What was FVA’s role in the financial crisis? Was it a contributor to the events or just a bearer of bad news?

HOW FAIR IS FAIR?

Loafy bakery rises to success  P. 6
I’ve made a resolution to waste less time  P. 7
HST: the long-awaited panacea?  P. 34
Tax Strategy and Recovery Experts

Ryan provides the most innovative approach to tax consulting available in the industry today. Since 1974, we’ve become the leading Canadian tax services firm in North America, with the largest transaction tax practice in the United States and Canada.

At Ryan, our value proposition is far greater than the industry-leading tax recovery services that we are internationally recognized for. We’re also focused on your overall tax performance, providing innovative solutions to the dynamic challenges of an evolving Canadian tax market. From strategic planning to harmonization and risk mitigation, we create greater opportunities to measure and improve your efficiency, develop a more strategic approach to tax, and deliver outstanding value to your shareholders.

Please visit us at www.ryanco.ca or call 800.667.1600 to learn more about how our tax advisory services can benefit your business.
How fair is fair?

The credit crunch and the financial crisis reopened the old fair-value debate and its mark-to-market methods

Two years after the collapse of worldwide markets the debate rages on: if there is no market, does that mean that an asset has no value? And, more importantly, how do you value this asset in a meaningful way?

The issue and the lobbying became so political that even the Federal Accounting Standards Board, the US accounting standards-setter, made changes to its rules to accommodate a menacing Congress and forced the rest of the world to seriously look at their standards. Surprisingly or not, the issue still has not been resolved. We thought it would be a good idea to ask two respected academics to look at the true value of fair-value accounting and its mark-to-market rules. Michel Magnan, from Concordia University in Montreal, and Dan Thornton, from Queen’s University in Kingston, Ont., collaborated and wrote this month’s cover story, “FVA: smoke & mirrors?” (p. 18). They examine the issue from the points of view of management, investors and regulators and come up with interesting conclusions. A must read.

Some of you might remember that we asked CA students to respond to an informal survey to find out how entrants to the profession had changed over the past 15 to 25 years. Not surprisingly, most had a degree in a related subject and 59% worked for a Big Four firm. But we also found an interesting subgroup of older candidates with backgrounds that had nothing to do with accounting. They are parents, airplane pilots and entrepreneurs who decided to make a change in their lives and careers and thought the CA profession had a lot to offer. Meet Yellowknife’s Samantha Merritt, former bush pilot; Marie Alexandre-Gingras, who decided to use the CA path to learn English and become bilingual; veteran soldier Jonathan Gallo and others who shared their past, present and future with writer Lorie Murdoch in “Destination: CA” (p. 26).

This month’s Regulars section features articles on harmonized sales tax (p. 34), education (p. 37), assurance (p. 43), standards (p. 49) and finance (p. 52).

We all know smart phones and PDAs such as BlackBerrys or iPhones are increasingly used to access the Web. But Jim Carroll discovered a catch: the reason why you count on your website to bring you business, this is not good news. Read what Carroll did about that in his Netwatch column (p. 12). In Outlook (p. 60), Marcel Côté revisits the origins of the 2008 financial crisis and the following global recession to point out that now that it appears to be behind us, all seems to be forgotten and the culprits are out to do it all again.

Christian Bellavance, Editor-in-chief
features

18 FVA: smoke & mirrors?
Fair-value accounting has always spawned debates among accountants, regulators and investors about its definition and when its use is appropriate. But in the recent financial crisis, the debates intensified, shining a harsh light on FVA and the profession

BY MICHEL MAGNAN + DAN THORNTON

26 Destination: CA
To find out what today’s typical CA student looks like, CA magazine conducted an informal survey. It painted a portrait of CA students who are bright, driven, ultra-connected and probably more diverse than any group that has gone before them

BY LORIE MURDOCH
regulars

34 Harmonized sales tax
The long-awaited panacea? As two more provinces take up HST, it remains to be seen if harmonization is a cure-all  By John Drysdale

37 Education
Insights on reforms: there are some indications the new regulatory landscape has strengthened auditing  By Clive Lennox + Jeffrey Pittman

43 Assurance
Performance indicators: they make it possible to review internal auditors’ work and are a key factor to success  By Pierre Gagné

49 Standards
How much is enough? Overall audit documentation requirements are the same between CASs and existing standards, but differences lie in certain standards  By Eric Turner

52 Finance
What now? Sidelined by a lack of debt capital, private equity firms are sitting on cash. Where will they put it?  By Mark Borkowski

news

14 NEWS FROM THE PROFESSION
16 STANDARDS DIGEST

professional directory

55 PROFESSIONAL DIRECTORY
57 CAREER OPPORTUNITIES
58 CLASSIFIED
THE IRONY OF “HARMONY”

In “Harmony or discord” (December 2009), I noted the irony of the two excerpts of music in the illustration. Both are decidedly harmonious. I would have expected one harmonious excerpt and one discordant excerpt. The first excerpt is the opening of Saint-Saëns’ Piano Concerto No. 2, whereas the second is the opening of a Chopin nocturne. Perhaps an excerpt from a 20th-century discordant composer such as Arnold Schoenberg would have been more appropriate instead of Chopin, who would no doubt be rolling over in his grave if he knew he had been associated with discordant music.

Jonathan Farrar, CA
Mississauga, Ont.

RESPONDING TO “LOSS”

I feel compelled to respond to a letter (“Loss of credibility,” December). The writer, James Shutiak, advocates that the profession should lead the charge in denouncing the anthropogenic climate change theory. I have only one argument against this position: climate and the environment are not the areas of expertise of CAs and it would be highly inappropriate for our profession to make any claims to the contrary.

This is the realm of scientists, and any attempt for the CA profession to foray into the realm of natural science would be embarrassing to the profession. The Intergovernmental Panel on Climate Change, which Shutiak claims ignores science, compiles the work of thousands of leading scientists around the world and concluded in 2007 that there is greater than 95% certainty that climate change is anthropogenic. It is our role as CAs to take the advice of these experts and apply it.
in our roles as business and tax advisers and as experts in measuring results.

Both features on this topic in the December issue did an excellent job of updating CAs on the risks and opportunities we need to be aware of in a market that will undeniably be affected by climate change. I commend CAmagazine for bringing this important information to CAs.

Neal Jennings, CA
Toronto

Could I suggest that the CICA create a task force to study James Shutiak’s assertion that Jim Carroll and the CA profession are ignoring science in accepting the findings of the Intergovernmental Panel on Climate Change? The mandate of the task force would be to report to Canadians and to debunk the climate-change debunkers, or not. Neither he nor I should be a member of the task force.

Walter Ross, FCA
Toronto

More evidence is emerging all the time that the data supporting manmade climate change is not all that strong; the authors of “The business of climate change” (December), Julie Desjardins and Alan Willis, note, “There is significant uncertainty or lack of precision in the measurement and reporting of GHG emissions. There is also generally a lack of good information systems, processes and controls to ensure that data collected is reliable.”

So, we don’t know if the data is accurate or reliable, but let’s run with it anyway just to be safe. To those who are more sceptical, the evidence refuting this hysteria has been building. Some are using the word “fraud” to describe the evidence to support global cooling, global warming, climate change or the marketing term of the month.

All along, this has been about control, regulation and taxation. Throughout the articles in the December issue, the mandate being presented to us is to act as paid toadies to support the regulation of all aspects of business and daily life to solve a problem that at best has been overstated, at worst misrepresented.

There are billions of dollars on the table for those who want to get in on the hysteria, virtually nothing for those arguing against it.

Our profession should be leading the fight for true science and skepticism to be brought to bear on this issue. Instead, we are leading by following, and in the process have become part of the problem rather than part of the solution.

John Annesley, CA
Nanaimo, BC
John Rossetti, co-owner of Italian Home Bakery, admits he doesn’t know much about baking bread but he still knows lots about managing dough. He and his co-owner brother, Dennis, transformed the Toronto Little Italy bakery that could, shifting it from a hands-on, labour-intensive production to an automated, high-speed, high-volume system. Moving the bakery into the high-tech age, however, hasn’t meant skimping on quality or snubbing tradition, insists Rossetti. They still maintain some artisan bread techniques, such as fermentation and scoring by hand.

Instead of just selling direct fresh products daily, the brothers expanded their line to include branded, frozen products. As one of the largest independent bakeries in Southern Ontario by distribution, volume and market penetration, IHB supplies restaurants, including Toronto’s top sub sandwich chain, and supermarkets. It makes approximately 40 different kinds of dough and 40 to 50 varieties of breads, turning out 50,000 to 80,000 loaves a day.

As the company’s CFO, Rossetti, 50, oversees the finances and overall operations, while Dennis, 49, a food scientist and baker, handles the operations side. “I do a lot of troubleshooting,” says Rossetti, who handles any glitches on the assembly line, at head office or among the 30 distributors that go out daily. The only downside is that now he can’t sit down in front of a bread basket in a restaurant without picking up a roll and thinking, “How can we make this differently and how do we make it better?”

“It’s not a bread thing, he says. “I don’t care if we made cardboard boxes. I’d look at the same three things: is there a growth opportunity? Is there a demand in the market? And how do we take advantage of it?” To Rossetti, a business is a business, no matter how you slice it.

Angela Pirisi
INCENTIVES ARE STILL “IN”

Two in three Canadian CA firms (65%) give their employees bonuses or other incentives, according to a practice benchmarking survey conducted by the CICA and provincial institutes/ordre last fall. The responses of almost 800 primarily small and medium CA practices also indicate the criteria for granting bonuses have changed since the last such study in 2007. Individual staff rating continues to be a factor in determining bonuses for seven in 10 respondents. Attaining chargeable hours’ revenue target, profitability and performance of the firm are factors considered by more than 40% of firms. Obtaining new clients was mentioned by one-third of respondents, down from nearly half in 2007. Obtaining new projects from existing clients was mentioned by 7% of firms, down from 15% in 2007.

The results are from a broader three-part Managing a Public Practice (MAPP) CA practice benchmark survey conducted biannually with the partners of CA firms across Canada, which provides invaluable information for managing a CA practice. The fall 2009 MAPP survey (Part 1) focused on firm billing rates, compensation and benefits. Part 2 will be launched this summer and will benchmark firm revenues, expenses, billing practices, productivity, etc., while Part 3 will focus on computerization. Owners of CA practices who want access to the results must participate in the survey. There is no cost to participate and the detailed results are not sold or made available to those who do not participate.

Paul Long is CICA’s manager of marketing and marketing research.

### Findings

<table>
<thead>
<tr>
<th>Criteria</th>
<th>2009</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual staff performance rating</td>
<td>72%</td>
<td>70%</td>
</tr>
<tr>
<td>Performance of firm</td>
<td>47%</td>
<td>49%</td>
</tr>
<tr>
<td>Attaining chargeable hours’ revenue target</td>
<td>41%</td>
<td>44%</td>
</tr>
<tr>
<td>Profitability</td>
<td>42%</td>
<td>42%</td>
</tr>
<tr>
<td>Obtaining new clients</td>
<td>33%</td>
<td>47%</td>
</tr>
<tr>
<td>Obtaining new projects from existing clients</td>
<td>7%</td>
<td>15%</td>
</tr>
<tr>
<td>Percentage firms that pay bonuses or other forms of incentives*</td>
<td>65%</td>
<td>66%</td>
</tr>
</tbody>
</table>

*Total exceed 100% as multiple mentions were allowed. Source: Managing a Public Practice survey, 2009

### ASK AN EXPERT

I’VE MADE A RESOLUTION TO WASTE LESS TIME IN MEETINGS. ANY ADVICE?

If you notice the following time-wasting signs, confirm with the meeting’s host that your attendance is required and, if so, offer some of these ideas for keeping the meeting efficient:

Everything but the kitchen sink is being covered. It’s wise to have an agenda, but one that is lengthy or unfocused could indicate that not all of the information will be relevant to every attendee. When the agenda becomes too long, organizers should consider holding smaller, more focused gatherings.

It’ll take more than an hour. You often lose people after 60 minutes, so think carefully about scheduling a meeting that will take more than an hour of someone’s time. If there’s no way to condense, consider snacks, interactive elements or multiple speakers to keep people engaged.

The attendee list goes on and on. An extensive participant list may signal an overly ambitious meeting, or one where people are being invited as a courtesy, rather than because they need to attend. If you’re organizing the meeting, be sure to list people as “optional” if their presence isn’t required.

There’s a large PowerPoint deck involved. It’s possible much of that information could be shared prior to the meeting. The gathering then could be used to field questions or highlight the most important data.

It’s a habit. Routine meetings can become, well, routine. Think about whether regular gatherings are necessary or could be held less frequently.

Robert Hosking is executive director of OfficeTeam (www.officeteam.com)
0 Number of tests conducted on all electric shaver brands in Canada by Remington to ensure its shavers “shave ... closer than any other electric shaver.” The firm was fined $75,000 in 1991 for the transgression.

1 Number of successful false advertising charges brought against the maker of the Graham Potentializer bed in 1982 who claimed it would increase intelligence and cure Down’s syndrome. “This works; there’s no question about that,” said inventor David Graham. “It’s just a matter of doing more research to prove it.”

40 Percentage Canadian content in Hyundai Sonata cars manufactured in Bromont, Que., in 1992. The company falsely claimed the cars were made in Quebec (requiring more than 50% content). Regulators required them to publish ads clarifying the error.

178 Number of Suzy Shier stores engaging in a process known as double-tagging, where sale tags appear alongside a regular price that never effectively existed. The retailer was fined $1 million for the practice in 2003.

3,000 Fine in dollars levied in 1979 against CCCL Canadian Consumer Co. and Allan Diamond of Montreal for claiming their “gas-saving Ram-Jet supercharger” would turn “pollution into free energy.”

35,000 Number of diamond rings bearing false appraisals sold by department store Simpsons-Sears Ltd. between 1975 and 1978. "You may soon see a group called DIAMONDS — Dissatisfied Investors Against Misrepresentation on New Diamonds Sold,” commented a Toronto lawyer specializing in class-action suits afterward.

**Ad absurdum** Late last year, after Rogers Communications and Telus traded claims in ads about the speed and reliability of their wireless networks, judges got involved. It’s not the first time

**Going Concern**

**SEAN BOYD, CA VICE-CHAIRMAN & CEO AGNICO-EAGLE MINES LTD.**

**COMPANY PROFILE:** The Toronto-based firm is a gold producer with six active operations, four in Canada, one in Mexico and one in Finland. Including its predecessors, it has been in business more than 50 years and currently has about 3,000 employees. In 2009, it expected to produce about 500,000 oz. of gold with total annual revenue of close to US$600 million.

**HOT FACTOR:** Investors have pushed gold prices to historic new highs. In response, Agnico-Eagle is expanding operations to meet skyrocketing demand with new mines in the Canadian Arctic, Mexico and Finland. Recent corporate kudos include the Toronto-based Brendan Wood International TopGun CFO and TopGun Board awards, chosen out of a field of 750 worldwide firms. In January, the *Harvard Business Review* included chief executive

Sean Boyd in its ranking of the 100 best-performing CEOs in the world.

**COOL PROJECTS:** Frigid is a more apt description, with the firm’s recently launched open-pit mine in Nunavut. After reaching peak production it will employ 400 people, providing jobs and other opportunities for the local economy. The 40,000-hectare property offers bright future prospects; so far the firm has invested US$700 million in the property. To overcome the region’s lack of existing infrastructure, Agnico-Eagle built a 110-km all-weather road from Bakers Lake to the mine, as well as its own on-site airstrip.

**IN HIS OWN WORDS:** “Our success comes from our low-cost structure and well-funded growth. We invest early in promising sites in stable parts of the world. Our LaRonde mine in Northern Quebec provides a strong platform for overseas growth. For the past 18 years, we have paid dividends and never hedged or sold forward gold. Over the past 10 years we have delivered for our shareholders, as our shares are up over 1,000%.”

Ken Mark
IN BANKS WE TRUST

Eight in 10 Canadian consumers are confident in the Canadian banking system, according to a PricewaterhouseCoopers survey. Of the 1,544 Canadians polled, 72% said they feel the country’s banks are well run; however, only three in 10 Canadians believe the banks should consider further expansion outside of Canada.

A NEW WAY TO PAY

Individuals and businesses can now send tax payments to the Canada Revenue Agency online. The new My Payment service, which uses a portal on the CRA website, lets taxpayers send payments directly to the CRA from their bank accounts with Canadian financial institutions that offer the Interac Online payment service.

NOT READY TO RETIRE

One in three (32%) Canadians had not started saving for retirement by the end of 2009, compared with one in four (24%) the previous year, finds an annual RBC poll. Furthermore, fewer Canadians are even preparing for the big “R”: just 36% say they are planning or have planned for retirement, down from 42% in 2008.

Look out for D-I-Y theft

Employee expense fraud is on the rise, thanks to easily available and widely used desktop technology and online sources, warns a Grant Thornton research paper.

“We are seeing more examples of expense account fraud, which involves the submission of altered receipts,” says Jennifer Fiddian-Green, a Toronto-based partner with the forensic accounting and investigative services practice at Grant Thornton. “Scanners, colour printers and image-altering software make it easy to alter or even fabricate counterfeit receipts that can be used to claim false reimbursements. There are even websites that allow anyone to create fake receipts — purportedly for novelty purposes — that look very realistic.”

