CA magazine

March 2011

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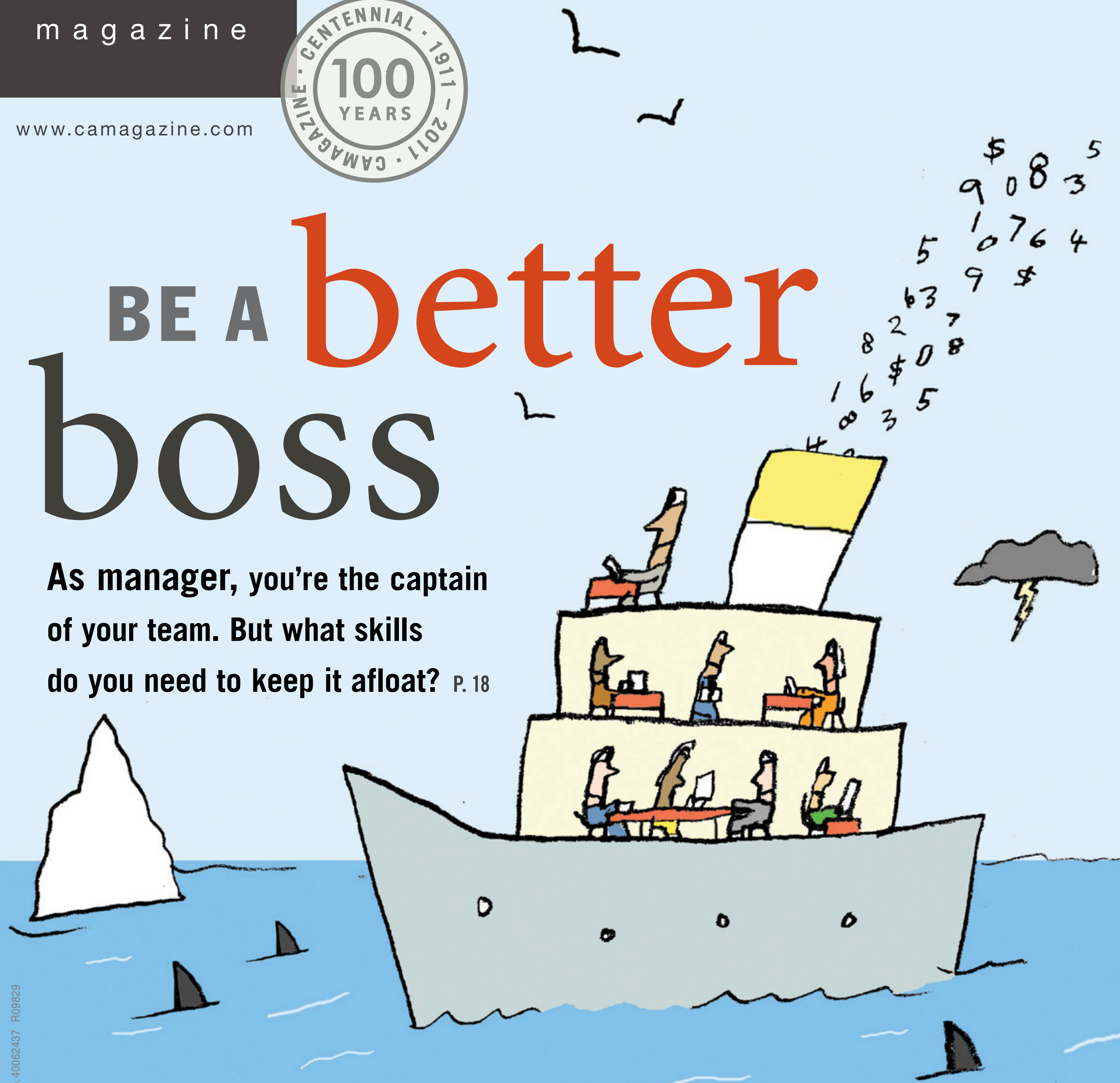

