by Government Not-for-Profit Organizations, which proposes, subject to comments received, to incorporate into the PSA Handbook Sections 4400 to 4470 from the CICA Handbook — Accounting. The exposure draft also proposes to direct GNFPOs to the standards for not-for-profit organizations in the PSA Handbook commencing for fiscal periods beginning on or after January 1, 2012. These changes, subject to approval, would be reflected in the introduction along with transitional information regarding for example the method of accounting for the transition to the PSA Handbook. Stay tuned for more on the outcome of this review.

OGOs generally follow the PSA Handbook given the nature of their operations but may determine the standards that apply to publicly accountable enterprises in the CICA Handbook — Accounting are more appropriate.
for them, considering the needs of users of its general purpose financial statements. Factors OGOs should consider when determining their most appropriate basis of GAAP are provided within the introduction. These factors include whether the OGO:

• has issued or will be issuing debt or equity instruments that are or will be outstanding and traded in a public market;
• holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses;
• has commercial-type operations and substantially derives its revenue from these activities; and
• receives limited government assistance on an ongoing basis.

While most OGOs are expected to follow the PSA Handbook, a yes to any of these factors may suggest the standards that apply to publicly accountable enterprises in the CICA Handbook — Accounting should be considered. The factors in the introduction are not a complete listing nor a set of definitive indicators. They are meant to be the type of factors an OGO should consider in its assessment of what financial reporting standards it should follow.

Guidance is also provided within the introduction for OGOs adopting the PSA Handbook for the first time. For example, the transition to the PSA Handbook should be accounted for by retroactive application with restatement of prior periods. PSAB is in the process of developing guidance on the first-time adoption of the PSA Handbook. Government organizations will be able to choose to adopt some aspects of certain standards in the PSA Handbook either prospectively or retroactively and be required to adopt certain other aspects only prospectively. Stay tuned for more on the outcome of this project.

After reading the introduction, all government organizations should consider the following questions on a regular basis:

• What type of government organization are we? Are we a GBE, GNFPo or OGO? Have we reviewed the definitions and do we continue to meet the same definition?
• What basis of GAAP is our type of government organization directed to follow?
• If we are an OGO, have we reviewed and updated our assessment of the most appropriate basis of GAAP?
• If we are not following the PSA Handbook, are there any additional requirements being imposed on us by PSAB?

While not all government organizations will be required to follow the PSA Handbook, all should be aware of the direction and requirements in the introduction and ensure they are applying the most appropriate basis of GAAP for their organization. The introduction is not a static document but is evolving and should be monitored on a regular basis. To learn more about government organizations in the public sector, please visit www.psab-ccsp.ca.

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Technical editor: Ron Salole, VP, Standards, CICA
Get ready, now

If you believe that the end of the world is nigh, then it is time to prepare a comprehensive risk management plan.

For thousands of years, people have been predicting disasters, each more catastrophic than the last. Without resorting to Hollywood-style dramatics, can we really say that major events disrupt business operations? And if so, can we guard against such contingencies? Any organization’s risk management plans should provide answers to those questions.

A matter of perspective
Whether you’re a police officer, a firefighter or a soldier, expecting the unexpected is part of the job. If citizens are going to depend on civil emergency preparedness, responders have to be effective. Unfortunately, we often learn about the need for prevention the hard way. It’s impossible to anticipate each and every situation that could endanger the population and jeopardize emergency services.

That being said, it would be inexcusable not to prepare an extensive emergency plan in advance. If the plan is well structured, it can always be adapted to similar situations. Being well prepared is the secret to the success of any emergency response. Even without statistics to back up this claim, improvised operations obviously have a much lower success rate than those that are planned in advance.

The trigger
My wakeup call came before I joined the Sûreté du Québec, after a magnitude 6.2 earthquake hit Quebec on November 25, 1988. Although the earthquake’s epicentre was Saguenay, the Quebec City region was also shaken up. The earthquake lasted 10 to 60 seconds, depending on the location. For me, it lasted an eternity because I didn’t know what to do to protect my family.

Since then, I’ve learned how the police force manages such an emergency and I have come up with a wide range of response scenarios.