Common forms of expense fraud include single expenses submitted numerous times for multiple reimbursements, turning in legitimate receipts that should have been balanced against already-advanced per diems and claims made for payment for goods or services that have already been cancelled and refunded.

<table>
<thead>
<tr>
<th>Expense fraud warning signals: questions to ask</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Is the employee living beyond his or her expected lifestyle or means?</td>
</tr>
<tr>
<td>• Are you receiving expense claims without original receipts or supporting documentation?</td>
</tr>
<tr>
<td>• Do documents appear to be altered?</td>
</tr>
<tr>
<td>• Are the employee’s expense reports much higher than other people in similar positions?</td>
</tr>
<tr>
<td>• Have you received claims for unusual purchases?</td>
</tr>
<tr>
<td>• Does the employee consistently submit his/her expense reports late?</td>
</tr>
</tbody>
</table>

Source: “No Free Lunch,” Grant Thornton, 2009

When can we meet?

How many e-mails does it take to arrange a group meeting? It sounds like the setup to a bad joke but, according to the respondents of a North American survey, the answer isn’t funny: at least three.

The back-and-forthing required to set up group meetings was identified as the most annoying thing at work by 30% of respondents to the survey, conducted by Montreal company Tungle, maker of a web-based calendar accelerator. The only thing workers considered more grating was going through their inboxes after vacations (40%).

The biggest gripes about scheduling business meetings are that it can take more time to book meetings than hold them (30%), you have to hound people to respond with agreeable times (22%) and by the time you actually book a meeting, someone’s calendar has changed and the time doesn’t work anymore (22%).
Reviewing the role of expert witnesses

Expert witnesses have long played an important part in Canadian litigation. As individuals possessing special education, training, qualification and experience in a specific area, their role has always been to assist the court with complicated or technical matters that are not within the understanding of the average person.

The role of expert witnesses is not without controversy, however. Sometimes allegations are made that an expert has acted as a biased advocate — basically a hired gun. This concern has led to changes to the framework and rules related to the use and conduct of expert witnesses. In Nova Scotia, for example, new rules were introduced last year, and in January 2010, new requirements came into effect in Ontario through revisions to the province’s Rules of Civil Procedure.

It’s with these new requirements in mind that KPMG Forensic surveyed lawyers across the country last year on issues related to expert witnesses. In total, 196 responses were received.

The results, which can be found in Expert Witnesses in Canada: A Survey of Canadian Litigators 2009, focuses on how and when experts are retained, how they are used and how lawyers rate their performance.

The survey showed accountants are by far the most retained expert witnesses, followed by engineers and business valuers. Since most business valuers are also accountants, expert witness assignments are dominated by accountants, particularly CAs. These experts are mostly retained for damage quantification (77%), business valuation (62%) and accounting issues and standards (41%). About a third are retained at the start of litigation, a third after document production and a third later in the process.

In the end, expert witnesses are intended to assist in advancing the course of justice. To do so, they must exercise care to ensure they stay within the bounds of their expertise and provide unbiased and independent opinions and evidence.

This is a summary. For more on the survey, please visit www.camagazine.com/expertwitnesses.

Derek Rostant, CA, IFA, CBV, is a partner with KPMG LLP and a senior vice-president of KPMG Forensic Inc. He has testified as an expert witness more than 30 times.

Different generations, same objectives

Differences among the generations in the workplace are more about perception than reality, it seems. Baby boomers, generation X and generation Y view other generations more harshly than they view their own, but the three groups are more alike than they realize.

A Conference Board of Canada study, Winning the Generation Wars: Making the Most of Generational Differences and Similarities in the Workplace, shows each generation includes workers with similar personality types, workplace motivations and social behaviour. Workers from all three generations also want respect, flexibility, fairness and the opportunity to do interesting and rewarding work.

Negative stereotypes of the three generations vary by cohort:
• boomers are seen as less comfortable with technology, less open to change and less accepting of diversity;
• generation X workers are seen as cynical, independent and easily annoyed by any hint of being micro-managed;
• generation Y workers are seen by older colleagues as lazy, difficult to manage and perpetually prepared to bolt from the organization.

Employers need to be aware of these stereotypes, as each can have a negative impact on workplace performance. Perceptions that boomers are not open to change can make younger workers more reluctant to bring forward new ideas, just as older workers’ assumptions about the purported cynicism of gen Xers can lead to added friction in the workplace. To manage these generational differences in perceptions while recognizing cross-generational similarities, the report suggests three strategies:
• implement programs, policies and practices that respond to the cross-generational desires for respect, flexibility and fairness in the workplace;
• build a culture of inclusion;
• learn from effective practices used by other firms — for example, L’Oreal Canada has an intergenerational training program that brings employees of different generations together to discuss their differences (and similarities).

For an expanded version of this article, please visit www.CAmagazine.ca/generations.

Douglas Watt is associate director, organizational effectiveness and learning, The Conference Board of Canada.
The perfect blend of independence and advice.

Discover what our clients have known for over 45 years. With PH&N, you can invest on your own while still getting expert advice when you want it. Choose from a range of mutual funds with proven track records and surprisingly low fees. To learn more, go to experiencephn.com or call us at 1-800-661-6141.

PH&N Investment Services™
Exceptional Service, Trusted Advice, Low Fees.
Get app and go

Last fall, Microsoft invited me to speak at a series of events related to its Windows 7 launch; I’d be addressing C-level executives on the key business strategies organizations are adopting as we come out of the recession. For the first stop on the tour, Microsoft CEO Steve Ballmer spoke to the audience, so I went to hear what he had to say. He certainly stoked enthusiasm for the new Windows 7 product in the manner for which he is known, but he also spoke to the broader plans for Microsoft in the future. One comment about mobile devices stood out: that the reason why Apple is selling so many apps for the iPhone is because generally the browser on the phone isn’t very user friendly.

That’s quite true. I find when I access the Internet on my iPhone the screen resolution seems particularly challenging for these middle-aged eyes. My own website features fonts and a layout that look great on a big monitor but when accessed on an iPhone don’t work very well.

So I decided I should have my own app that features a variety of information found on my regular site. Hence, my voyage into the world of iPhone app development. Apparently it’s a voyage many people are pursuing, with some 80,000 apps already available on the iTunes store.

As I began looking around, I found quite a few artists and entertainers (which I think my career is increasingly evolving into) were releasing iPhone apps. Heck, I even found an app for Pat Boone. That blew my mind.

It was a timely decision: I had already started down the path toward promoting compatibility with the new world of wireless devices by creating a special version of my website uniquely formatted for small screens. I did this in a matter of hours by setting up a Wordpress blog; I added to it the iPhone/PDA “theme” that reformats pages to fit within the narrow screen size found on a BlackBerry or iPhone. I then added code to my website that figures out if someone is coming in via such a device: when someone does, it redirects him or her to the mobile version.

I then decided to get the blog section of my website into the iPhone version — until I found Mippin, that is. This nifty free service automatically formats a blog feed for wireless devices in a matter of seconds. If you have a blog and a PDA, try it out; it is quite a magical service.

Voila. I now had a version of my website that worked well for PDAs. But I thought I still should have an app that is available to people in the iTunes App store. Where to start? A friend put me in touch with iEveryware, an app developer based in California. From there, a phone call led to a cost estimate and within hours, I was on the way to having my own app. It was that fast. Until then, I had thought the process of app development would be some deep secret known to a chosen few. The reality is that there are already thousands of developers out there.

One key step in the process was setting myself up as an Apple iPhone Developer, for a fee of US$99. Once that was done, I was able to register the name Futurist for my app. I registered a few other app names for future use; right now, it seems a little bit like the early days of domain name registration. (Hint, hint.)

As I write this column, I’m actively involved in testing daily updates from the development team as they put together the application; it features a variety of videos within the app itself; access to video feeds from YouTube; direct access to my blog and Twitter feeds and some information resources about innovation and trends. We’re hoping to submit it to Apple shortly; by the time you read this, it should be out there. The cost of my app? Just US$99.5.

All this from hearing Ballmer suggest the experience of browsing the web on an iPhone sucked.

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

iEveryware  www.ieveryware.com
Mippin  www.mippin.com
My iPhone app  http://itunes.apple.com/app/jim-carroll/id347008063m
Pat Boone’s app via  www.patboone.com
Natural Factors & SYSPRO: Partners in Health

Natural Factors Nutritional Products, headquartered in Coquitlam, British Columbia, has been a leader in the manufacture and sales of naturally-sourced personal health products for over 40 years. With markets in North America, Asia, Europe and the Middle East, Natural Factors is well-positioned to take advantage of the burgeoning global demand for naturally-derived health products.

Natural Factors began automating its systems in 1992, at which time the company chose SYSPRO enterprise resource planning (ERP) software for its total supply chain management and financial tracking capabilities. “SYSPRO was chosen because it matched the company’s needs,” says Jaime de Sequera, Chief Information Officer for Natural Factors. “An important selling feature was its modular nature, which renders it affordable and highly scalable.”

Fourteen years later, SYSPRO continues to provide Natural Factors with complete control over the planning and management of its operations, including sales, accounting, manufacturing and distribution.

“Without SYSPRO ERP software,” says de Sequera, “we would not be able to manage the complexity of a business this size.”

According to de Sequera, one of SYSPRO’s most basic advantages is its adherence to the familiar logic of best practices. “SYSPRO approaches each specific business discipline in the most intuitive manner possible,” says de Sequera. “It never confuses you with eccentric terminology. Instead, it operates according to best business practices, which makes it very easy to understand, and simple to learn.”

As a manufacturer of naturally-sourced nutraceuticals and supplements, Natural Factors places enormous emphasis on quality control. “Quality control—and government health regulations—are easily satisfied,” says de Sequera, “due to SYSPRO’s ‘Lot Traceability’ module.”

As batches are produced, each one is given a specific, serialized lot number. That identifier allows Natural Factors to know everything about its product, including where the raw materials came from, when they were received in inventory, who received them, and to what job the raw materials were allocated.

“Lot Traceability builds a very useful database,” emphasizes de Sequera. “In the event that a problem occurs, we can trace the product back to its source. Without that function, we would have much less control over the quality of our products.”

“SYSPRO handles many other processes that are critical to our success,” says de Sequera, “and it allows us to do all this in an integrated fashion. In addition, it creates a repository of useful data that we regularly use to measure our performance. It also allows us to report against that data, so we can make informed business decisions for guiding our growth. In many respects it has allowed us to grow our operations in the most efficient manner possible. All-in-all, SYSPRO fulfills our needs in a very good way.”

For more information on Natural Factors, visit www.naturalfactors.com.

“Quality control and government health regulations are easily satisfied due to SYSPRO’s ‘Lot Traceability’ module… In the event that a problem occurs, we can trace the product back to its source. Without that function, we would have much less control over the quality of our products.”

Jaime de Sequera, Chief Information Officer, Natural Factors
IFRS readiness: adopters confident

The majority of senior-level accountants interviewed for the most recent CICA/RBC Business Monitor (Q4 2009) continue to voice confidence in their state of international financial reporting standards (IFRS) readiness. Of the respondents in companies that are required to adopt IFRS, 81% say they are “very likely” to be ready to comply for the 2011 deadline.

Respondents were asked to select the statement that best describes their company’s current state of IFRS readiness. Responses included: appointed a transition team leader (5%); completed education process, planning conversion (15%); assessed impact, begun educating staff on changes (19%); in process of assessing potential impact on organization (26%) and started the conversion process but not yet completed (22%). And 7% reported that they have completed the conversion process.

“I am heartened to see that a handful of companies are finished, and more than half of adopters have begun the transition,” says Ron Salole, vice-president, standards, CICA. “While it is encouraging to see positive forward movement, adopters should not underestimate the work that remains.”

The proportion that indicated their company had not yet begun to assess the impact of the changeover dropped to 5% in the final quarter of 2009 from 22% in Q4 2008. The CICA/RBC Business Monitor is issued quarterly and draws upon the business insights of CAs in leadership positions.

New CICA resources to support IFRS transition projects

Transition to IFRSs — Communicating the Impact of the Changeover is a new Canadian Performance Reporting Board publication. It discusses how to summarize the effects of the changeover in your MD&A to ensure your investors are not caught off guard.

Interim Financial Statements in the Year of Adoption of IFRSs is issued by the Accounting Standards Board. It reviews questions that might arise about the presentation of interim financial statements.

Assurance Implications of the Changeover to IFRSs looks at the complexities related to the IFRS changeover and new challenges auditors may face.

These resources are available for free download at the CICA’s designated IFRS website: www.cica.ca/IFRS, your trusted source for everything IFRS.

Changes to CICA Handbooks

The CICA Handbook – Accounting has been revised to reflect the Accounting Standards Board strategy for adopting different sets of standards for different categories of entities. It has been restructured into five parts:

Part I - IFRS
Part II - accounting standards for private enterprises
Part III - accounting standards for not-for-profit organizations (not yet available)
Part IV - accounting standards for pension plans (available spring 2010)
Part V - the existing Handbook contents.

Not-for-profit organizations and pension plans will continue to follow Part V until the completion of due process for changing the standards applicable to those entities. Following that, Part V of the Handbook will be phased out.

Making IFRSs available electronically in both languages required an enormous effort. CICA Language Services first had to undertake a yet-to-be-completed review of the existing French translation of the standards issued by the International Accounting Standards Board (IASB), the London-based organization responsible for the development of IFRSs. Recognizing their unique expertise, the IASB further called upon them in July 2009 to take the lead role going forward in translating into French all exposure drafts and new standards for use in Canada.

The CICA Handbook – Assurance has also been restructured to reflect the new Canadian auditing standards (CASs), which come into effect for audits of financial statements for periods ending on or after December 14, 2010.

The new Assurance Handbook contains:

Part I
- Preface
- CSOC 1, Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements.
- Thirty-six CASs Retained Sections and Guidelines (applicable to engagement other than audits of financial statements).

Part II
- Existing Handbook contents.

The CICA Handbook – Accounting and the CICA Handbook – Assurance are available in electronic format through www.knotia.ca.
New rules mean more small and midsized CA firms can train CA students

Until recently, only CA firms able to offer the required minimum chargeable hours in audit and assurance were eligible to train CA students. This meant many small and midsized CA firms either couldn’t train CAs or couldn’t train as many as they wanted to.

That has changed. The profession has new rules for qualifying practical experience. Now, students who want to become CAs can obtain qualifying experience in areas of professional practice other than auditing, as well as in approved corporate and government departments.

This is good news for small and midsized CA firms, which can now train students in thriving practice areas such as compilations, reviews and tax. While these students still need the required chargeable hours if they want to practise public accounting, they could do so at a later date after qualifying as CAs.

Firms only interested in training CA students who wish to practise public accounting but lack the audit hours to do so should also consider hiring experienced CA students who have already completed the required chargeable audit hours at another firm. CA students can complete their practical experience requirements for qualification at your firm and may be eligible to practise public accounting. The current economic situation has resulted in the availability of a number of experienced CA students ready and able to take on new opportunities.

Succession planning strategy
Over the next 10 years, succession planning will become an increasing priority for CAs in small and midsized firms who will be retiring. The new rules for qualifying practical experience make it possible to train CA students in-house — a strategy that should be considered as part of a viable succession plan.

CA firms interested in exploring these new opportunities need to be approved by their provincial institute. The process is straightforward and can be completed in a few weeks. For more information, contact your provincial institute, or visit www.catoadvantage.ca. Note: these opportunities are not yet available in Quebec, where required changes are currently in process.

Next month: learn about new opportunities for companies to train CA students.

Expanding CPD opportunities for 2010

After the rough ride of 2009, 2010 is expected to bring recovery. The CICA’s continuing education programs can help you prepare by honing your skills, expanding your knowledge base and enhancing your professional network.

“Success will be about preparedness to capitalize on change,” says Frank Colantonio, director, CICA continuing education.

“That’s why we’re expanding our 2010 offerings into new technical and practice areas.”

One important emerging practice area is climate change and the accounting, verification and reporting of greenhouse gas emissions. “We’re presenting a national conference on these key topics, and we’ll be launching an in-depth course on greenhouse gas verification.”

New courses are also available in highly technical areas. Colantonio describes a new in-depth course on transfer pricing as “absolutely leading edge in its ability to elucidate what has become an essential yet complex process that needs careful analysis and interpretation of the impact of key factors, with respect to corporate activities of multinationals, in order to maximize pricing strategies.”

For small and medium-sized business advisory practices, the SME Advisors Conference will be held in Ottawa in August.

“SME was a highly popular conference, particularly for networking,” says Colantonio. “With all the standards changes underway — notably Canadian auditing standards, IFRS and in particular the new private company GAAP — we believe practitioners will find enormous benefit in learning the new practitioner’s landscape.”

Check out the 2010 continuing education catalogue included with this month’s CAMagazine, or visit www.cpd.cica.ca. Education programs can make a difference to you, your clients and your organization.