BE A better boss

As manager, you're the captain of your team. But what skills do you need to keep it afloat? P. 18

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CA magazine

March 2011 Volume 144, No. 2

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Technology	Yves Godbout, CA·IT, CA·CISA

Publisher	Cairine M. Wilson, MBA
Sales and marketing manager	Brian Loney (416) 204-3235 brian.loney@cica.ca
Advertising sales manager	Bruce Feaver (416) 204-3254 bruce.feaver@cica.ca
Quebec advertising representative	Serge Gamache (450) 651-4257 sergegamache@videotron.ca
Advertising representative	Darcey Romeo (416) 204-3257 darcey.romeo@cica.ca
Advertising coordinator	Michael Marks (416) 204-3255
Circulation manager	Annette DaRocha (416) 204-3367

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Toronto: 277 Wellington St. West, Ontario M5V 3H2
Tel. (416) 977-3222, TDX 103, Fax (416) 204-3409.
Montreal: 680 Sherbrooke St. West, 17th floor, Quebec
H3A 2S3. Tel. (514) 285-5002, Fax (514) 285-5695.

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advertising.camagazine@cica.ca

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Diversifying talents

In their training, CAs learn how to deal with numbers, but there's little in the way of training for the task of managing people

It's universally accepted that CAs are wizards with numbers. And with all the accounting specializations around, some are even experts in IT and crime investigating. But on the subject of management, many CAs seem decidedly uneasy. "Your whole career up until the time you become manager is working on files and working with numbers," says Hal Murdoch of Meyers Norris Penny in Calgary. "Then [the company says], 'Oh, congratulations, now you're going to manage a team.' And you [think], oh, really? When did accounting teach me to do this?" This is a common refrain among CAs in management who attend *CAmagazine* focus groups. They constantly ask for information on how to manage because little in their training prepares them to do this.

PAUL ORENSTEIN

In "How are you managing?" by Deena Waisberg (p. 18), we happily oblige with tips on how to be a better manager. Waisberg sought opinions of CA managers, partners and executives and writes, "Good managers are so important to a company's success, it would be wise for aspiring, new and even seasoned supervisors to review the secrets, skills and best practices that can make them shine as leaders."

Canadian CAs are in demand not just in Canada, but around the world as well. They can be found in such diverse locations as China, Vanuatu and the UAE, taking advantage of a growing global market. What are favourite destinations for CAs who want to work outside of Canada? What draws them there? Robert Colapinto set out to find out and reports his findings in "Foreign service" (p. 26). One major attraction, he says, is higher compensation. But it's not the only reason, as many also go to locales such as Abu Dhabi and the Caymans for the idyllic lifestyle.

This month, the regulars feature articles on legislation aimed at detecting efforts at aggressive tax planning (Taxation, p. 34), knowing the right questions to be answered in valuation (Business valuation p. 37), why companies choose to disclose or not forward-looking information in corporate annual reports (Education p. 40) and sharing too much information on Twitter and Facebook (Fraud, p. 44).