Organizations that know their risks are aware of the threats and the opportunities that could emerge and can act with confidence in the face of adversity. In terms of your business, why wait for a rude awakening when a little forethought can ensure you are prepared and even provide business opportunities?

What could affect me?
Let’s say you’ve been in business for a while, have a risk management plan and have dealt with your computer risks. Or you have prepared an evacuation plan in case of fire. Or you have ensured that employees who handle hazardous materials have been trained in accident prevention. In addition to occupational health and safety and physical site protection, these are some of the most commonly covered risks. Standards have been established for such risks and specialized businesses can help you implement them.

But what about risks that could affect your business that are not included in routine risk management? For example, if your store specialized in glass items, you should
think about the impact of an earthquake. Or if your business was located near a river, remember that Florence, Italy, was submerged under almost five metres of muddy water in 1966.

Consider the possibility of prolonged power outages, floods, social unrest, vandalism or endless snowstorms. Events you read about that happen in other parts of the world can also happen here. What would you do to make sure your business survives?

Did you have a plan for last year’s H1N1 flu? What’s important is not that the epidemic was less serious than originally feared but our ability to react to the warning signs of a major threat. The outbreak turned out to be less serious than anticipated thanks to preventative action taken by public health organizations.

What can you do?
What can you do in the event of a disaster, a catastrophe, an act of God? Not much to prevent the event itself, but you can do a lot in terms of your reaction to it. Your goal is to ensure your business continues to operate by maintaining its management, resource supply and the delivery of products and services to customers or clients.

Be ready for anything to help your company make it through a troubling time. There might be nothing you can do, but knowing that you should do nothing will reassure you and your employees. By planning in advance how you should respond, you avoid making decisions in a crisis situation, which could result in useless or costly actions. And it is possible that these quick-fix solutions could have more serious repercussions for your business.

You need to be able to adapt to any situation. At the Sûreté du Québec, police operations are managed differently if a plane crashes at an airport or elsewhere. In both cases, its role is well defined so that the force can be as effective as possible.

Would you be able to protect your inventory if there was a catastrophe at your warehouse? Do you have a plan to assist your exclusive supplier if its warehouse is hit by a disaster? Have you organized an alternative if your transportation provider can not deliver your product to customers because of a strike? Like the Sûreté du Québec, you have to determine which actions are necessary to maintain services and limit costs. And that means thinking about it in advance. You will then be in a position to act, not simply react. In preparing an emergency plan, you will also know how far you can go and where to stop, a decision that’s usually difficult to make in the midst of a crisis.

Action
Killing a fly with a sledgehammer is effective. However, the difference between using a fly swatter or a sledgehammer is crucial when it comes to protecting your investments, your company’s reputation and your relations with your employees.

First, determine clear, simple and precise steps to take. Think of the levels of a military alert: green, yellow, orange and red. Your

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For more information contact the Institute of Chartered Accountants of Alberta at m.education@icaa.ab.ca or 1 800.232.9406
Plan management

Not only should you develop a disaster plan, but you also need to consider how to manage it. First, the plan should be regularly updated, depending on the amount of information that is likely to change. For example, if you need to lease machinery from various suppliers, the contact information you use at 3 a.m. on a Sunday had better be accurate or it’s useless.

Second, the people assigned to implement the disaster plan should know it, understand it and be able to access it at the critical moment. A plan saved on an office computer would be no use if the office were on fire. Nor would it be much help to make a copy on a USB key if the plan contains sensitive or confidential information. It’s up to you to make the call.

If there is a strong risk that something will happen to your business or you fear a disaster, it may be a good idea to carry out a simulation exercise, especially if reaction time is key to the plan.

Finally, one of the strengths of the Sûreté du Québec’s emergency measures plans is the quality of the debriefings held after a crisis. Learning from past experience helps to be better prepared. Obviously, nobody wants to have to experience a disaster firsthand simply to learn how to deal with it. However, there’s nothing stopping your team from analyzing situations other organizations have experienced and asking what you would have done.

**Why are you in business?**
You are no doubt familiar with a risk management approach that focuses on administrative factors. Even though the events looked at may be highly unlikely, they could have alarming consequences for your business. Hopefully this overview of emergency measures that could apply to the business community will encourage people to think about external factors. In addition to protecting your assets, risk management can also create business opportunities.