Proposed IFRS sparks Canadian discussion

FINANCIAL INSTRUMENTS: Amortized Cost and Impairment

A recent International Accounting Standards Board (IASB) Exposure Draft could result in significant changes for Canadian businesses. The proposed new standard Financial Instruments: Amortized Cost and Impairment would alter the pattern of income reporting for IFRS adopters with financial assets measured at amortized cost. Although the proposed model may appear at first to be of concern only to lenders, other entities, including those selling goods or providing services on credit, may find major changes to their operations and financial reports. Given the challenges the proposed standard could impose, the AcSB is encouraging Canadians to review the document and submit comments. The AcSB will hold a roundtable this spring to give stakeholders an opportunity to ask questions and provide input on the proposal. Visit www.acsbcanada.org for more information about the Exposure Draft and the roundtable. The comment period closes June 15, 2010.
## Standards digest

Want to be kept informed? Log on to [www.cica.ca/subscribe](http://www.cica.ca/subscribe)

### RECENTLY ISSUED PRONOUNCEMENTS

<table>
<thead>
<tr>
<th>Description</th>
<th>Date issued†</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CICA Handbook – Accounting</strong></td>
<td></td>
</tr>
<tr>
<td>Preface to the CICA Handbook – Accounting</td>
<td>January 2010</td>
</tr>
<tr>
<td>International Financial Reporting Standards (Part I)</td>
<td>January 2010</td>
</tr>
<tr>
<td>Accounting Standards for Private Enterprises (Part II)</td>
<td>December 2009</td>
</tr>
<tr>
<td><strong>EIC Abstracts</strong></td>
<td></td>
</tr>
<tr>
<td>Multiple Deliverable Revenue Arrangements, EIC-175</td>
<td>December 24, 2009</td>
</tr>
<tr>
<td>Amendments to a number of Abstracts as a result of issuing Business Combinations, Section 1582</td>
<td>February 1, 2010</td>
</tr>
<tr>
<td><strong>CICA Handbook – Assurance (Part I)</strong></td>
<td>December 2009</td>
</tr>
<tr>
<td>Preface to the CICA Handbook – Assurance</td>
<td></td>
</tr>
<tr>
<td>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements, CSQC 1</td>
<td></td>
</tr>
<tr>
<td>Canadian Auditing Standards</td>
<td></td>
</tr>
<tr>
<td>Retained Sections and Guidelines</td>
<td></td>
</tr>
<tr>
<td><strong>CICA Public Sector Accounting Handbook</strong></td>
<td>December 2009</td>
</tr>
<tr>
<td>Introduction to Public Sector Accounting Standards (revised)</td>
<td>February 2010</td>
</tr>
<tr>
<td>Tax Revenue, Section PS 3510</td>
<td></td>
</tr>
</tbody>
</table>

### RECENTLY ISSUED DOCUMENTS FOR COMMENT (to February 28, 2010)

<table>
<thead>
<tr>
<th>Description</th>
<th>Comment deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accounting</strong></td>
<td></td>
</tr>
<tr>
<td>EDI Conceptual Framework: Reporting Entity</td>
<td>April 15, 2010</td>
</tr>
<tr>
<td>rEDI Discontinued Operations</td>
<td>March 31, 2010</td>
</tr>
<tr>
<td>EDI Financial Instruments: Amortized Cost and Impairment</td>
<td>June 15, 2010</td>
</tr>
<tr>
<td>EDI Liabilities – Improving IAS 37</td>
<td>April 12, 2010</td>
</tr>
<tr>
<td>EDI Termination Benefits (amendments to IAS 19)</td>
<td>March 31, 2010</td>
</tr>
<tr>
<td><strong>Auditing</strong></td>
<td></td>
</tr>
<tr>
<td>ED Reporting on Controls at a Service Organization</td>
<td>April 16, 2010</td>
</tr>
<tr>
<td><strong>Public Sector</strong></td>
<td></td>
</tr>
<tr>
<td>ED Amendments Resulting from the Adoption of IFRSs in Canada</td>
<td>February 19, 2010</td>
</tr>
<tr>
<td>ED First-time Adoption of Public Sector Accounting Standards by Government Organizations</td>
<td>March 26, 2010</td>
</tr>
</tbody>
</table>

### WATCH FOR

| Description                                                                 |                  |
|----------------------------------------------------------------------------|                  |
| **CICA Handbook – Accounting**                                             | Accounting Standards for Pension Plans (Part IV) |
| **Documents for Comment**                                                  | AcSB and PSAB proposals concerning Not-for-Profit Organizations |
|                                                                           | AASB proposals concerning 2010-2013 Strategic Plan |

**Legend**

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

† Refer to each Handbook pronouncement for the effective date and transitional provisions. The information published above reflects best estimates at press time. Please visit our website for the most recent information.
You see the opportunities, now capitalize on your vision.

We’ve built a global leadership position with a singular focus on helping our clients achieve their objectives. We rely on a process of uncovering and analyzing market intelligence so that our clients can seize opportunities.

We’re There.
The financial crisis intensified the debate over fair-value accounting. Useful? Or a form of hocus-pocus that helped conjure up events?

By Michel Magnan + Dan Thornton

**FVA:** smoke & MIRRORS?

Before the International Olympic Committee awarded the 2016 Summer Olympic Games to Rio de Janeiro, the Intrade.com website offered the public a security paying $100 if a North American city were later chosen to host the games, and zero dollars if it weren’t. The bid and ask prices of this security were $50.10 and $54.30, suggesting a probability range for the Olympics taking place in North America of between 50% and 54%.

The prices rose a week later when US President Barack Obama visited Scandinavia to promote Chicago as the venue, then crashed to zero when Rio was awarded the games.

On any given day, up to 100,000 Intrade clients trade securities promising to pay $100 if similar political, economic and social events transpire. The website says its security prices provide unbiased estimates of the probabilities the events will happen. If the probability of Chicago getting the Olympics had been higher than 54%, there would have been excess demand for the Olympics security by the cognoscenti.

Illustration by GREG MABLY
They would have bid up the price and pushed the market toward equilibrium, where the marginal informed trader would have been indifferent between buying and shorting the security.

Economists have long agreed that prices in perfect markets transmit less biased estimates of the values of commodities and securities than any single expert trader could provide. In the past decade or so, accounting standards acceded to this efficient-markets view at an increasing rate, under the rubric of fair value accounting (FVA). At first, the shift from historical cost accounting (HCA) toward FVA spawned orderly debates among accountants, businesspeople, regulators and investors about the definition of fair value and when its use was appropriate. But during the 2008-2009 financial crisis, when even economic theorists doubted that financial markets were working anywhere close to perfection, the debates intensified, shining a harsh light on FVA and the accounting profession in general.

This article reviews some research and empirical evidence that are relevant to the FVA debate. It also comments on FVA’s role in the financial crisis: was it just the messenger of bad news or was it procyclical, contributing to the sad state of the economy in addition to reporting on it?

Time to take stock

FVA has had its ups and downs. In the late 19th and early 20th centuries, firms often valued their capital assets using appraised, net realizable values. By the 1930s, moral hazard — manifest in abusive and self-serving over-valuation practices by some managers — led to the dominance of HCA as an antidote. However, accounting theorists continued to tout FVA and a one-sided version of FVA (lower of cost or market) continued to be applied to inventories.

FVA did not emerge in full bloom again until 1993, in Statement of Financial Accounting Standards 115, Accounting for Certain Investments in Debt and Equity Securities. Ironically, SFAS 115 was predicated on the assumption that HCA allows managers to smooth companies’ earnings by timing the recognition of unrealized portfolio gains and losses, and FVA is the antidote for this earnings management hanky-panky. Another, implicit assumption was that quoted market prices for securities permitted — led to the dominance of HCA as an antidote. However, accounting theorists continued to tout FVA and a one-sided version of FVA (lower of cost or market) continued to be applied to inventories.

FVA did not emerge in full bloom again until 1993, in Statement of Financial Accounting Standards 115, Accounting for Certain Investments in Debt and Equity Securities. Ironically, SFAS 115 was predicated on the assumption that HCA allows managers to smooth companies’ earnings by timing the recognition of unrealized portfolio gains and losses, and FVA is the antidote for this earnings management hanky-panky. Another, implicit assumption was that quoted market prices for securities permitted — led to the dominance of HCA as an antidote. However, accounting theorists continued to tout FVA and a one-sided version of FVA (lower of cost or market) continued to be applied to inventories.

FVA hierarchy

US standard setters took a step toward answering that question in 2006 when they issued SFAS 157, Fair Value Measurements, defining fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” So whenever FVA is called for, one uses quoted prices of assets, if they are available, in actual, well-functioning markets. If they aren’t available, one must simulate what those prices would be, if such markets existed.

This requirement raised two additional questions that inflamed FVA debates during the financial crisis: how do we know if markets are working well enough to use quoted market prices without further investigation? And if quoted market prices are unavailable or if markets are not working well enough to rely on those prices, how can we ensure that the simulated prices faithfully simulate the hypothetical prices that would eventually in a “real” market? After all, managers propounding the prices are subject to moral hazard. At least some of them would be expected to exaggerate fair values and to self-select whether to use quoted or simulated prices.

SFAS 157 identifies three categories of fair values depending on the level of judgment or subjectivity associated with their measurement. At level 1, financial instruments are measured at quoted prices for identical instruments in active markets. If an asset does not trade in an active market but valuation inputs are observable, level 2 fair values reflect quoted prices for similar financial instruments in active markets; quoted prices for identical or similar financial instruments in markets that are not active; inputs other than quoted prices but which are observable (e.g., rates on a yield curve in between quoted rates) or correlated prices. Finally, at level 3, one finds assets that have no market or are so unique as to have no comparable assets whose prices could be used as benchmarks. They would be marked to model using discounted cash flow models or hypothetical hedge portfolios, based on knowledgeable market participants’ views and assessments.

In a recent article, longtime standard setter Alex Milburn observed that active, well-regulated capital markets exhibit reasonable efficiency. However, it is easy to see that the potential for moral hazard and adverse selection escalates as we move down the valuation hierarchy, especially in going from level 2 to level 3. For example, the New York Times recently reported that Wall Street was flirting with a new financial instrument called securitized insurance. The idea would be to approach individuals with $1-million life insurance policies and offer them, say, $400,000 to assign the $1-million payoff to the buyer. Tranches of these assigned policies would then be bundled and sold to investors.

The investors would profit if policyholders died shortly after assigning the payoffs, which would be curtailing insurance specialist said that the chief risk was that drug companies would discover a cure for cancer, prolonging the time before the payoff and reducing its present value. On reflection, one can see the potential for moral hazard (sellers understating their health) and adverse selection (healthy people accepting the payouts). We doubt that any analyst could provide reliable level 3 simulated prices for these derivatives.
Distressed markets
A related issue is what to do when markets would normally provide reliable level 1 quotes but are temporarily distressed. Economists Franklin Allen and Elena Carletti recently provided very substantial insights on this issue. They argue that markets work properly only if market prices reflect the present value of future cash flows. However, in times of financial crisis, such as the Russian crisis of 1998 that led to the demise of US hedge fund Long Term Capital Management and the credit crisis of 2008, prices diverge from the asset’s underlying value and instead reflect the amount of cash in the market, the liquidity that is available to buyers who are currently active. In such times, money becomes a valuable good in itself rather than being a mere numéraire that we use to keep track of the prices of other goods. If money is in short supply, the only sustainable equilibrium entails all security prices falling. Liquidity injected by governments is then a tide that lifts all boats.

An example of liquidity pricing relates to the 2008 price collapse of AAA-rated tranches of mortgage-backed securities. Some banks had to write down AAA-rated super senior tranches of mortgage-linked collateralized debt obligations by as much as 30% because of a drop in market prices. If this price drop had stemmed from deterioration in the fundamental value of the mortgages, it would have implied a loss rate of 38%, consistent with 76% of the households defaulting and only repaying 50% of the face value of the mortgages. The Bank of England noted that this was not realistic because none of the AAA-rated tranches had yet defaulted and the bank estimated that there should not be any future defaults at all, even with a continued decline in US house prices. Another indication of liquidity pricing is the unusually high co-movement among different types of securities with different fundamentals. This can only be explained by their joint dependence on a third variable: the amount of cash in the market.

Top financial talent is always your best investment.

Call today for your FREE 2010 Salary Guide.

Accountemps, Robert Half Finance & Accounting and Robert Half Management Resources are the leaders in specialized financial and accounting staffing for temporary, full-time and project placement, respectively.

1.800.803.8367 accountemps.com
1.800.474.4253 roberthalffinance.com
1.888.400.7474 roberthalfmr.com
In our view, the real issue is not whether we footnote noncredit losses or relegate them to OCI, it is whether the numbers are backed up by rigorous auditing to ensure the plausibility of expected cash flows. Early empirical evidence supports this view.

In such situations, slavishly marking down asset values to quoted prices on banks’ balance sheets can exacerbate a liquidity crunch by forcing banks to sell good assets at depressed prices to obtain enough liquidity to maintain regulatory solvency or capital ratios. Unfortunately, this means there will be more good assets chasing the same amount (or less) of cash in the market. This can drive down asset prices even farther in a vicious circle and even lead to contagion in the market, where all banks suffer and liquidity is unavailable to finance business activities in the real economy.

At the time of writing, the International Accounting Standards Board’s (IASB) solution is to account for banking books — groups of assets managed on the basis of income and expenses incurred to maturity of the instruments — at amortized historic cost, reflecting only expected credit losses in earnings. Expected credit losses would be estimated using management’s estimates of expected cash flows, irrespective of the quoted fair values of similar assets in distressed markets. The Financial Accounting Standards Board, in contrast, seems to be moving toward always marking banks’ financial instruments to market but sending noncredit loss markdowns, during times of market distress, to other comprehensive income (OCI). Financial statement readers would then decide how much weight to put on the OCI amounts.

In our view, the key issue to resolve is whether distressed asset prices reflect what would be obtained from the distressed sale of good assets that banks might be forced to sell to satisfy liquidity needs, or the desire to offload lemons, whose expected cash inflows are lower than they were when the assets were purchased. Consumers of used cars can appreciate the distinction. When a seller advertises a car as must sell, presumably the seller is trying to convince readers that he or she doesn’t really want to sell the car but needs to sell it to obtain liquidity. Is this a credible claim or is it a ruse to sell a lemon to a sucker? If the claim is true, the seller has every incentive to convince us it is true by disclosing the car’s service records.

Financial statement users have information needs that are similar to the readers of used-car ads, and banks have incentives that are very similar to those of used-car sellers. Accounting can supply valuable information to users, including bank regulators and policy-makers, by distinguishing good assets from lemons. The good assets do not deserve to be marked down to quoted prices, provided banks have the ability and intention to hold them long enough to recover their investments. The lemons, however, do deserve to be marked down, as they are not going to pay off no matter how long a bank holds them. This has nothing to do with how long the market for financial assets might be depressed because of liquidity pricing. It also has nothing to do with whether the market is efficient or not. It has to do with the fundamental valuation of the asset. Like used-car sellers, bankers have every incentive to convince auditors that their assets are not lemons by presenting detailed data relating to borrowers’ financial strength and plausible assumptions about the amount and timing of future collections, co-movements of asset prices with similar assets in the market, and so on. In our view, the real issue is not whether we footnote noncredit losses or relegate them to OCI, it is whether the numbers are backed up by rigorous auditing to ensure the plausibility of expected cash flows. Early empirical evidence supports this view.

Procyclicality — early empirical evidence
Three recent empirical studies shed some early light on investors’ assessments of the carrying values of US banks’ assets and liabilities during the financial crisis. The studies used cross-sectional regressions to estimate the multiples that shareholders assigned to levels 1, 2, and 3 carrying values in pricing bank shares during 2008. Results are summarized in the table below.

<table>
<thead>
<tr>
<th>Hierarchy levels</th>
<th>Two studies of quarterly ranges of valuation multiples during 2008</th>
<th>One study combining all quarters</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Dollars of share price per dollar of assets at three levels of the valuation hierarchy)</td>
<td></td>
</tr>
<tr>
<td>Level 1</td>
<td>Q1  81¢ – 84¢  64¢ – $1.03  $1.01  $1 for both assets and liabilities</td>
<td></td>
</tr>
<tr>
<td>Level 2</td>
<td>Q2  77¢  58¢ – 63¢  50¢  $1 for both assets and liabilities</td>
<td></td>
</tr>
<tr>
<td>Level 3</td>
<td>Q3  65¢ – 71¢  37¢ – 42¢  28¢  +68¢ for assets; ~$2.19 for liabilities</td>
<td></td>
</tr>
</tbody>
</table>
One study looked at the four quarters of 2008 combined. It reported that level 1 and level 2 assets and liabilities were valued by investors at close to their reported book values on average. Level 3 assets, however, were heavily discounted: share prices reflected only 68¢ per dollar of carrying value on the balance sheet. Moreover, level 3 liabilities were priced at more than double their carrying values, so that share prices were $2.19 lower for every extra dollar of level 3 liabilities. This implies that investors took level 3 carrying values with a strong grain of salt. Importantly, however, the study reported that stronger governance was associated with higher asset multiples and lower liability multiples, especially at levels 2 and 3. Governance measures included board independence, audit committee activity, ownership structure, internal controls and auditor size.