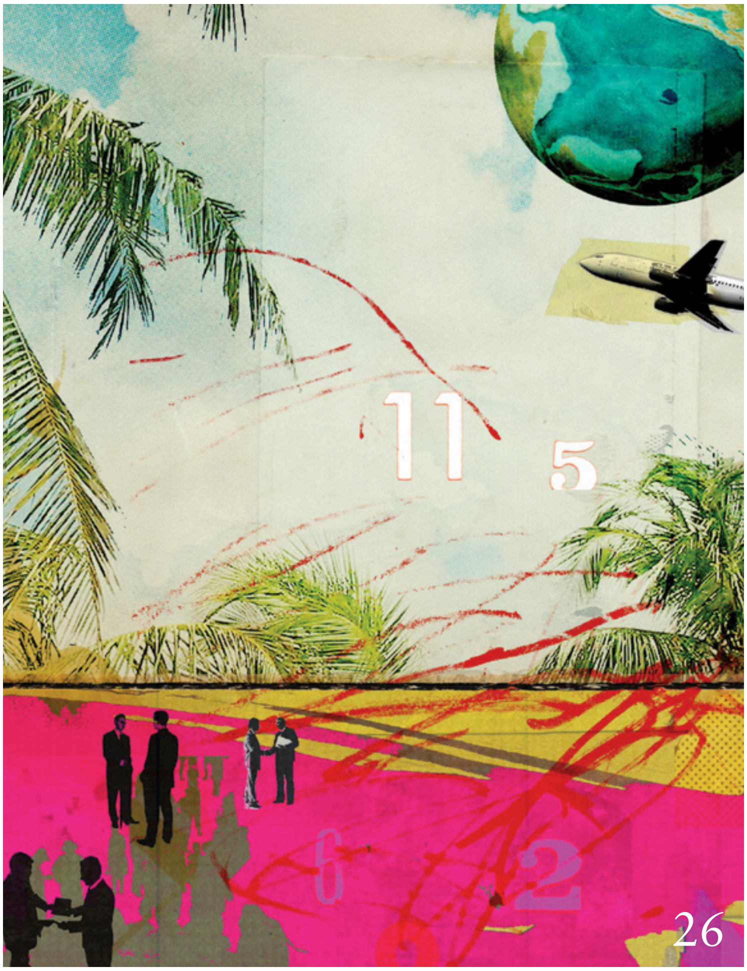
Marcel Côté is sure to rile up the boomer generation with his statement that politically they tend to be grumpy, often cantankerous voters. Their motto, he adds, is "me, myself and I" (Outlook, p. 52). And Jim Carroll says goodbye to an old friend, his fax machine, in Netwatch (p. 12). There is also Upfront with its usual entertaining and informative short pieces that readers tell us they love. Enjoy.

Okey Chigbo, Editor-in-chief (interim)

Contents

upfront

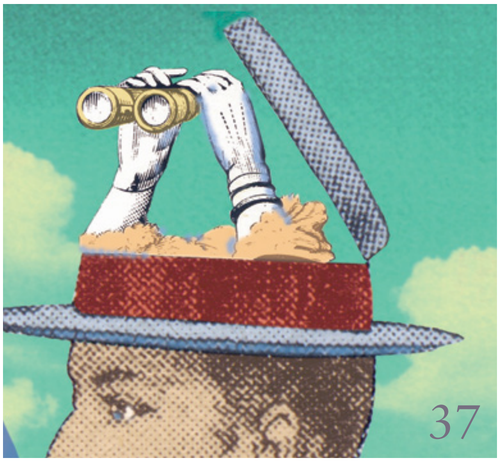
columns



features

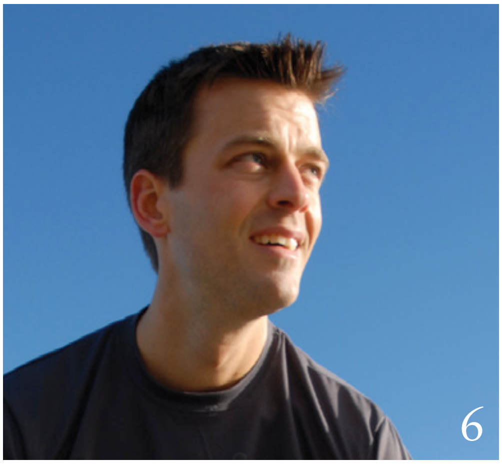
COVER: MIKE CONSTABLE

regulars



37

44



6

news

professional directory

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

Mailbox

WHERE'S THE HARM?