Defence can sometimes be the best offence. Being prepared will allow you to continue operating and ensure the survival of your business. If your competitors are affected by the same situation but lack an action plan, you will come out ahead. You can return to normal operations faster and can move to garner their market share. Rewards come to those who are prepared.

In addition, the care you put into your preparations can benefit your suppliers, clients and customers. The anticipated resources (storage, tools, backup operating facilities) and a list of suppliers and collaborators are valuable in an emergency. For example, if you decide to buy a generator and are not affected by the event but your supplier or client is, you can lease or lend the equipment, thereby strengthening your business relationship.

Finally, if you believe, as the Mayan calendar predicts, that the end of the world will be in 2012, I suggest you start preparing now.

Daniel Cauchy, MBA, is an inspector with the Sûreté du Québec and head of audit and access to information.
The five-year review

An insurance audit every five years, or more often, should be conducted to ensure a client’s affairs are up to date.

As every plan should be monitored and reassessed on a regular basis to ensure it remains relevant and conducive to achieving its objectives, so should your life insurance. Usually based on a financial or estate plan, once it is set up, rarely is it looked at and adjusted for changing facts, needs, wants or industry developments.

An individual’s life insurance portfolio should be audited on a periodic basis to determine if the:
- amount of coverage is appropriate based on current needs and wants;
- the type of coverage remains appropriate (e.g. temporary versus permanent coverage);
- the life or lives insured continues to be appropriate i.e., husband, wife, partner, parent, joint first-to-die and/or joint last-to-die;
- cost of the coverage is reasonable based on current market prices and client circumstances;
- cash value necessary for prefunding of future insurance costs is still sufficient given the last bear market;
- ownership is appropriate based on changing circumstances or corporate structure evolution; and
- beneficiary designations remain appropriate.

An insurance audit is an objective and thorough review of a client’s situation, taking into account his/her current state of affairs and objectives. Through the careful integration of structure and client needs, an audit leads to optimal efficiencies in the portfolio.

Appropriate amount

Life insurance is typically used to create capital that can be invested to replace earned income lost by the premature death of a spouse or parent. It can also be used to create liquid capital to pay income taxes triggered on death. Another popular use is to create an inheritance or to balance inheritances among children involved in

Taking stock

- Appropriate amount of coverage
- Appropriate type of coverage
- Cash value reviewed and projected
- Ownership reviewed for structure
- Beneficiary designations reviewed
- Appropriate life of lives are insured
- Appropriate cost for the coverage
a family business and those not involved. A fourth use is to fund a charitable bequest without diminishing the overall value of the estate and the rights of other beneficiaries. There are many more needs fulfilled by life insurance than those listed and that would be more specific to unique family issues and objectives.

An insurance audit reviews the client situation for current life insurance needs and compares this to the amount of coverage in the insurance portfolio.

In addition, life insurance fulfills an equally wide variety of wants. A want is different from a need in that some families do not need additional capital or liquidity, but they view life insurance as an alternative form of investment. They measure the premiums as an investment that produces a return. Generally speaking, life insurance produces a positive rate of return. In addition, life insurance creates several tax planning opportunities that can enhance the overall after-tax rate of return to the client.

**Appropriate type**

Reasons for purchasing life insurance coverage will vary — some may be temporary in nature while others are more permanent. Assessing the nature of the circumstances is a valuable guide when selecting the appropriate type of policy. Foresight is required as today’s temporary need (e.g. policy designed to re-pay mortgage upon first death) may be replaced by a future temporary need (e.g. desire to fund the children’s university costs upon death) or a newly determined permanent need. As such, permanent life insurance coverage may in fact be appropriate to fund today’s perceived temporary need.

An insurance audit reviews needs and explores the benefits of adjusting the insurance portfolio. It bears mentioning that some term policies can be converted into permanent policies and some permanent policies can be increased at the policyholder’s option without a medical assessment.

**Selection of insured person**

A life insurance policy can be designed to pay on a single life, on the last death of two or more individuals, or on the first death of two or more individuals. The needs and budget of the client dictate which type of coverage is appropriate. First-to-die life insurance would be appropriate where there is a need for capital or liquidity upon the death of one individual in a group. A married couple might consider such coverage to provide an inheritance to children upon the first death in a second marriage situation. Business partners might consider this type of coverage to fund a buy/sell upon the first death.