Two other studies estimated similar valuation multiples quarterly for 2008. At the end of the first quarter of 2008, a $1 cross-sectional increase in level 1 net assets was valued at 81¢ to 84¢, while similar increases in the carrying values of level 2 and level 3 assets were valued at 65¢ to 77¢. As the crisis intensified, however, the table on p. 22 shows that some of the multiples declined dramatically, especially for level 3 assets — most spectacularly in the third quarter when the level 3 multiple declined to 28¢. Indeed, in the third quarter the level 3 multiple was not significantly greater than zero except for banks with high-capital adequacy ratios and Big Four auditors. One of the studies, which focused on smaller banks listed on Nasdaq, showed that the level 1 multiple actually increased in the second and third quarters, consistent with the suggestion that investors thought the assets had been written down too much; i.e., the accounting was mildly procyclical, leading rather than lagging the deterioration in the economy.

We draw three tentative conclusions from these early studies. First, if FVA is procyclical, the procyclical impact of the accounting was evident only in level 1 assets, which were marked down as much as, or even a bit more than, investors’ valuation of the assets — especially on the balance sheets of smaller, Nasdaq-listed banks. These are precisely the assets that banks would have been likely to sell if they needed liquidity. Level 3 asset values, in contrast, were resistant to markdowns: the accounting for these assets lagged, rather than led, the economic down-cycle. It is unlikely the banks would have sold them during the crisis.

Second, investors generally perceived level 3 asset carrying values were biased upward, especially as the crisis intensified. This probably reflected time lags in marking the instruments to model, the uncertainty about their actual fair values, and, perhaps, the discretion available to management in biasing the carrying values upward to suit their own purposes.

Third, more favourable capital ratios, higher-quality auditors and stronger governance translate into higher valuation coefficients for level 2 and level 3 assets. Hence, marking to model — including the IASB’s incurred credit loss model — is a defensible accounting method, provided auditors can attest to the credibility
of management’s estimates.

The case of Lehman Brothers is consistent with the empirical findings and our tentative conclusions. On November 30, 2007, three-quarters of Lehman’s fair-valued assets were valued using level 2 or level 3 inputs, not on the basis of quoted prices. By May 31, 2008, that proportion had increased to nearly 82%. Further empirical work, as well as the liquidation of Lehman Brothers, will eventually provide evidence regarding the extent to which its assets had been overstated or purposely shifted into levels 2 or 3, to hide developing losses and give management more breathing room before marking down the assets. This unflattering interpretation is consistent with Lehman Brothers being an early-adopter of both SFAS 157 and SFAS 159, Option for Fair Value Measurement, and implementing the provisions of the new FVA standards in the first quarter of 2007 without having auditors attest specifically to the credibility of the estimates.

Accounting and the market: mirrors facing each other?
Reporting market prices on corporate balance sheets is inconsistent with using financial statement data to see if a firm’s stock price reflects its fundamental or intrinsic value. Finance studies in the late 1990s show that value and price are statistically co-integrated; however, they can diverge from each other for considerable periods of time when information acquisition is costly or markets are distressed. The studies also suggest that value relevance has two dimensions. When price is a noisy measure of value, value relevance may be assessed according to the ability of an information signal to contribute to future returns rather than current values.

Other studies conducted during the late 1990s and early 2000s raise a fundamental question, at the macro-economic level, as to the grounding of financial statements in real economic phenomena. A study by Norman Macintosh and his colleagues at Queen’s University in 2000 argues “companies’ earnings determine security prices, which determine derivative prices, which determine companies’ earnings. In short, neither the accounting sign nor the financial market sign appear to be grounded in any external reality.” In other words, at the macro-economic level, accounting and the market are like two mirrors reflecting each other, each depending on the other for its information, in an endless endogeneity-loop where it is not clear what determines what. This has the potential to create market bubbles, where asset prices are decoupled from underlying cash flows, and to create systemic risk, where companies (especially financial institutions) depend on each others’ assessment of fair values of derivatives without reference to underlying property values.

The Lehman case illustrates that possibility. During the last complete fiscal year before its bankruptcy (2007), Lehman reported earnings of US$4.3 billion. Investors presumably relied on Lehman’s reported earnings to assess its prospects and determine share price. A large proportion of Lehman’s assets and expenses were shares and share-based derivatives. Close to 50% of its assets were measured according to FVA. Arguably, then, Lehman’s earnings and stock price were mutual reflections of each other. Similar arguments may apply to many financial institutions deeply involved in the current crisis or engulfed by it.

Implications for standard setters and the profession
The use of FVA is spreading beyond financial instruments and banks. It is manifest in such areas as the measurement of minority interests, capital asset revaluations under IFRS and goodwill impairments. This emphasis on FVA evinces a focus by standard setters on the information needs of investors, especially shareholders, to the potential detriment of other financial statement users.

Support for FVA in the academic literature comes largely from empirical findings that FVA-based numbers are associated with companies’ share prices — they are value relevant. However, mere associations between accounting numbers and stock market prices do not justify adopting FVA holus bolus, because accounting serves many constituents besides shareholders, often serving as a basis for contracts relating to compensation, debt covenants and partnership interests.

Lenders, for example, would be loath to endorse a firm’s policy of paying dividends based on unrealized, expected cash flows. We think that the excessive bonuses paid by many financial firms in the years leading to the crisis, often based partly on FVA-derived earnings, suggest that enthusiasm for FVA should be tempered with caution in compensation contracts as well. In short, FVA pulls accounting away from its traditional stewardship role, for which verifiability and conservatism ensure that payouts are based on delivered, not expected, performance. The emergence of FVA also poses challenges for auditors. The market crisis has made clear that auditors cannot blindly rely on quoted prices. The evidence strongly suggests that auditors need to go beyond reported prices to gain a comprehensive understanding of underlying market conditions in the context of companies’ business models: banking books would generally not be affected by quoted values, provided audits add credibility to level 2 and level 3 carrying values.

Conclusion
There can be little doubt that regulators’ use of FVA, as it is currently practised, can result in FVA being more than just a messenger delivering bad news. Perhaps paradoxically, however, we...
view this and other criticisms of FVA during the financial crisis as being good for the accounting profession, in that they have caused standard setters to ponder when FVA is appropriate and when quoted market prices can be relied on as reliable indicators of fair values. Without the crisis, accountants would have merely speculated how FVA should be modified in distressed markets; during the crisis, they had to confront the issue head-on.

The FVA debate goes beyond accounting and financial reporting. It strikes at the essence of what accountants are expected to contribute to society and what competencies and skills they must possess in order to deliver useful information to financial statement readers. Accounting standards overstretch accountants’ current capabilities and prior learning, and they ignore the informational needs of stakeholders other than investors. Standard setters and auditors need to start with a clean sheet of paper in determining how FVA is implemented. When level 1 inputs are unavailable or unreliable due to market distress, manifest in such phenomena as liquidity pricing or cash-in-the-market pricing, management must drill down into the opaque assets on banks’ balance sheets to assess their underlying value, and auditors must opine on the plausibility of managers’ expected cash flow projections. If management claims that quoted prices diverge from intrinsic values due to a lack of liquidity, a rigorous audit could validate management’s claim. Otherwise, the securities may be lemons and should be marked to market.

We call on accountants to exercise leadership over the financial reporting process instead of passively relaying market-induced values. The evidence shows that investors’ valuation of fair-valued assets is enhanced by higher quality auditing and stronger governance, suggesting that accountants can add credibility to fair values by taking an active role in auditing level 2 and level 3 inputs and expressing opinions about the plausibility of level 2 and level 3 fair values. To the extent that they are reluctant to do this because of legal liability concerns, it would be appropriate to consider safe-harbour reforms of the legal liability regime for auditors.

The intervention of external parties, such as auditors, also has the potential to break the facing-mirrors endogeneity-loop by focusing on the fundamental cash flows underlying asset values. Thus, the market crisis has provided the accounting and auditing profession a rare opportunity to actively manage the transition of financial statements toward a more thoughtful, better-grounded way of implementing FVA. The future of the profession rests on its success in managing this transition.

Michel Magnan, PhD, FCA, ASC, is the Lawrence Bloomberg chair in accountancy, John Molson School of Business, Concordia University, and an associate fellow, CIRANO

Dan Thornton, PhD, FCA, is the Chartered Accountants of Ontario professor in accounting at Queen’s University School of Business and an associate fellow, CIRANO
Today’s CA students are bright, driven, ultra-connected — and probably more diverse than any group that has gone before them

By Lorie Murdoch

Destination: CA

Samantha Merritt loves flying — so much so that the 32-year-old Yellowknife resident spent five years piloting small planes for an air charter company in the North. By her estimate, she flew to more than 300 bush locations, carrying everything from snowmobiles to drillers, canoeists, babies, a parrot, caribou carcasses — even dead bodies. For her, every job was a delicate balancing act between variables such as weather and aircraft capability. While trying at times, it was still satisfying. “You were master of your [albeit very small] universe, for better or worse,” she says. And she still remembers the exhilaration of soaring high in the sky en route to destinations such as Port Radium or Bathurst Inlet. “The feeling of tipping your wing over a pristine lake in the wilderness is unbeatable.”

Despite what she calls her “great adventure,” Merritt decided in 2007 that it was time to lower her landing gear. “I realized that

Samantha Merritt (with a Cessna 180 and her puppy Tico) piloted the northern skies before deciding to head for her CA

Photography by JIRI HERMANN/KLIXPIX
If the CA student body has evolved, it's only in proportion to the change in the world around it. As with other professions, one of the most noticeable changes is in the number of women. In the early 1980s, the ratio of men to women in the Atlantic region was 64:36. Now, it's almost 50:50 unless I moved to a major airline position, I would not have a very secure future financially," she says. "Also, I really couldn't see myself at 40 or 50 years old rolling barrels into a Twin Otter in the winter at -35°C." She was offered a job at Charles Jeffery Chartered Accountant, a small firm in Yellowknife, and took it.

Even before working at the firm, Merritt had found she enjoyed taking accounting courses, so she took some more once she was on board. She also did some research and opted to go for her CA. Now she plans to start courses with the CA School of Business this May and to write the UFE in 2011.

Merritt’s route to a CA might seem more indirect than most, but her story is far from extreme. We’re sure of that, because CA magazine recently conducted an informal survey designed to paint a portrait of today’s typical CA student (see “CA student survey results” on p. 30). We wanted to see how entrants to the profession have changed over the past 15 to 25 years and how much they resemble each other today. Certainly, our survey revealed many common traits — for example, more than three-quarters of our respondents had a degree in finance or a related subject, and most fell into the under-30 group. Almost 60% worked for the Big Four firms and about the same percentage planned to spend their careers with a large organization.

But when we talked to respondents and other students, many different profiles began to emerge. There were parents, homeowners, an entrepreneur and several “second careerists,” including two other pilots. Then there was Marie Alexandre-Gingras of KPMG in Montreal, who decided to learn English because she had noticed that there were increasing opportunities for bilingual people in the business world. She plans to pass the UFE in her second language as “tangible proof of her commitment to becoming a bilingual CA.”

If the CA student body has evolved, it’s only in proportion to the change in the world around it. As with other professions, one of the most noticeable changes is in the number of women. Dan Trainor, FCA, executive director of the Atlantic School of Chartered Accountancy, notes that in the early 1980s, the ratio of men to women was 64:36 in the Atlantic region. Now, he says, it’s almost 50:50. The same applies to Ontario and the CA School of Business. (In Quebec, the women-men ratio is actually 55:45. Our survey results were not typical, in that we had 39% women respondents.)

Jim Brown, CA, director of education at the Institute of Chartered Accountants of Ontario, uses dress code as a means of describing the changing fabric of the CA student world. “Let’s put it this way,” he says. “A CA is no longer a guy in a dark suit. At convocation, you’ll see some of our new CAs in suits with ties, some with no ties, some with no jacket. Most women now wear jackets and pants — although some still wear skirts or dresses. Twenty-five years ago, there weren’t as many women and they rarely wore pants to work. Everyone’s dress code [was] dark colours. There was even a time when men were told not to wear brown suits. Now almost anything goes. You also see traditional cultural dress, turbans, hijabs — we are truly a cosmopolitan profession. There is no stereotype that can describe a CA student today.”

Background and gender aside, CA students do their homework before joining the profession. They seem to be heading for the same destination — what they see as a perfect balance of stability, variety and opportunity.

“The CA [designation] is a launching pad for many career opportunities,” says Brown. “It translates to other financial careers. The range is very wide in terms of industry and type of
work.” Adds Diane Messier, FCA, vice-president, education and recruitment, Ordre des comptables agréés du Québec: “The CA designation offers students the diversity they need in their professional lives, just like they have in other areas.”

For Jonathan Gallo, who spent 16 years in the Canadian Armed Forces before deciding to change course in 2008, it was probably fitting that he should use military vocabulary to describe his new career. “A CA is able to span the gap between the specifics — numbers — and the strategic to help guide and lead companies,” he says. “This mix interests me, because not only do you have an in-depth tactical knowledge of the business, but that knowledge is then used as the springboard to make and guide strategic decisions.” Gallo, a native of Cornwall, Ont., began working with Edmonton’s PricewaterhouseCoopers this past October.

Stefano Picone, a 27-year-old University of Toronto grad who recently completed his practical experience and now has his designation, was also attracted by the in-depth nature of CA education. “I have always been an entrepreneurial person,” he says. “I realized that to be successful, I would have to acquire a very strong understanding of how businesses operate, which is something the CA designation provides.” This past September, Picone launched www.myCAsite.com, a web portal where students can connect and find a library of resources.

A major drawing card for the designation is the mobility it
provides — not only within Canada, but around the world. That, along with regular hours, compensation and the ability to apply as a mature student, was a decisive factor for Merritt. “The CA profession stood out from the other accounting designations because of its international recognition,” she says. Guillaume Lafrance, who passed the UFE in 2009 and works with Malenfant Dallaire in Quebec City, agrees: “The CA profession, through its reputation, gives me career opportunities all around the world.”

For the 58% of survey respondents who indicated they do plan to work outside the country at some point, prospects of employment are excellent, according to Brown. “Canadian CAs are in high demand and the mobility of newly minted CAs makes them ideal candidates for international travel,” he says. “Once we go through the IFRS conversion, [they] will be even more marketable, especially if the US decides to switch over in five or 10 years.”

Although globalization spells good news for overseas prospects, it places a heavier demand on students, who now must master a much greater body of standards than their peers did 20 or 25 years ago. “The growth of new financial instruments and the globalization of the economy have brought forth the need for new or more complex standards,” Brown says. “Many feel a sense of ‘standards overload.’” He adds that since there is an overload, the profession is stepping up to try and help all CAs.

John Gunn, FCA, who is CEO at the CA School of Business in Vancouver, says that in today’s fast-paced world, students need to be “on” all the time. There are no more relatively meaningless

---

### CA Student Survey Results

**How do today’s CA students differ from their peers a generation ago?** CA magazine decided to find out. In our monthly e-newsletter and on our website, we asked students to contact us if they wanted to be interviewed for an upcoming article. While it was impossible to talk to all those who responded, we did send them a short survey covering topics such as educational background, interests, goals and expectations.

We received 38 completed questionnaires. The answers below, although not statistically relevant, do correspond in many ways to our findings from other sources.

**Age**
- 20 to 25: 82%
- 26 to 29: 11%
- 30-plus: 7%

**Gender**
- Male: 61%
- Female: 39%

**Undergrad degrees**
- Business or related to accounting: 79%
- Arts: 5%
- Other: 16% (tourism, accounting, financial management, accounting [honours] co-op, math)

**Expected earnings over the next five years**
- Less than $75,000: 32%
- $75,000 to $99,000: 42%
- $100,000 to $129,000: 21%
- $130,000-plus: 5%

**Written UFE**
- No: 92%
- Yes: 8%

---

Have you travelled outside the country for work in the past year?  
Yes: 18%  
No: 82%

Did you choose to become a CA with work/life balance in mind?  
Yes: 53%  
No: 47%

Do you feel you have a satisfying work/life balance?  
Yes: 71%  
No: 29%

Do you participate regularly in sports?  
Yes: 63%  
No: 37%

Do you participate in volunteer activities at work?  
Yes: 55%  
No: 45%

Do you volunteer outside of work?  
Yes: 50%  
No: 50%

Do you use Twitter?  
Yes: 11%  
No: 89%

Do you use any (other) social networking sites?  
Yes: 89%  
No: 11%

Do you use a BlackBerry or similar?  
Yes: 50%  
No: 50%
Canada’s foremost strategic fraud prevention and management guide, *The Accountant’s Handbook of Fraud Prevention and Detection* is designed to help manage the risk of fraud, deal with suspected fraud, and protect against liability exposure.

For more information or to order, visit: knotia.ca/store/FRAUD-CA
tasks. “Some of the mechanical functions — the audit procedure of re-footing journal pages on an adding machine, for example — are not required anymore,” he says. “That’s good; the work is more consistently interesting. But those less intellectually challenging tasks were sometimes a nice break. Today’s students don’t get that break.”

Many would agree they are constantly tested. “You’re challenged on a day-to-day basis,” says Marc Priestley, 23, who went onboard full time at BDO Dunwoody in Mississauga, Ont., in January and will graduate from Brock University in June. “You have to deal with varying expectations from all different spectrums — coworkers, managers, partners, different client areas,” he says. “Everyone has different ideas of when and how things should be done. It forces you to adapt constantly.”