Regarding Marcel Côté's "A disturbing dismissal" (November 2010), did the lowering of the GST cause harm to the people of Canada? Did it not allow the provincial sales taxes to rise, in effect shifting revenue to the provinces? The only explanation given for Côté's criticism is that economists don't like it, a weak argument at best. The lowering of the rate did not lower its fairness or efficiency as a tax. It still does not penalize savings; in fact it increases consumers' ability to save. What "we would normally expect" from a Conservative government isn't always the right thing to do. To compliment a government for going against the "conventional wisdom" makes more sense to me in this case.

Shya Finestone, CA, CFP
Montreal

ILL-GOTTEN GAINS

I enjoyed David Malamed's "Sex and fraud" (October 2010).

As a former tax partner, I am curious to know whether the perpetrators paid income tax on their ill-gotten gains.

Larry Smith, CA
Lower Prospect, NS

Writer's reply: Thank you for your interest. As for your question, I don't know for certain, but it seems highly unlikely that someone who steals from his employer and cheats on his partner is going to be honest with the tax department.

CAmagazine welcomes letters to the Editor. Please write to us at 277 Wellington Street West, Toronto, Ontario M5V 3H2
e-mail address: letters.editor@cica.ca
Letters may be edited for space and clarity

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UPFRONT

News, people, briefs, trends + tips

First-place finish

CA Greg Wieczorek won Halifax's Blue Nose Marathon and was the top Canadian at the New York City Marathon last year

In the three hours it takes to fly from Toronto to Halifax, Greg Wieczorek can run the marathon distance of 26.2 miles — and still have nearly a half-hour to spare. For Wieczorek, who moved with his native Haligonian wife to the Maritimes from Ontario last year, his speed paid off: in May 2010, he won Halifax's Blue Nose Marathon, completing the challenging route in two hours and 39 minutes. "It was unseasonably warm too," says the 29-year-old Wieczorek, "so that, along with the size and frequency of the hills, added to the difficulty of the race."

A competitive runner since the eighth grade — including at the national level in his youth, and for Queen's University's varsity track team — Wieczorek had never run a marathon until 2007 in London, Ont. He finished it in 2:55, an average of less than seven minutes per mile, which is considered a benchmark for strong marathoners. The experience was a boon to his personal life too: he met his future wife, also a competitive runner, at a London running clinic.

The Halifax race he won was only his seventh marathon. Wieczorek, who is manager of internal controls at Homburg Invest Inc. in Halifax, has tried to improve on his best time with every race. Indeed, in November he ran the prestigious New York City Marathon in 2:30, a personal best, finishing as the top Canadian in the race.

When training, Wieczorek runs more than 100 miles a week, beginning with six miles in the morning before work (it helps to have shower facilities at the office) and ending with up to 15 miles in the evening. He attributes much of his training discipline to his professional background as a CA. "I have strong project management skills, so I can create a four- or five-month training plan, further dividing that into a week-by-week volume of running, and scheduling key workouts." John Shoesmith

Résumé

- **2004** joins Ernst & Young (Toronto)
- **2007** obtains CA designation (Ont.)
- **2007** completes first marathon (London)
- **2010** wins Blue Nose Marathon (Halifax)

NANCE ACKERMAN/KLIXPIX

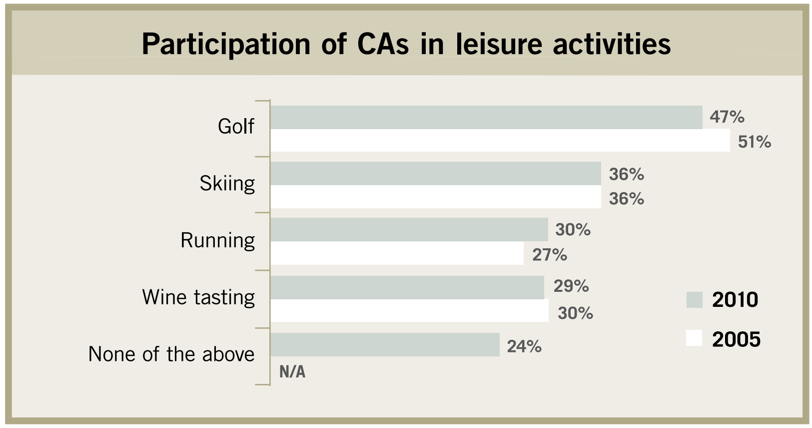
Manitoba tops Canadian generosity index

Manitoba is Canada's most generous province for the 12th straight year, according to an annual study on charitable giving conducted by public policy think-tank the Fraser Institute.