**Competitively priced and appropriate cost**

Cost — cost of premiums versus amount of coverage — is a critical consideration. Typically, term insurance is designed with renewal periods, and the cost escalates with each renewal. Why? Renewal premiums reflect that an individual’s health is unknown at the time of renewal and the insurance company does not have the opportunity to reunderwrite. A cost-conscious, healthy individual could apply for new coverage for lower premiums. However, new coverage requires a new application and new underwriting. If replacement of the coverage is warranted for economic reasons, the process would be to put the new coverage in place before cancelling the old plan so there is no gap in coverage.

Sometimes life insurance policies are issued with ratings on medical or other issues that may improve through time (i.e., smoker to nonsmoker status); these ratings should be reviewed with the objective of removal. While ratings for health or lifestyle concerns increase the price of coverage, at the opposite end of the spectrum is a preferred pricing model. The insurance industry offers enhanced pricing to those individuals that have a significantly more-than-average healthy lifestyle. Both rating removal and enhanced pricing may lower the overall cost of the coverage to the client. While such a cost savings opportunity appears obvious, it is a rare client that thinks to press the advising agent or insurance company to invoke the change.

A difference can arise between insurance carriers in the application of ratings and health-style discounts on new insurance policies, ultimately affecting the total cost of insurance over the long term. For example, a male, age 45, nonsmoker, regular classification with $1 million of coverage would pay between $1,100 and $1,200 annually for 10-year term insurance. If this individual were to benefit from the top preferred discount for a healthy lifestyle, the premium drops substantially to $700 to $800 annually. Therefore, if one company underwrites the case at regular classification but another company is willing to underwrite it reflecting a more favourable lifestyle, the difference is fairly substantial.

Audits will uncover inefficiencies within an insurance portfolio or can identify value in an older policy that on the surface may appear inefficient.

**Sufficient cash value**

The cash value inside a life insurance policy can be used to smooth and prepay the cost of a life insurance policy over its term. This means that the level of cash value is critical in order for the client to achieve desired results.

A universal life contract is considered an unbundled contract that allows the policy owner to view the underlying components. The investment component of a universal life contract will offer a wide variety of investment choices for the policyholder to manage the cash value of the contract over the long term. A whole-life contract on the other hand bundles the components and credits the policy with an annual return called a dividend. The policyholder of a whole-life contract can only manage the cash value component by adding more money.

If the level of cash value is materially eroded because of
poor investment performance, either additional premiums are required or coverage must be scaled back. A quick acid test that compares the ratio of cash value and mortality charges to life expectancy will identify the magnitude of any deficiency, which can then be addressed prior to the point of irrevocable damage. It is valuable to undertake this test periodically with any cash value policy to ensure appropriate long-term funding.

Beneficiary designation
It is the last named beneficiary that is entitled to the policy proceeds, so evaluating any changes including date and methodology is important to ensure validity of the current designation. Each new designation cancels the previous one, assuming the appropriate steps are followed. A designation in a will is considered dated at the time the will is signed and can override a policy designation if the will is dated later.

If a client feels the beneficiary requires assistance in managing the capital or wants to separate income and capital beneficiaries, insurance proceeds can be paid directly into a testamentary trust. Understanding of the testator’s objectives and careful planning will ensure the plan does not go offside and inadvertently result in an inter vivos trust or evolve into a new trust without the testator’s customized provisions.

Where a corporation is the owner of a policy and names a shareholder’s spouse or upstream company as beneficiary, a taxable benefit may arise equal to the value of the benefit received. If the corporation is the owner and names itself or a downstream company as the beneficiary, there is no taxable shareholder benefit realized on the payment of premiums. An insurance audit will uncover problematic situations providing the opportunity to proactively correct.

An insurance audit would review the client’s plans with respect to his/her testamentary dispositions and ensure that the beneficiary designations remain appropriate.