Still, students don’t seem to be complaining. “One of the reasons I love my job is that it is challenging,” says Alissa Bryden from Rossland, BC, who works with Yule Anderson Chartered Accountants in Castlegar, BC, and plans to write the UFE this year. “With regulations changing and new governments implementing new legislation, it is always a challenge to stay constantly on top of them,” she says. “It is never boring, that’s for sure.”

Most students actually seem to be thriving on the rush of multitasking. “It’s easy for [students] to switch from one thing to another,” says Messier. “They develop networks and use IT all the time. Cellphones and texting are second nature for this generation so they are in communication with others a lot more than we were, even 10 years ago.” Our survey results showed 89% of respondents use social networking sites and 50% own a BlackBerry or similar.

Tiffany Wilson, lead of campus programs for Deloitte in Toronto, thinks technology is responsible for the faster pace of life in the workplace and elsewhere. “I think the overlying principle is speed,” she says. “Everything is at [the students’] fingertips and it’s changing their expectations — how quickly they get promotions, get a job, get in front of clients.” Because students seem to need immediate responses and rewards, Wilson thinks some employers might be mistakenly questioning their loyalty. She believes students do want to grow within a company and, along with that, expect to be able to communicate with the leaders. “I [never thought] of speaking to the leaders,” she says, “because they were too busy. Now, you see CEOs taking students out for coffee and social networking means that everyone is much more accessible.”

As well-etched as their career ambitions might be, students seem to be just as intent on maintaining their social lives. But as Wilson points out, work/life balance does not necessarily mean the same now as it did in previous generations. Then, it was all about new moms going back to work. Now, it’s sports, volunteering, working at home and taking sabbaticals to travel the world, she says. Moreover, firms are encouraging staff to volunteer not only at home but overseas. “In the old days, you would have to quit your job if you wanted to go someplace like Africa,” says Wilson. “Now, there are volunteer opportunities within the firm to do that.”
It could be because of initiatives such as these that 71% of our survey respondents said they were satisfied with the time split between work and play. Says Schulich School of Business grad Doug Guan, who works at Deloitte & Touche in Toronto: “I think firms have done a great job in recent years of implementing initiatives that put more ‘life’ into the work/life balance.”

Balance includes making room for the fact that increasing numbers of students have family responsibilities. As Gunn notes, “I waited until after I got my CA to get married, buy a house, etc. When I meet new CAs at convocations, I hear from a good number of them that they did those things while studying for the UFE. I am amazed.”

One student who definitely hopes to make up for lost time with his family is Gallo, who is 34 with two preschoolers. “Anything less than 80% of the time away from the family is a welcome change from my past profession,” he says.

Jan Blades is quick to credit her firm, ACBelliveau Veinotte Inc. Chartered Accountants in Bridgewater, NS, with outstanding support during a complicated time in her life. The 47-year-old former military oceanographic operator and fish plant controller was in the middle of the two Module 1 weeks when her sister, who was visiting from England, was diagnosed with a terminal illness. Her firm let her take a leave of absence so she could go to England to be with her sister as soon as Module 1 was completed. She finished the distance part of Module 2 there and returned to Nova Scotia about seven weeks later, after her sister died.

Blades is no longer in crisis mode, but she still has a challenging timetable as a stepmom and stepgran. She wrote the UFE this past September and passed. “I guess my point is that challenges do arise during life and can be overcome with diligence, focus and a supportive network that includes your employer, friends and family,” she says.

Trainor must have had this kind of dedication in mind when he said the binding traits among CA students have not changed in decades. “The successful people are about the same as those who have gone before,” he says. “They have to be organized and disciplined. They’re bright. They have to be willing to put in the effort. They have a work ethic.”

A good work ethic will stand Gallo in good stead as he tackles the CA School of Business and climbs into his new profession. Still, he finds his change of course exciting. “When you make such a drastic transition, it’s something like parachuting: once you decide to do it, there’s no going back,” he says. “When you leave the plane, it doesn’t do any good to spend time re-thinking the decision. You’d best spend the time planning the landing.”

That seems like good advice for all those who are focused on their landings, whether they be passing the UFE, completing their practical experience, being promoted — or hopping onto a plane for a position abroad.

Lorie Murdoch is a freelance writer in Hamilton

Instant online access to all the journals, magazines and research you need

Exclusively for Chartered Accountants, CA Research Plus from the CICA is an online database available in a yearly subscription format.

CA Research Plus for $100 per year, gives you:
The full text of leading business magazines and many more reports in a fully searchable format.
The ability to e-mail articles to your clients or staff and receive notification when new issues are released.

Also available:
CA Research Plus in French (Vente et Gestion) for $50 per year:
Full text of leading French language business journals and magazines.

Business Book Review (BBR) for $75 per year:
Instant summaries of more than 700 of the top business books for you to gain knowledge in minutes.

Try all databases for free for 3 months, and continue these services at the special members’ only price.
Go to www.caresearchplus.com to get started today.
As two more provinces take up HST, it remains to be seen if harmonization is the cure-all for Canada’s sales tax regimes.

The long-awaited panacea?

As two more provinces take up HST, it remains to be seen if harmonization is the cure-all for Canada’s sales tax regimes.

With the introduction of a harmonized sales tax (HST) in Ontario and BC on July 1, 2010, the concept of a national value-added tax in all provinces may someday become a reality. After the goods and services tax (GST) replaced an antiquated and regressive federal sales tax in 1991, Quebec was the first province to mothball its existing retail sales tax system in favour of a GST-like Quebec sales tax (QST). In 1997, New Brunswick, Nova Scotia and Newfoundland and Labrador adopted a value-added tax structure that became known as the HST. Twelve years later, Ontario and BC deemed it the right time to extend the HST to their respective provinces, with some minor differences for political effect.

For the past 18 years, the GST and its provincial look-alikes have been the cause of much political debate. Supporters of a value-added sales tax structure argue that such a tax has numerous advantages, including:

- fundamentally, it is the most economy-friendly form of sales taxation. It promotes investment in the manufacturing sector and does not adversely affect the export sector since it generally does not allow for sales tax to be hidden in the cost of inputs to the manufacturing or export process;

- since its inception, it has been a constant and consistent source of revenue for the federal government, regardless of the state of the economy;

- it is designed to be a simple, broad-based and therefore efficient tax, allowing for a flow-through of taxes payable and taxes recoverable, with any resulting tax refunds being paid quickly. Because it is broad-based, it also allows
for reduced collection efforts, resulting in lower collection costs per dollar of tax than other forms of commodity taxation; and
• its resulting reduction in the current investment in knowledge and training that multiple retail sales tax systems require will lead to measurable cost savings.

Those against such a tax structure offer the following opposing arguments:
• the tax base is too broad and affects consumers adversely;
• the tax structure is flawed and unfairly affects certain industries, such as the financial services sector; and
• the nature of the accounting for the tax by registrants, with the potential for inappropriate refund of net tax, has resulted in an increased incidence of fraudulent activity over recent years, which in turn has reduced the inherent efficiencies in the tax as legitimate refund claims are held pending audit.

In spite of the ongoing debate, the current political climate appears to favour the adoption of a commodity tax system that is harmonized with the federal GST. As further evidence of the benefits of such a tax structure, proponents point to actual and well-documented experience in New Brunswick, Nova Scotia and Newfoundland and Labrador, where the shift to HST, though not immediate, resulted in a reduced overall tax and administrative burden. Because the tax in Ontario and BC will be quite similar, there is no reason to believe that the result will be different. If so, is it just a matter of time before we have all provinces jumping on the bandwagon?

Though the theory behind HST strongly supports its adoption by each province in Canada, the reality is that such radical change in sales tax structure is a political uphill battle, as we witnessed in Ontario and, more particularly, in BC. Regardless of the politics, experience suggests the adoption of a true HST across Canada, with as few differences as politically feasible, would result in a sales tax landscape that would be cheaper, easier and more efficient to administer.

The implementation of HST in Ontario and BC will have a significant effect on all GST registrants in Canada and abroad. Because its application will be directly tied to the existing GST, all GST registrants will be required to consider and plan for its application on July 1, 2010.

This includes implementing significant changes to systems and processes and consideration of numerous operational issues, including its effect on current collection and input tax credit mechanisms, budgeting and operational cash flows, sales and purchasing systems (including IT changes), transaction documentation, human resources, education and training and external communication with customers. As CAs, many of us will be called upon to assist in resolving the operational issues in a manner that will ensure the proper implementation and administration of this new tax structure.

The following commentary outlines the more significant issues GST registrants will face in their implementation initiatives. Although not exhaustive, it should raise awareness of the magnitude of the initiative and assist in development of an implementation plan to address individual needs of GST registrants.

In spite of the ongoing debate, the political climate appears to be favouring the adoption of a commodity tax system that is harmonized with the federal GST

Collection and input tax credit (ITC) mechanisms
For GST registrants, the collection and ITC mechanism within the organization should already be well established. What will change with HST is the rate of tax charged and collected on sales (5% federal component plus 8% Ontario provincial component or 7% BC provincial component) and the amount of HST recoverable as an ITC on purchases. Although most HST paid by organizations will be eligible for an ITC, similar to the QST, partial ITC restrictions will apply on the purchase of certain goods and services. The treatment of these tax rate changes and restricted input tax credits within the organization’s accounting and reporting systems will need to be addressed.

Budgeting and operational cash flows
The effect of sales tax harmonization on organizational budgeting and operational cash flows will depend on the nature of the organization’s activities and the extent to which retail sales tax has been a cost to the organization in the past. From a budgeting perspective, it will be necessary to determine to what extent the organization may have paid unrecoverable retail sales tax on purchases made prior to July 1, 2010 versus purchases made with either 100% recoverable or partially recoverable HST paid subsequent to that date. The result of this exercise will likely have some effect on an organization’s product/service pricing after implementation date.

From a cash flow perspective, a higher rate of tax collected on sales will have an adverse effect on cash flow to the extent that the tax is remitted to the Canada Revenue Agency prior to being collected from the customer. There may, however, be certain mitigating strategies where ITCs can be claimed for HST paid on purchases prior to the payment of supplier invoices.

Sales and purchasing systems
Determining when and where a sale takes place dictates whether tax is applicable and at what rate. It will be critical to the implementation process to familiarize yourself with new transitional and place of supply rules in Ontario and BC to be able to properly apply the correct rate of tax both during the transition period and subsequent to June 30, 2010.

From a purchasing perspective, the timing of purchases will become critical because of an organization’s ability to recover HST versus a current unrecoverable retail sales tax. The decision to defer otherwise taxable purchases for retail sales tax purposes may have a material effect on operations.

From an IT perspective, significant changes will be required to the billing and accounts receivable systems and the purchasing
and accounts payable systems. Tax tables, point-of-sale equipment and tax status of products and services will need to be addressed, as will tracking of various rates of tax and the federal/provincial components of HST to enable the capturing of restricted ITCs.

Transaction documentation
Documentation requirements are quite strict under the existing GST/HST legislation. In order to comply with these requirements, sales invoices, purchase invoices, purchase orders, expense reports, etc. will require alteration. Existing contracts that straddle the implementation date will require review to determine the impact of HST and whether there is a need for amending or clarifying wording. Any new contracts should be drafted to properly consider the HST.

Human resources
For most organizations, human resources will be involved in the implementation process on a number of levels. In the short-term, there will be a need to determine whether additional staff is required to ensure that implementation deadlines are met. It will also be necessary to review internal policies to determine whether any changes are necessary, particularly in the areas of expense and taxable benefit reporting. Training materials will also be needed to enable all staff to understand and apply the new tax structure in the various departments. In the longer term, staffing needs may be reduced because of the efficiency of the tax structure.

Education and training
Because all facets of an organization are affected by sales taxes, the benefit of proper organization-wide education and training for sales tax harmonization is a reduction in costly errors, surprises for overlooked issues and potential future audit exposures. Assembling the right individuals to develop and deliver the training programs will ensure that errors and surprises are minimized down the road.

External communication
A shift in sales tax structure of this magnitude will create confusion for customers. To minimize this, clear messages will be necessary to ensure they understand what sales tax changes will result from harmonization. As a general rule, customers will be expecting price reductions from their suppliers since suppliers will no longer be paying unrecoverable retail sales tax on purchases that would otherwise have been incorporated in their sale price. Communicating price reductions or lack thereof with timely explanations will mitigate any potential damage to customer relationships.

In summary, the above commentary outlines the more significant issues that all GST registrants will face in their implementation initiatives. There are, however, many other issues to consider before an organization is harmonization ready. These will vary by organization and will only be identified if the proper effort is put forth in the implementation planning process. Admittedly, it will take some time before sales tax harmonization is proven to be the cure-all for the illnesses in the current federal and provincial sales tax regimes in Canada. In the next six to 12 months, many of us will wonder whether the ultimate destination will in fact be worth the journey. Further complicating the issue are a number of provinces sitting on the fence and leaning the other way, suggesting that a national value-added-tax may not be as imminent as we think. We are, however, two provinces closer than we were just a year ago.

John Drysdale, CA, is a principal with Brendan Moore & Associates, a sales tax consulting and recovery firm in Oakville, Ont. He can be reached at jdrysdale@brendanmoore.com

UBC DAP
The gateway to accounting
Accelerate your future with the Diploma in Accounting Program (DAP) at the University of British Columbia.
If you are a university graduate seeking a professional accounting designation, you can fast-track your education through the UBC Diploma in Accounting Program (DAP). UBC DAP’s curriculum is recognized by the Chartered Accountants School of Business (CASB) and satisfies most of the program requirements.

APPLICATION DEADLINES
Sep start: Jun 1 (International applicants)
           Jul 1 (Domestic applicants)
May start: Feb 1 (International applicants)
           Mar 1 (Domestic applicants)

Find out how DAP can accelerate your future: www.sauder.ubc.ca/dap

THE UNIVERSITY OF BRITISH COLUMBIA

Technical editor: Brigitte Alepin, M.Fisc., MPA, CA, president of AGORA

36 CAmagazine | March 2010
Insights on reforms

While scarce, there are some indications that the new regulatory landscape has strengthened auditing in Canada.

Are reports from regulatory oversight institutions informative to public companies and audit committees? Have regulatory changes strengthened audit practice? Research that outlines and analyzes the impact of recent reforms to the oversight of audit firms in the US and Canada sheds light on these issues. These reforms follow a surge in high-profile financial reporting failures and reflect attempts by regulators to restore investor confidence in capital markets. For example, the Canadian Public Accountability Board (CPAB), which has been conducting inspections since 2003, strives “to contribute to public confidence in the integrity of financial reporting of public companies in Canada by promoting high quality, independent auditing.”

Rigorous auditing is grounded in auditors’ incentives to constrain managers from excessively exploiting their discretion over accounting policies and estimates. Jere R. Francis reviews prior theory and evidence that public accounting firms supply high-quality audits to protect their reputations and to avoid becoming ensnared in potentially ruinous litigation. However, Mark DeFond stresses that countries’ oversight institutions — such as the CPAB in Canada and the Public Company Accounting Oversight Board (PCAOB) in the US — that monitor the profession likely also play an integral role in shaping audit firms’ incentives that, in turn, affect the credibility of their clients’ financial statements. It is important to keep in mind that Canada still mainly adheres to professional standards from regulatory oversight institutions informative to public companies and audit committees. Have regulatory changes strengthened audit practice? Research that outlines and analyzes the impact of recent reforms to the oversight of audit firms in the US and Canada sheds light on these issues. These reforms follow a surge in high-profile financial reporting failures and reflect attempts by regulators to restore investor confidence in capital markets. For example, the Canadian Public Accountability Board (CPAB), which has been conducting inspections since 2003, strives “to contribute to public confidence in the integrity of financial reporting of public companies in Canada by promoting high quality, independent auditing.”

Rigorous auditing is grounded in auditors’ incentives to constrain managers from excessively exploiting their discretion over accounting policies and estimates. Jere R. Francis reviews prior theory and evidence that public accounting firms supply high-quality audits to protect their reputations and to avoid becoming ensnared in potentially ruinous litigation. However, Mark DeFond stresses that countries’ oversight institutions — such as the CPAB in Canada and the Public Company Accounting Oversight Board (PCAOB) in the US — that monitor the profession likely also play an integral role in shaping audit firms’ incentives that, in turn, affect the credibility of their clients’ financial statements. It is important to keep in mind that Canada still mainly adheres to professional standards from regulatory oversight institutions informative to public companies and audit committees. Have regulatory changes strengthened audit practice? Research that outlines and analyzes the impact of recent reforms to the oversight of audit firms in the US and Canada sheds light on these issues. These reforms follow a surge in high-profile financial reporting failures and reflect attempts by regulators to restore investor confidence in capital markets. For example, the Canadian Public Accountability Board (CPAB), which has been conducting inspections since 2003, strives “to contribute to public confidence in the integrity of financial reporting of public companies in Canada by promoting high quality, independent auditing.”

Rigorous auditing is grounded in auditors’ incentives to constrain managers from excessively exploiting their discretion over accounting policies and estimates. Jere R. Francis reviews prior theory and evidence that public accounting firms supply high-quality audits to protect their reputations and to avoid becoming ensnared in potentially ruinous litigation. However, Mark DeFond stresses that countries’ oversight institutions — such as the CPAB in Canada and the Public Company Accounting Oversight Board (PCAOB) in the US — that monitor the profession likely also play an integral role in shaping audit firms’ incentives that, in turn, affect the credibility of their clients’ financial statements. It is important to keep in mind that Canada still mainly adheres to professional

---

**Improved transparency**

<table>
<thead>
<tr>
<th></th>
<th>CPAB</th>
<th>PCAOB</th>
<th>US peer review</th>
<th>Informative?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Engagement performance weaknesses</strong></td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
<td>NO</td>
</tr>
<tr>
<td><strong>Quality control deficiencies</strong></td>
<td>NO</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td><strong>Overall evaluative summary</strong></td>
<td>NO</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
</tr>
</tbody>
</table>

In Canada, the CPAB began handling the oversight of public company audits in 2003. In the US, the PCAOB in 2004 replaced peer review in monitoring the firms that audit public companies. We rely on the evidence in Lennox and Pittman (2009) to calibrate whether the public disclosures made by these oversight institutions are informative.
self-regulation while the US recently shifted to government oversight of public company audits.

Although CPAB has apparently made progress in improving the auditing process for public company engagements, some commentators argue that its oversight suffers from failing to publicly divulge the results of its inspections by individual audit firm. Rather than identifying audit firms in its public reports, CPAB only comments on their collective performance. For example, in its initial report on the state of the audit profession in Canada that focused strictly on the four largest public accounting firms, CPAB concludes that although there were no systemic problems with the quality of their external audits, there were several ways that the Big Four could strengthen their assurance services. However, users cannot rely on this disclosure to gauge the audit quality of any of the firms within the Big Four.

Brian Hunt, CEO of CPAB, defends this approach: “Firms take our inspections seriously. As long as we’re seeing improvements, we don’t see the need” to report at the firm level. In the opposite direction, Steve Salterio, a renowned accounting scholar at Queen’s School of Business, calls for more extensive disclosures: “The report is too much of an aggregate level. It needs to be firm specific... Tarring everybody with the same brush is not helpful.” Similarly, the Fraser Institute encourages CPAB to disseminate its findings by audit firm to ensure that market participants are in a better position to evaluate audit quality. In sharp contrast to the situation in Canada, PCAOB in the US provides more transparency on the outcome of its inspections by making portions of its report cards on individual audit firms publicly available.

Although PCAOB was supposed to improve transparency, Lennox and Pittman conclude less is known about audit firm quality under the new regulatory regime.

In one of its major provisions, the Sarbanes-Oxley Act of 2002 (SOX) created PCAOB to handle the periodic inspection of the firms that audit US public companies, reversing almost 25 years of professional self-regulation under peer review. In this institutional structure, the US Securities and Exchange Commission (SEC) continues to monitor public companies, while PCAOB monitors the audit firms. Clive Lennox and Jeffrey Pittman dissect from an information standpoint the implications of this transition in the regulations governing the oversight of audit firms. They document that changes in audit firms’ market share are insensitive to PCAOB inspection reports, implying that public companies ignore this information when choosing an auditor. In other words, Lennox and Pittman find no evidence that public companies tend to appoint (dismiss) audit firms receiving favourable (unfavourable) PCAOB inspections reports, which is somewhat surprising given that audit committees routinely insist on reviewing reports on audit firm quality before settling on an auditor.

Lennox and Pittman’s results stand in stark contrast to prior research that the former peer review program, which the American Institute of Certified Public Accountants abandoned for public companies after PCAOB began its inspections in 2004, was informative according to audit firm client perceptions. Although the program has long been criticized for independence shortcomings, clients nonetheless interpret peer review reports as reliable signals of audit firm quality. Consequently, Lennox and Pittman sharpen their analysis to help empirically resolve which disclosures under the old peer review system are considered informative. Their evidence suggests that clients value peer review reports because they render an overall opinion on the audit firm’s quality and include an evaluation of its quality control systems. However, PCAOB’s public disclosures do not cover either of these issues, leading the authors to infer that this partly explains why these reports are irrelevant to public companies’ auditor appointment decisions.

In a nutshell, the PCAOB inspection reports fail to provide the very information that clients value according to research on self-regulation under peer review. This evidence squares with the take of J. Michael Cook, past chairman of Deloitte, in CFO magazine, 2007: “I think the [PCAOB inspection] process is well intentioned, and it is helpful and constructive, but right now it is not producing the kind of results that it should for people who are using the reports.”

Although PCAOB was supposed to improve transparency, Lennox and Pittman conclude less is known about audit firm quality under the new regulatory regime.

Although PCAOB was supposed to improve transparency, Lennox and Pittman conclude less is known about audit firm quality under the new regulatory regime. In fact, their analysis suggests that the informational value of peer review reports stem from findings that PCAOB inspectors withhold from the public. This research may have policy implications for Canadian regulators since the argument that CPAB falls short on transparency fails to consider that the more comprehensive disclosure under the PCAOB inspection process provides minimal incremental information to the capital markets; i.e., US public companies appear to almost fully discount these disclosures when selecting an audit firm. Indeed, despite the difficulty in justifying policy prescri-
tions at this early stage — both CPAB and PCAOB have short track records — it would appear that the best way for CPAB to improve transparency would be to follow the reporting format under the US’s old peer review program that PCAOB supplanted (please see chart on p. 37). This would involve publicly disclosing the audit firm’s quality control problems along with an evaluative summary of its overall level of audit quality in the form of, for example, an unmodified, a modified or an adverse opinion. In comparison, the public portion of the PCAOB inspection reports diverge from peer review by narrowly focusing on engagement weaknesses without outlining any quality control deficiencies or issuing an evaluative summary. Still, PCAOB’s reporting format was specified in SOX such that inspectors must ensure their disclosures on audit firm performance comply with this legislation.

Importantly, evidence that PCAOB reports lack information value does not necessarily mean their inspections fail to strengthen audit quality. In fact, although there is no empirical evidence to date on this issue, DeFond stresses that PCAOB might rely on imposing stricter standards and harsher penalties to motivate firms to improve their audits in anticipation of a visit from one of its inspectors. Besides initiating its own disciplinary proceedings, PCAOB can notify the SEC of auditor misconduct or the US Justice Department of potential criminal violations. Prior evidence implies that holding auditors civilly or criminally responsible for deficient performance has a sobering impact on their incentives to conduct better audits; e.g., Omrane Guedhami and Pittman.13 Reinforcing that its inspections are intended to play a remedial role, PCAOB holds that its primary purpose is “to promote ongoing improvements in audit quality of registered firms.”14

Another potential upside of the PCAOB inspection process is that audit firms are prevented from selecting their own reviewers, which may improve objectivity. In fact, consistent with the heavy criticism levelled at the former peer review system, Lennox and Pittman find that audit firms tended to exploit this discretion by choosing lenient reviewers, which was permissible under the old system; i.e., audit firms were more likely to switch to another reviewer if the incumbent filed an unfavourable report.

CPAB has also relied on sanctions to strengthen audit practice in Canada. For example, seven audit firms were recently forbidden from accepting new public company clients until CPAB recommendations were addressed, while another’s registration was revoked for failing to comply with CPAB standards. Moreover, some partners in firms ranging from smaller regional practices to the Big Four share the perception that CPAB has helped improve audit quality across the country.15 On the other hand, some small firms have elected to no longer audit public companies to avoid the higher regulatory burden under the CPAB, including its fees and registration requirements.16
Helping your clients get the right financing doesn’t have to be a bumpy road.

When advising your small- and medium-sized business clients on their financing options, be sure to give them all of their available options. The Financing Toolkit for Small & Medium Businesses can help your clients put their best foot forward by providing alternatives to the traditional financing options and getting them better prepared to discuss them with you.

The Toolkit will walk them through practical information on financing structures, drafting a business plan, and case studies based on real-world experiences. The accompanying CD includes checklists and worksheets to help clients analyze their financing needs and prepare to take the necessary steps with greater confidence.

To order, visit knotia.ca/store/financing or call 416-977-0748 (Toronto) or 1-800-268-3793 (Toll Free)
In short, although evidence corroborating this remains scarce, there are some indications that the new regulatory landscape has strengthened auditing in Canada despite that CPAB reports do not provide audit firm-level disclosure on performance. However, recent research on US regulatory institutions suggests that capital market participants ignore PCAOB-style inspection reports in any event.

References
10 The Public Oversight Board (2002, “The road to reform:

A white paper from the Public Oversight Board on legislation to create a new private sector regulatory structure for the accounting profession.”: 22-23) summarizes that “peer review has come under considerable criticism from members of Congress, the media and others. ‘You scratch my back, I’ll scratch yours’ is the prevailing cynical view of peer review raised by many.” DeFond and Francis (2005, “Audit research after Sarbanes-Oxley?” Auditing: A Journal of Practice and Theory 24: 5-30) recount that Deloitte & Touche issuing a “clean” peer review report on Arthur Andersen in December 2001 — shortly before Andersen admitted shredding documents from the Enron engagement — was partly responsible for the US replacing professional self-regulation with external monitoring by the PCAOB.

Clive Lennox, PhD, is a professor at Nanyang Technological University, and Jeffrey Pittman, PhD, CA, CMA, is a professor at Memorial University of Newfoundland

Technical editor: Christine Wiedman, PhD, FCA, School of accounting and finance, University of Waterloo
So many years of hard work go into building a successful business. And yet, many business owners lack a proper succession plan and vision for the future.

As their trusted advisor, you can help your clients protect the value of their hard-earned business investment and choose an exit strategy that’s right for them.

A VALUABLE MARKETING TOOL
The CICA’s Succession Planning Toolkit for Business Owners can help your clients understand the typical aspects business owners face when exiting their business and be better prepared to discuss their plans with you. The 10 chapters of straightforward discussion provide:

- A step-by-step process for analyzing options for transferring management and ownership interests and developing an effective succession plan
- Guidelines for creating and sharing plans with family and other key individuals
- Checklists on an accompanying CD which can be customized to fit each unique business situation
- Real life succession planning stories from Canadian business owners.

To order, visit the CICA online store at www.knotia.ca/store/businessowners or call the CICA order department at 416-977-0748 (Toronto) or 1-800-268-3793 (Toll Free).
Performance indicators

Once in place they make it possible to review internal auditors’ work and are a key factor to an organization’s success.

Internal audit is a recognized strategic function in both public and private organizations. The internal audit department is mandated to provide senior managers and audit committee members with the needed support to achieve objectives, improve management practices and performance and implement controls to mitigate risk. Accordingly, the internal audit department must have a well-established structure if it is to effectively address these concerns. Performance indicators constitute a key factor in the department’s success.

The following indicators are taken from a 1999 guide developed by Quebec’s public service Forum of Internal Audit Administrators (www.frvi.gouv.qc.ca).

Why measure?

Internal auditors often recommend that clients adopt indicators and set targets to appropriately monitor their operations. How does this advice apply to internal audits?

Using indicators to measure performance is an effective way to regularly assess added value and the professionalism extended to senior management, audit committee members and managers being audited. This approach also allows internal auditors to work with staff in setting objectives and targets. Lastly, a number of indicators conform with the requirements of internal audit professional standards.

Prerequisites

To gather information about these indicators, internal auditors need to have systems in place for compiling data. In this respect, they must:

• prepare an annual plan of mandates to be performed;
• have a system for recording the number of hours spent on each mandate;
• annually follow up on recommendations made in previous reports;
• request action plans after submitting their internal audit reports;
• determine direct and indirect costs;
• prepare a time budget and a time line at the beginning of each mandate;
• compile the number of professional development days for internal auditors;
• use a questionnaire to survey the opinions of internal audit clients and senior management on internal audit performance and results of the work.

The performance indicators used break down into two categories: quantitative and qualitative.

Quantitative indicators

Twelve quantitative indicators measure how the internal audit function has an impact on the organization, on internal management and on the outcomes achieved. Some indicators are measured after each internal audit mandate and others at regular intervals. Targets are set in consultation with management, audit committee members and internal audit staff. Measurement results are reflected in the annual internal audit report and, more particularly, they provide a basis for some interesting discussions with senior management and audit committee members.

Compliance with initial planning This indicator compares the internal audit activities achieved with those initially
planned. It is based on planning developed in agreement with management and audit committee members. The internal audit plan is primarily derived from the internal auditor’s assessment of the organization's risks and the concerns of senior management and the audit committee. This indicator enables audit committee members and senior management to ensure that the internal audit focuses on selected areas that add value to the organization, particularly areas involving material risks.

The internal audit department reports to the audit committee on a quarterly basis. The success rate for this indicator is set at 80%. Even though time is set aside for special mandates, planned work must often be postponed when unscheduled yet important mandates arise. However, these postponed mandates are then included in the next year’s planning.

_Time spent on audit work_ This indicator measures the time spent on internal audit work (audits, special mandates and advisory services) in relation to all department activities and the productivity of internal audit staff. Internal audit employees are given a target of 80%, which they have no problem meeting. This indicator enables senior management and the audit committee to monitor the efficiency of the internal audit function and ensure that staff is working on files relating to the organization’s mission.

Time spent on special requests versus audit work This indicator shows the importance management places on the internal audit function. For instance, when internal auditors are called on to resolve an urgent problem, their credibility, the climate of trust that prevails in the department and their contribution to the organization is reflected in this indicator. If the department does not receive any special requests, the question would be why. This indicator reflects the time spent on mandates and special requests such as advisory services, rapid analysis of a document, etc. However, such requests should not become common practice. While the internal auditor’s advisory role is often appreciated, it shouldn't interfere with scheduled mandates. That’s why this indicator is

### Quantitative internal audit performance indicators

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>SCOPE</th>
<th>TARGET</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Compliance with initial planning</td>
<td>Measure the proportion of internal audit activities completed in relation to those initially planned and approved by management</td>
<td>Complete more than 80% of mandates scheduled in the initial planning process.</td>
</tr>
<tr>
<td>2. Time spent on audit work</td>
<td>Determine the time spent on internal audit work (audits, special mandates and advisory services) versus all the department’s activities</td>
<td>Spend 80% or more business days on audit work</td>
</tr>
<tr>
<td>3. Time spent on special requests versus audit work</td>
<td>Determine the importance management places in the internal audit function as regards certain specific needs</td>
<td>Spend no more than 20% of time on special requests</td>
</tr>
<tr>
<td>4. Implementation of recommendations (total or partial)</td>
<td>Determine extent to which the recommendations contained in internal audit reports have been implemented</td>
<td>Implement (all or some) 80% of recommendations</td>
</tr>
<tr>
<td>5. Time line for implementing recommendations</td>
<td>Measure the scope and feasibility of the internal audit recommendations</td>
<td>0 to 6 months (20%) 6 to 12 months (50%) 1 to 2 years (2%) 2 years or more (5%)</td>
</tr>
<tr>
<td>6. Potential monetary benefits of the recommendations</td>
<td>Measure monetary savings (recurring or unrelated to productivity gains or to reduced or discontinued operations)</td>
<td>Achieve savings over a three-year period at least (where applicable)</td>
</tr>
<tr>
<td>7. Hourly cost of the internal audit function</td>
<td>Determine the hourly cost of internal audit work</td>
<td>Below market</td>
</tr>
<tr>
<td>8. Compliance with direct labour time budget for each mandate completed</td>
<td>Determine compliance with direct labour budget allocated for each internal audit mandate</td>
<td>100% (accepted variance of up to 10%)</td>
</tr>
<tr>
<td>9. Compliance with timelines for each mandate completed</td>
<td>Determine compliance with timeline for submitting draft report to internal audit clients</td>
<td>100% (accepted variance of up to five days)</td>
</tr>
<tr>
<td>10. Internal audit resources</td>
<td>Determine the proportion of resources the organization has assigned to the internal audit function</td>
<td>Sufficient resources according to the size and nature of the organization</td>
</tr>
<tr>
<td>11. Time frame for issuing the draft internal audit report</td>
<td>Assess the timeframe established between the completion of the audit work and submission of the draft report to internal audit clients</td>
<td>Three weeks or less</td>
</tr>
<tr>
<td>12. Professional development</td>
<td>Assess the time devoted to professional development in order to ensure optimal quality of training of internal auditors</td>
<td>Five to seven days per auditor per year</td>
</tr>
</tbody>
</table>
Estate Planning can be puzzling for your business clients. As their CA, you can help.

The Estate Planning Toolkit for Business Owners provides clients with a framework for working with their professional advisors to create a viable plan that protects their future and the future of their business and their family.

• 192 pages with 21 easy-to-read chapters
• practical checklists on an accompanying CD
• illustrative real-life stories highlight key considerations and options for clients’ futures.

The Estate Planning Toolkit for Business Owners

To order go to: www.cica.ca/estateplan
important to track such requests, which shouldn't constitute more than 20% of internal audit work. This indicator is of value to senior management since it highlights the internal auditor’s commitment to the organization.