Beneficiary designation alerts
- Naming the estate as beneficiary may sound simple because the will can deal with distribution of the funds, but it exposes the proceeds to creditors, probate, delays and possibly fees.
- In some provinces, an ex-spouse is entitled to the life-insurance proceeds as a named beneficiary even if a divorce has long since been completed.
- Naming an individual in the protected class will enhance creditor protection of the cash value within the insurance contract.
- An irrevocable beneficiary designation must be filed with the insurance company.
- A contingent beneficiary ensures that the insurance money flows outside of the estate to an alternative beneficiary should the primary beneficiary predecease the testator.

Ownership considerations
The policy owner has the responsibility of paying the premium/deposits as they become due, as well as the right to make beneficiary changes in most cases. Changing ownership is relatively simple through the completion of an absolute assignment form provided by the carrier. However, this is considered a disposition of the contract and the vendor may realize an income gain. To the extent the transfer is between parties not at arm’s-length, the transfer is deemed to have occurred at the cash surrender value of the policy regardless of the actual proceeds of disposition. If the transfer is between parties at arm’s-length, then the actual proceeds are considered the proceeds of disposition in calculating the vendor’s income gain and the buyer’s starting adjusted cost basis.

Conclusion
Inefficiencies either in cost or structure are apparent in almost all portfolios, particularly when a business situation is part of the scenario. An insurance audit should be a required analysis every five years or more often if there is a significant change in the client’s situation. The client benefits from an insurance audit by ensuring that his or her affairs are in order and properly aligned to his or her estate plan, are cost effective and current and future tax planning opportunities are being maximized.

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Reading and writing

Jake Sully, the hero in the movie Avatar, keeps a diary, recording his experiences with the Na’vi, an indigenous tribe from the planet Pandora. Interestingly, his diary is in video form. In fact, there is no indication that the ex-marine can read or write.

Sully is a man of his time. According to ABC Life Literacy Canada, a not-for-profit organization that promotes literacy, 27% of Canadian adults struggle with simple written instructions and 15% are illiterate. Yet we rank among the best in the world on the literacy scale.

Everyone knows how to use a remote control because we live in an audiovisual era. The golden age of print lasted only 150 years, 1850 to 2000. Today, we communicate mostly verbally or through images. Watching TV and movies has replaced reading as a leisure activity, while phone calls and e-mails have replaced letters.

Nevertheless, in this electronic age, written expression remains important and is proving to be even more so than in the past. The Internet has become a vast library containing billions of texts.

Do we still need strong writing skills to succeed in life? Absolutely. However, the literacy level has always been lower than thought. The current level, 50% of adults with good reading skills and only 20% with strong writing skills, may be the highest ever recorded in Canada.

Parents believe they make fewer writing errors than their children and our great-grandparents probably thought the same. Does it matter? The Earth still turns, human knowledge still evolves and the economy continues to improve.

Written expression will always be important, as it’s a quick and enduring means of communication and is ideal for dealing with complex issues. Society’s leaders will always have strong reading and writing skills; in fact, literacy is closely linked to annual income.

This link, however, is becoming more tenuous. The dictionary, an essential work tool 10 years ago, is less suited to our needs now that the Internet can provide meanings and spelling of words with a click of the mouse. The printed encyclopedia is becoming an endangered species and newspapers are facing serious problems.

Knowing how to read and write is far from sufficient today. Youth need to learn how to navigate and search the Web, skills just as important as advanced composition. Moreover, there’s no longer any need to know how to extract a square root. A calculator can do it for us. From here on in, the ability to think in abstract terms trumps the ability to memorize a multiplication table.

Being able to communicate in writing will always be important, even though the importance of correct spelling will decline. In the Twitter era, everyone can get creative with spelling to mimic spoken language. For example, the number “4” (number “2” in French) has become a word. The trick is knowing the conventions, much like we need to know the rules of syntax. From now on, the ability to make ourselves understood will count, rather than the ability to apply the rules of writing our parents had to learn.

Each generation believes the succeeding one is less educated and less literate. What’s more, young people think they’re better and more informed than their parents and aren’t shy about telling them to move aside.

My father learned Greek and was proud of it. I learned Latin. Today young people make fun of my Latin and my father’s Greek. Yet they are undoubtedly learning things that will become useless over time and they will face the same problem with their children.

Illiteracy is a major handicap in society and one that must be dealt with. We have to encourage young people to read and write and especially to think, to give free rein to their imagination. That’s how they will be able to develop the skills they’ll need to get by in today’s electronic age.

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