**Implementation of recommendations (total or partial)** This is the most important indicator since it is directly related to the internal auditor’s mission, which is to make recommendations to improve the organization’s practices. It determines the extent to which the internal audit recommendations have been implemented and the impact on the organization. Consequently, the recommendations must be realistic and provide added value. The goal is to have 80% of the recommendations implemented or in the process of being implemented. In this way, senior management can ensure that managers introduce measures based on the recommendations and assess the effect of the internal audit work on the organization. This indicator also enables internal auditors to review their recommendations.

**Time line for implementing the recommendations** This indicator measures the scope and feasibility of the recommendations. Those having a significant impact on the achievement of the organization’s mission should be quickly implemented. Moreover, it is not advisable to make too many long-term recommendations, as they could end up being a wish list. The action plan is an important document in ensuring management adopts the measures on a timely basis. If internal auditors have reservations about the time line for implementing the measures, they can discuss it again with managers and inform the audit committee. Furthermore, this committee oversees the rapid and systematic implementation of the measures, which impact the purpose, governance, risks, controls and integrity of the organization.

**Potential monetary benefits of the recommendations** This indicator cannot be measured on a regular basis. What’s more, the internal audit’s added value should not be based on this indicator alone. In some situations, this indicator can measure the impact of the internal audit work and the inherent quantifiable monetary benefits. It also requires internal auditors to perform value-for-money type audits. In reality, the recommendations do not always produce quantifiable monetary benefits. Nonetheless, circumstances permitting, these recommendations add value to the work performed by internal auditors. This indicator helps senior management understand that internal auditors are always concerned about optimizing the organization’s resources and promoting savings. However, since the organization’s managers are the ones who must make decisions and take action, all the credit shouldn’t go to the internal audit function.

**Hourly cost of the internal audit function** This indicator determines the cost of internal audit mandates and activities. It is a way to compare results with related costs and to determine whether the organization received value for money. At the end of each mandate, the work is evaluated with the internal auditors. This enhances employee awareness and ensures that future reviews and practices are more effectively targeted. The hourly rate can also be benchmarked against the market rate. This indicator is subsequently discussed at meetings with the audit committee and senior management, who are then able to appreciate the cost of the internal audit function.

**Compliance with time budget for each mandate completed**

These two indicators are used to ensure compliance with direct labour time budgets and the time lines set for completing each mandate. They are first used to measure the number of hours worked compared with the time budget and the prescribed time line, according to an acceptable variance threshold. Then, a determination is made of the number of mandates that were completed on target. These indicators are discussed in meetings with the auditors at the end of each mandate. They help to improve the planning of the direct labour budget and time lines and to focus on activities that require more attention during the mandate.

Qualitative indicators complement quantitative ones as they can be used to assess other aspects of the internal audit department’s performance

Lastly, these indicators demonstrate the thoroughness of the internal auditors’ work to senior management.

**Internal audit resources** This indicator addresses an important issue that is regularly discussed with senior management but for which the frames of reference remain unclear. It determines whether the organization has sufficient internal audit staff. It is based on metric units established according to previous experience in the field. It should be consistent with other aspects of the organization, including the budget, the nature of operations and the risk map prepared by the internal audit department. It should also take account of other stakeholders such as the auditor general, controller, program evaluation staff, consultants, etc. This indicator can also be based on benchmarks in the internal audit field. To determine the staff needed, managers should consider the following:

- Is the information required to meet the objectives available?
- Is the information reliable?
- Are the controls applied properly?
- Are there potential risks?
- Are all operations optimal and effective?
- Are policies and guidelines properly followed?

If the answer to several of these questions is no, managers should then determine whether the internal audit function can address the issue. Although this indicator isn't perfect, requirements in these areas could be included on the agenda of meetings with senior management and the audit committee.
Make the most of your time this tax season

Ernst & Young’s Guide to Preparing 2009 Personal Tax Returns — Internet Edition

The guide tax professionals depend on for practical examples, handy reference materials, and fast answers when preparing tax returns.

Written by tax professionals for tax professionals, Ernst & Young’s Guide to Preparing 2009 Tax Returns is the online resource you need to stay up-to-speed this busy tax season.

For more information or to order:
knottia.ca/store/T109-CA • 1-800-268-3793 or 416-977-0748
Time frame for issuing the draft internal audit report  This indicator assesses the time frame established between completion of the internal audit work and submission of the draft report to internal audit clients. Three weeks after the work has been completed, the client should in principle receive a report. Obviously, meeting with a client to discuss findings and recommendations is good practice.

Professional development  This indicator measures continuing professional development aimed at enhancing the internal audit staff’s competencies according to professional standards and good practices. It is important to senior management that internal audit resources be well trained and competent since they have to advise managers and, in some instances, transfer their expertise and knowledge, e.g. in the case of risk management. Audit staff must also be up to speed on best practices in governance.

Qualitative indicators  Qualitative indicators complement quantitative indicators because they can be used to assess other aspects of the internal audit department’s performance. Once the mandates are completed, audited managers receive an evaluation questionnaire on the internal audit work. The questions cover the following issues:
• clarity of the objectives and approach;
• relevance and feasibility of the recommendations;
• new perspective provided by the report;
• reliability and relevance of the findings;
• clarity and understandability of the reports;
• improvement of risk controls thanks to the recommendations;
• regular feedback during the work;
• tact and diplomacy exercised;
• compliance with deadlines; and
• managers’ satisfaction.

Once a year, the audit committee performs a self-assessment of the internal audit function. This exercise is intended to:
• ensure added value by implementing a preventive proactive approach and assuming the role of change agent;
• promote the adoption of a management assistance approach;
• draft realistic recommendations;
• take action in the right sectors in terms of risks; and
• share expertise.

In addition, internal audit performance is regularly evaluated since internal auditors must be able to appropriately respond to the audit committee’s questions about their reports, and in general, about the organization’s risk management and control procedures.

Lastly, compliance with professional standards and internal audit performance should be assessed internally and externally every five years.

Conclusion  Performance indicators make it possible to regularly review the internal auditor’s work and contribution to the organization. This approach is implemented in conjunction with the auditors in order to improve internal audit practices and with senior managers in order to understand their needs and concerns. Performance indicator-based management is therefore a key factor in achieving success.

Pierre Gagné is the director of internal audit, surveys and assessment, at Revenu Québec. He is a member of the FRVI development committee and was involved in preparing the guide.

Technical editor: Yves Nadeau, audit and risk management partner, RSM Richter Chamberland in Montreal

Visit our website @ camagazine.com

WEB FEATURES  News and exclusive items of interest to all accountants

HOT TOPICS  Articles on popular subjects

WEB EXTRA  Web–only articles, also summarized in the print edition

CURRENT PRINT EDITION  The entire magazine in digital form

ARCHIVES  Hundreds of articles published in the magazine since 1994

The essential companion to our print edition
How much is enough?
Overall audit documentation requirements are the same between CASs and existing standards, but differences lie in certain specific standards. Whenever the Auditing and Assurance Standards Board (AASB) issues a new auditing standard, one of the first questions practitioners ask is, does this new standard require more documentation in my audit files? Documenting audit work takes time and is a major component of the cost of an audit. Proper documentation, though, can help improve the quality of an audit in various ways. AASB staff examined the documentation implications of the 36 new Canadian auditing standards (CASs) that come into effect for financial statement periods ending on or after December 14, 2010.

The examination focused on three key matters: the factors that determine the overall extent of documentation required; how the new standards affect the documentation relating to assessing and responding to risks of material misstatement, and other changes in the nature, timing and extent of documentation that will need to be made when the CASs are implemented.

To answer these questions, AASB staff focused on CAS 230, Audit Documentation, and the standard it will replace, Documentation, Sec. 5145, as a starting point. These standards set out the requirements and guidance on audit documentation.

Extent of documentation
CAS 230, para. 8, and Sec. 5145, para. 12, are essentially identical. They both require that audit documentation should be sufficient “to enable an experienced auditor, having no previous connection” with the audit, to understand the nature, timing and extent of the audit procedures performed to comply with the relevant auditing standards.

An experienced reviewer of an audit file may focus on whether the documentation supports that the objectives of the audit have been achieved. Each CAS contains...
one or more objectives that the auditor uses when planning and performing the audit. CASs do not require the auditor to document separately that individual objectives have been achieved. However, documentation of a failure to achieve an individual objective is required. Such documentation helps the auditor to evaluate whether such a failure has prevented the auditor from achieving the overall objectives of the audit.

It is also vital that the experienced reviewer understand how the auditor has dealt with an exceptional circumstance when the auditor has judged it necessary to depart from the audit procedures in a requirement. To comply with CAS 230, para. 12, the auditor must document how the alternative audit procedures performed achieved the aim of that requirement and the reasons for the departure. Authority of Auditing and Assurance Standards and Other Guidance, Sec. 5021, para. 4, contains a similar requirement.

The experienced reviewer will also focus on whether the auditor’s documentation clearly supports the basis for an auditor’s conclusions from the audit and, in particular, the professional judgments made by the auditor in reaching those conclusions. CAS 230 requires the auditor to document significant professional judgments. “Professional judgment” is defined in CAS 200, “Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards,” and clarifies that professional judgment is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement or sufficient appropriate audit evidence. Both CAS 200 and CAS 230 provide application and explanatory material about the use and documentation of professional judgment in an audit.

Documentation requirements under the audit risk model
The audit risk model is often described as the engine room of the audit. Overarching auditing standards deal with how the auditor should identify and respond to the risks of material misstatement of the financial statements. There is no substantive difference between CASs 315, “Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment,” and 330, “The Auditor’s Responses to Assessed Risks,” and previous Sec. 5141, Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement, and 5143, The Auditor’s Procedures in Response

**SIGNIFICANT CHANGES TO DOCUMENTATION REQUIREMENTS**

CAS 220, “Quality Control for an Audit of Financial Statements,” requires the engagement quality control reviewer to document certain specific elements relating to the audit engagement reviewed, whereas the previous requirement was that the engagement quality control review be “appropriately documented.”

CAS 250, “Consideration of Laws and Regulations in an Audit of Financial Statements,” requires the auditor to document identified or suspected noncompliance with laws and regulations and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity.

CAS 260, “Communications with those Charged with Governance,” requires the auditor, if communicating orally, to document when and to whom matters required to be communicated have been communicated. Where matters have been communicated in writing, the auditor is also required to retain a copy of the communication as part of the audit documentation.

CAS 450, “Evaluation of Misstatements Identified during the Audit,” requires the auditor to document the amount below which misstatements would be regarded as clearly trivial, all misstatements accumulated during the audit and whether they have been corrected and the auditor’s conclusion as to whether uncorrected misstatements are material.

CAS 540, “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures,” requires the auditor to document the basis for conclusions about the reasonableness of accounting estimates and their disclosure that give rise to significant risks, and indicators of possible management bias, if any.

CAS 550, “Related Parties,” requires the auditor to document the names of the identified related parties and the nature of the related party relationships.

CAS 600, “Special Considerations — Audit of Group Financial Statements (including the Work of Component Auditors),” requires the group engagement team to document specific matters relating to the analysis of components, the group engagement team’s involvement in the work performed by component auditors on significant components, and written communications about the group engagement team’s requirements of the component auditors.

CAS 610, “Using the Work of Internal Auditors,” requires that the auditor document conclusions reached regarding the evaluation of the adequacy of the internal auditors’ work and the audit procedures performed by the external auditor on that work.
to Assessed Risks, the key audit risk model standards.

Auditors of smaller entities have struggled with the nature and extent of documentation required when obtaining an understanding of the entity and its environment, including its internal controls.

In August 2009, to highlight how the design of the International Standards on Auditing (ISAs) enables them to be applied in a manner proportionate to the size and complexity of the entity, staff at the International Auditing and Assurance Standards Board issued a Staff Questions and Answers, “Applying ISAs Proportionately with the Size and Complexity of an Entity.” Auditors of smaller entities may find these questions and answers helpful in effectively implementing the CASs.

**Significant changes to documentation requirements**

In reviewing the documentation requirements set out in the CASs, staff identified the following areas where the CASs have new, or more specific, documentation requirements than the existing standards:

- detailing the engagement quality control review;
- recording identified or suspected non-compliance with laws and regulations;
- communicating with those charged with governance;
- evaluating misstatements identified during the audit;
- detailing related parties and related party relationships;
- concluding on the reasonableness of accounting estimates;
- matters relating to group audit engagements; and
- concluding on the work of internal audit.

These matters are shown in the table “Significant changes to documentation requirements” on page 50.

There are also two other significant documentation differences relating to:

- the need for an engagement completion document; and
- the time frames to complete the assembly of the final audit file.

“The CICA's Guide to New CASs in Canada,” which is available on the CICA’s website at www.cica.ca/isa/ and compares each CAS with the standard it is replacing, explains these differences in more detail.

**Engagement completion documents**

Sec. 5145 requires the auditor to identify all significant findings or issues in an engagement completion document. The form of documentation for identifying findings or issues is not specified in the CASs.

**Time frames to complete the assembly of the audit file**

CAS 230 states that an appropriate time limit for completing the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor’s report. Sec. 5145, on the other hand, requires the auditor to assemble the complete and final audit file as at a date not more than 45 days after the report release date. The difference between the documentation completion dates in the respective standards therefore depends on the timing of the audit report date and the report release date.

**Concluding comments**

In summary, the overall required extent of audit documentation, including documentation related to identifying, assessing and responding to risks of material misstatement, are identical between the CASs and the existing standards. There are, however, significant differences between the documentation requirements in certain standards.

Both sets of standards provide the auditor with the ability to exercise professional judgment in determining the specific nature and extent of documentation that best responds to circumstances encountered in a particular audit.

Eric Turner, CA, is a principal in the CICA’s Assurance Standards department

Technical editor: Ron Salole, VP, Standards, CICA
What now?

Sidelined by a lack of debt capital, private equity firms are sitting on cash. Where will they put it?

The capital crunch has had a negative impact on merger and acquisition activity across North America as leverage ratios have gone down and the amount of equity required to complete a transaction has gone up. Because of the trend to engineer transactions with debt and having a clear path to liquidity, private equity M&A activity has been particularly hard hit. Standard & Poor’s reported only US$200 million of US leverage buyout loan volume for the first half of 2009, compared with US$3.1 billion in 2008 and a scorching US$10.5 billion in 2007. US leveraged loans with a sponsor (typically private equity) amounted to just US$100 million for the first half of 2009, compared with US$5 billion in 2008.

While private equity has been on the sidelines, corporations and other strategic buyers have taken advantage of favourable prices and, in some cases, once-in-a-decade opportunities. In the first nine months of 2009, worldwide M&A amounted to almost US$1.5 trillion, down almost 38% from the third quarter of 2008. However, financial sponsors that include private equity groups (PEGs) accounted for a measly 4.9% of overall activity in 2009, the lowest since 2000 and down 67% from 2008, according to Thomson Reuters.

The potential to realize significant synergies coupled with a long-term perspective has made the current environment very favourable for certain strategic buyers. Canadian examples include Tier 1 automotive-parts suppliers stalwarts Matcor Group and Van-Rob. These companies teamed up to buy the assets of Brown Corp. of America, a 55-year-old manufacturer of automotive instrument panel reinforcements, stampings and welded assemblies with a total of seven manufacturing plants: five in the US and two in Mexico. Despite being in the worst automotive slump in decades, these Canadian companies had the foresight and the cash to take advantage of a transaction that will expand their business and increase their market share.

Few, if any, private equity buyers acting on their own would have been successful on this complex transaction...
that was impacted by a variety of customers, including automotive original equipment manufacturers.

So where does that leave private equity? There are varying accounts of just how much cash private equity firms are sitting on, but by some estimates it’s as much as US$1 trillion. The question is, where and how will they invest it?

To a degree, PEGs have been busy with their own problems, shoring up investments where it makes sense and trying to preserve capital. But that is not a long-term recipe for growth. The real opportunity for private equity in the near term may be participating with strategic investors on a minority basis or bridging transactions that are difficult to finance in the short-run. That having been said, there is an abundance of capital waiting to be invested and assuming pricing expectations can be bridged, there may be a plethora of opportunities for companies seeking to make acquisitions that at first blush may not seem financeable. PEGs may be the answer. They have the capital to invest and continue to look for business acquisitions and investments.

One of the major market shifts for private company owners seeking to monetize their shares over the past decade has been the increased activity of PEGs and their acquisition of and investment in private companies. PEGs number in the thousands across North America and manage money for insurance funds, pension funds, charitable trusts and sophisticated investment groups. Despite the downturn in the Canadian economy, the appetite for Canadian companies remains strong and the relatively better performing Canadian economy has been attracting capital from all over the world, including Asia. Even early stage businesses are sought out.

PEGs are key players when it comes to business transactions. They offer flexibility as a liquidity source, allowing entrepreneurs to take cash off the table or recapitalize their company with a sustainable and defensible market niche and position.

Other traits that appeal to PEGs are strong growth opportunities, a compelling track record, low customer concentrations and a deep management team. Most prefer a qualified management team that will continue to run the day-to-day operations while the group’s principals support them at the board of director level.

Private equity buyouts or investments take many forms, including:

• **Outright sale:** this is common when private shareholders want to sell their ownership interest and retire. Either existing management will be elevated to run the company or management will be brought in. A transition period may be required to train replacement management and provide for a smooth transition of key relationships.

• **Employee buyout:** PEGs can partner with key employees in the acquisition of a company in which they play a key role. Key employees receive a generous equity stake in the conservatively capitalized company while retaining daily operating control.

• **Family succession:** such a transaction often involves backing certain members of family management in acquiring ownership from the senior generation. By working with a PEG in a family succession transaction, active family members secure operating control and significant equity ownership, while gaining a financial partner for growth.

• **Recapitalization:** this is an option for an owner who wants to sell a portion of the company for liquidity while retaining equity ownership to participate in the company’s upside potential. Such a structure allows the owner to achieve personal liquidity, retain operational input and responsibility and gain a financial partner to help capitalize on strategic expansion opportunities.

• **Growth capital:** growing a business often strains cash flow and requires significant access to additional working capital. A growth capital investment permits management to focus on running the business without constantly having to be concerned with cash flow matters.

PEGs have become a major force in the acquisition and investment arena. They can even be thought of as strategic acquirers in certain instances, when they own a concentration of portfolio companies in a certain industry or a related area that addresses the same customer base.

Mark Borkowski is president of Toronto-based Mercantile Mergers & Acquisitions Corp. He can be reached at mark@mercantilema.com; (416) 368-8466 ext. 232

Technical editor: Peter Hatges, CA, CBV, CF, partner with KPMG LLP in Toronto and national leader of corporate finance in Canada

PEGs are key players in business transactions. They offer flexibility as a liquidity source, allowing entrepreneurs to take cash off the table or recapitalize their company.
It’s not the same thing.

The practical guidance you need to prevent data breaches in today’s high-speed world.

*The Canadian Privacy and Data Security Toolkit for Small and Medium Enterprises* by Claudiu Popa

This easy-to-use Toolkit features:
- Self-assessments to help determine your organization’s data security and privacy risks
- Advice on privacy and security risks in areas such as accounts payable, sales and marketing
- A CD-ROM containing checklists, informative articles, training templates and a customizable privacy policy
- Foreword by Jennifer Stoddart, Privacy Commissioner of Canada
- Introductory chapter by Ann Cavoukian, Ph.D, Information and Privacy Commissioner of Ontario

Check out the CICA’s Privacy Resource Centre for more privacy tools and aids such as:
- Generally Accepted Privacy Principles (updated in 2009)
- Privacy Risk Assessment Tool
- 20 Questions Businesses Should Ask About Privacy

Order your copy today!
Visit www.cica.ca/privacy or call the CICA order department at 1-800-268-3973.
AMBIT

FIT + FINISH

Ambit is an executive search firm with a focus on finance and accounting professionals. Many of Canada’s leading companies count on our highly personalized service to deliver the precise fit and finish for every position.

Let us introduce you to your next career move

www.inteqna.com

RECRUITMENT SPECIALISTS IN TORONTO, CALGARY, VANCOUVER, EDMONTON & HALIFAX

INTEQNA
For the people we know

1% TRAINING OBLIGATION (QUEBEC)

- Tired of paying all or part of the 1%?
- Will your back-up survive an audit?
- Prior years internal verifications
- Pay Equity Compliance

Tel: (514) 484-5160
Fax: (514) 484-5453
E-mail: info@liwconsultants.ca
www.liwconsultants.ca

ACCOUNTING PRACTICE SALES

NORTH AMERICA’S LEADER IN PRACTICE SALES

LOOKING FOR A CHANGE OF SCENERY?

We have qualified buyers waiting! We simplify the process and help you get more for your practice... along with the BEST terms. To learn more, call Brannon Poe, CPA at 1.888.246.0974 or visit us at www.accountingpracticesales.com

JW Associates International

CAREER DEVELOPMENT
Business Coaching
Career Consulting
Termination Support
Outplacement

EXECUTIVE SEARCH
Senior Search Group
Future Leaders Group
Onboarding
Retention Consulting

Programs qualify for continuing professional development requirements

Over 20 years experience advancing the careers of Finance/Accounting professionals

Janet Webb
President

416-363-6532  info@jwassociates.ca  www.jwassociates.ca
120 Adelaide St. W, Ste 2500 Toronto, ON

CA magazine | March 2010 55
“Forging a new vision of recruitment excellence across Canada.”

Yacoub & Associates
Recruitment Professionals Inc.
www.yarecruitment.com
Tel: 416-861-0882

Y&A Recruitment Professionals Inc. is a boutique consulting & recruitment firm that aims to change the face of recruitment by continually raising the industry standards.

For a decade, Jocelyn Yacoub and her team have specialized in placing CA’s: whether it is your first industry position or you need to explore new senior opportunities, we have built the relationships that can help your career.

Toronto, Montreal, Calgary, Vancouver

---

THE
VERRIEZ
GROUP INC.
Executive Search Consultants
Since 1985

PROFESSIONAL SEARCH FOR PROFESSIONAL LEADERSHIP

London Office
252 Peel Mall St., Suite 203
London, ON, N6A 1W9
T: 519.673.3466 F: 519.673.4748

Toronto Office
36 Toronto St., Suite 850
Toronto, ON, M5C 2C5
T: 416.847.0038
verriez@verriez.com
www.verriez.com

Member of the Association Of
Executive Search Consultants

---

Rod K. Tanaka, C.A.

TANAKA ASSOCIATES
Executive Search Inc.

120 Adelaide Street West, Suite 2500
Toronto, Canada M5H 1T1
Tel: (416) 410-8262
Confidential fax: (416) 777-6720
E-mail: tanaka@sympatico.ca

---

The Larkin Group
Executive search

Susan Larkin, CA, MBA
2275 Upper Middle Rd. E., Suite 101 Oakville ON L6H 0C3
T: 905.491.6806 E: susan@larkingroup.ca
www.larkingroup.ca

---

RBC DOMINION SECURITIES

It all adds up to a great new career
Your expertise as a Chartered Accountant
+ Our industry-leading Wealth Management platform
+ Your networking and client service skills
+ The strength and reputation of RBC
+ One great new career as an Investment Advisor

Please email your resumé in confidence to Jim Grundy, Vice-President & Branch Manager at Jim.Grundy@rbc.com or fax to 306-791-9250 (private).

---

Ashley Hargest, CA Tax Manager
www.sterncohen.com

---

Want to think alike?

Contact us
hr@sterncohen.com

---
“GREAT ACCOUNTANTS AREN’T BORN, THEY’RE... Hired!”

PTC is in the business of providing our Clients with Accounting Professionals for Contracts and Projects. Send us your RESUME by visiting our website.

Bruce Singer, Chartered Accountant
CEO & Visionary

Typical projects include IFRS, Controllers, Assistant Controllers, CFOs, Auditors, Taxation, Treasury, SOX Specialists, Junior to Senior Accountants.

For today’s CONTRACT OPPORTUNITIES, visit our website at: ptcaccounting.com

TEL 905-660-9550
TOLL FREE 1-877-303-9550

COMMITTED TO GROWTH.

Growth leads to stronger opportunities for our professionals, stronger resources for our clients and a stronger influence in the industry.

PKF Hill is interested in adding professionals to our team that are highly motivated, strive for technical excellence, share our passion for exceptional client service, and are eager to join a firm that is committed to growth.

To learn more about our firm visit pkfhill.com

Unlocking a wealth of qualified candidates has never been easier.
• Advertise your position to over 70,000 CAs
• Access our resume database (free with every job posted)
• Include your posting in our CareerVision newsletter
• Limit applicants to CAs to ensure high quality candidates

Visit CA Source today

CA|SOURCE

www.casource.com

Chartered Accountants
of Canada
A rapidly growing Bay Street financial reporting and compliance firm, specializing in servicing the needs of publicly listed junior resource companies is searching for a manager to be responsible for a block of clients. C.A. designation preferred; experience in preparing financial statements and supporting notes consistent with Canadian GAAP and IFRS; excellent communication skills; strong work ethic; the ability to multi-task. Please reply in confidence to Box 676, CAmagazine.

Fast-Track Opportunity to Partner Caskey Petluk LLP is looking for a Senior Manager for our Peace River, AB location. You will be responsible for managing business development and providing accounting and tax services to our broad base of clients. As part of this responsibility, you will manage engagements and identify client needs. Accounting designation, a good understanding of GAAP and excellent interpersonal skills are required. Interested applicants should forward a resume to the attention of Jody Caskey, CA @ jcaskey@caskeypetluk.com

IFRS Implementation – CA/MBA, based in west GTA, with 20+ years of industry experience is available for freelance engagements including IFRS Implementation. If you require an experienced professional to complement your current staff, contact me. Per Diem, short or medium term. See www.proclaimconsultants.com or call Carl at (905) 815-5431.

Professional Accountant/Financial Divorce Advisor looking for per diem short/long-term assignments. Specializing in working papers, audits, financial statements, personal and corporate tax returns, business advice. Fifteen years experience with different clients. New branch office in London, Ont. Telephone (905)270-4467.

GTA CA with over 25 years of public accounting experience (private and public filers), available for per diem or contract assignments. Experienced in working paper and financial statement preparation, including corporate and personal tax preparation (CaseWare and various tax software). Contact imakri0702@rogers.com or call 416-346-0124.

If you are a sole practitioner looking for assistance in meeting the independence requirements for review of files & financial statements & preparation or review of corporate income tax returns, or any other support to maintain your practice, we can help you. We have the experience & the staff.

We are located in mid-town Toronto. For more information call Maurice at 416-635-9080.

Do you need help?

* Services: • U.S. and international tax consulting  • U.S. tax returns (individuals and corporations)  • International transaction consulting

* Resources: • Our team is composed of experienced tax advisors  • Our network is established in over 100 countries

630 RENÉ-LÉVESQUE BLVD. W. • SUITE 2895 • MONTREAL • QUEBEC • H3B 1S6

TELEPHONE: (514) 938-0663 • FAX: (514) 938-1695

ACCOUNTING SERVICES

ACCOUNTING SERVICES

ACCOUNTING SERVICES

ACCOUNTING SERVICES

ACCOUNTING SERVICES

ACCOUNTING SERVICES

ACCOUNTING SERVICES

ACCOUNTING SERVICES

ACCOUNTING SERVICES
earn-out deal that will carry on for years. After all, if you wanted to stay in practice, why sell out? BUYERS – registration with us is simple and free via our website. North America’s leader in Accounting Practice Sales. Contact Brannon Poe for a confidential discussion at: 1-888-246-0974 or via email poe@knology.net

Accounting Practice Sales Current Listings:

Vancouver, BC – $190,000
Southwest of Lloydminster, AB – $725,000
Calgary, AB – $200,000
Sechelt, BC – $117,000
Central Interior, BC – $975,000
To view the most up to date listing information, please visit www.accountingpracticesales.com

Edmonton CA firm looking to purchase a practice or block of accounts. Please contact us at cafirm.edm@gmail.com

4 Partner GTA Firm – Our established and growing entrepreneurial firm is seeking to purchase a practice or associate with CAs who are interested in flexible succession arrangements. We are a multi-disciplinary full service firm with a particularly robust audit and tax practice enveloped with an excellent firm culture of quality, customer service and fun. Please contact Marcia Niles at 905-678-2740.

WEB DESIGN
Website Design – Do you need a website? Is your existing site in need of an upgrade? Do you lack the time to develop and maintain your website? Do you want a professional site at an affordable price? Visit us at accountantswebdesign.ca

OFFICE SPACE
Highways 401/404/Sheppard – CA firm, with in-house tax specialist, has prestigious, first-class office space available at a building with premium gym facilities. Offers a flexible mix of 3 (2 window partner-size) offices, 2/3 work stations, boardroom with panoramic view, shared reception and kitchen, and filing/storage area. Ideal space for accounting firms, law firms, and firms with expertise in valuation, insolvency, or investigative and forensic accounting looking to share costs, enjoy inherent synergy and cross-referrals. Please contact Peter at 416-499-3112 ext.318, or Sonja at ext.309.

Hwy 401/Hwy 427 Airport Corporate Centre – CA firm has office space available immediately. Use of boardroom, reception, admin staff, IT support, internet, telephone line(s), copier, fax and software available. Ideal for sole practitioner. Please contact Carlo at 905-629-4047.

Edmonton CA firm has office space for rent. Use of board rooms, telephone line(s), copier, fax, kitchen and reception. Please call 780-488-8166 or email cafirm.edm@gmail.com

Yonge/Eglinton – CA firm has luxurious executive office, furnished or unfurnished, available immediately. Use of boardroom, internet, telephone line(s), copier, fax, scanner, reception and IT support. Direct subway access. Please call 416-464-1827.

Furnished Offices for Rent – Located at 401 Bay Street at Queen, in downtown Toronto. Furnished & Equipped Executive and Team Offices, Meeting Rooms, Reception, Telephone, Admin Services, Business Centre, Café/Kitchen. Short-term leases. Call: 416-363-0400, email: info@401BayCentre.com. More info: www.401bay.com

MEDIATION / CONSULTING SERVICES
CICA/CFA with in-depth investment banking/corporate finance experience (12 yrs) is available for valuation and financial modeling services. Assistance with discussions with potential business buyers and banks (loan granting and debt restructuring). Comprehensive experience with asset and goodwill impairment testing under IFRS 36. Please contact Karl @ 647-887-7364 or karl@finmodelling.com

TRAINING
Simply Accounting Training – Sage Software approved & recommended one-day training seminars presented across Canada. Each course worth 7.5 Verified C.E.C.’s. For more information, or to register, please visit: www.AlanCohenCGA.com
The culprits

The worst recession in 75 years is behind us, and globally hundreds of millions of people suffered from its impact. Unlike most recessions, this one was caused by a limited number of individuals. Who were they?

The recession was first sparked by low interest rates maintained by the US Fed, which created a speculative real estate bubble. While a burst real estate bubble isn’t enough to trigger a global financial crisis, the resulting toxic securities poisoned the world’s financial system, spreading the disaster. The poison was concocted by a few major banks that financed the 2005-2007 real estate bubble in return for staggering profits. Because of greed and irresponsibility, these bankers, less than 10,000 in all, thrust us into the 2008 financial crisis that shook the world.

From 2005 to 2007, some 20 of Wall Street’s largest investment banks earned most of their profits from synthetic financial products, which were set up using debt securities that were pooled and repackaged into bonds with more consistent maturities and risk levels. These products, better known by their acronyms CDO, ABCP, SIV, were backed by the credibility of the investment banks that structured them and found takers in the international financial system. When the banks found themselves short on quality loans to build these products, they turned to the US real estate market. Their voracious appetite led them to extend artificially inflated mortgages, with absolutely no financial justification. No down payments, no credit checks, no principal repayments and especially no documentation supporting loan applications were required. Wall Street and its rogue lenders had to be fed.

So who were these Wall Street ogres? The biggest names in international finance — Goldman Sachs, Citibank, Merrill Lynch, Morgan Stanley, UBS, RBS, HSBC, la Société générale, etc. Few banks were able to resist the lure of easy money, except for Canadian banks, which abstained from this financial feeding frenzy.

The party ended in 2007. Declining US housing prices caused a meltdown in the mortgage market and especially low-quality subprimes, which set off a vicious circle. No longer able to rely with any certainty on the actual value of underlying mortgages, the market for synthetic products crumbled, causing a cash crisis in institutions that had borrowed to purchase these mortgages. More and more banks failed, including Lehmans, the fourth largest US investment bank, which declared bankruptcy in September 2008 after it was abandoned by the US government.

For an entire month, the world’s financial markets were paralyzed. Banks had no confidence in each other. Access to credit was significantly limited, which led to investments being postponed for lack of financing and the bankruptcy of many debt-ridden businesses. And so began the deepest recession in 75 years.

Pleading the need for urgency to save the international financial system, governments invested billions of dollars to shore up banks, saving most from going under. However, a few big names were wiped off the map: Bear Stearns, Merrill Lynch, Fortis and Lloyds. No institutions paid out bonuses in January 2009. Nearly all bank officials were axed, except at Goldman Sachs, the largest producer of toxic synthetic products, whose CEO restated its balance sheet and hung on to his position. Watching from the sidelines, Canadian banks were only slightly affected.

A year later, the crisis is just a memory, bonuses are back and banks are looking to profit from other people’s money. The real culprits were not penalized, and there’s no sign that the investment banks have learned their lesson.

Marcel Côté is founding partner at SECOR Consulting in Montreal.
It’s how your transition to IFRS should be.

The date to change over to International Financial Reporting Standards is fast approaching and the time to prepare is now. We’re here to help. We understand the complexity of the transition and offer the information, tools and training you need to successfully manage the change to IFRS. So when 2011 rolls around, your transition will be seamless.

www.cica.ca/IFRS
Your trusted source for everything IFRS.
Those who say there’s no such thing as found money have never found money.

At Brendan Moore, we’ve helped over 1,000 clients find hundreds of millions of dollars in overpaid sales taxes. That’s hundreds of millions of dollars worth of found money in the pockets (make that, bank accounts) of clients we’ve worked with. They might be bigger than you. They might be smaller than you. Either way, we helped them find money. Sound interesting? We can help you too.

Visit www.brendanmoore.com or call us at 905.829.8877 or 1.877.568.0488 for more information.