The index compares monetary generosity in Canada's provinces and territories, as well as US states, using 2008 data (the most recent year of comparable data available) on the extent and depth of charitable donations recorded on personal income tax returns.

Of the provinces, Manitoba donated the highest percentage of total income to registered charities (0.94%), followed by Ontario (0.88%) and Prince Edward Island (0.68%). PEI had the highest percentage of tax filers donating to charity (27%), followed by Manitoba (26.7%) and Ontario (25.2%). Quebec ranked last with 21.8% of filers claiming donations and giving only 0.31% of total provincial income.

THE WAY WE PLAY



Participation of CAs in leisure activities

When CAs are not working you're most likely to find them at the tees or on the slopes, according to a recent Harris Decima survey conducted for *CAmagazine*. The online survey of 495 CAs, conducted to gather information to support the magazine's advertising sales, found more than three-quarters of CAs participate in at least one of the four leisure activities included in the survey: golf, skiing, running and wine tasting.

Golf, although down slightly from a similar survey conducted in 2005, remains the top choice for the largest percentage of CAs (47%). It is especially popular among those younger than 35 and those 65 or older, with 54% of respondents in these age categories taking to the tees.

With the participation of 36% of CAs, skiing is the next most popular leisure activity, followed by running at 30%, up slightly from 2005. Wine tasting came in just behind running, with 29% of CAs citing it as a leisure activity they partake in.

Survey respondents younger than 35 were especially likely to participate in one of the four leisure activities included in the survey, at 85%. CAs younger than 35 were also more likely to participate in running (43%) and wine tasting (40%).

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

Q+A

ASK AN EXPERT

HOW CAN I GET MORE DONE IN LESS TIME?

Today's need to do more with less often means financial executives have had to take on tasks once handled by others. Here are six tips for maximizing your time:

Set realistic expectations. When initiating a project, consider what you would like to achieve if resources and time were unlimited. Then determine what can be accomplished considering available resources and other priorities.

Don't procrastinate. It's tempting to postpone less challenging assignments for more exciting initiatives, but it can backfire if projects start to stack up. Procrastination creates unnecessary stress as everyone strives to catch up.

Delegate. Distribute more routine tasks to other staff members. Look for opportunities that allow your top performers to gain visibility and build their expertise and decision-making skills.

Keep meetings on track. Distribute a detailed agenda prior to meetings so everyone is prepared. If information can easily be covered by e-mail or phone, a meeting may not be warranted.

Bring in help. If you and your team are overloaded, consider outside support during peak periods or for large-scale initiatives that are finite in nature.

Recharge. Long hours may be part of the job but that doesn't mean you should sacrifice breaks and vacation. Scheduling even a short respite can restore energy and a sense of control.

Paul McDonald is senior executive director of Robert Half Management Resources (www.roberthalfmr.com)

#NUMBERS Game

Daylight saving or expense? Clocks spring forward on March 13. For more than 100 years, daylight saving time (DST) has changed clocks — and the cost of business — in Canada

12 Hour of the afternoon in Newfoundland that the Toronto Stock Exchange opened for business when the province temporarily experimented with double daylight saving — a two-hour spring forward — in 1987.

25 Fine in dollars set by the Alberta legislature just after the Second World War for provincial businesses and individuals failing to observe standard time. The action was prompted by the City of Edmonton unilaterally adopting DST.

135 Estimated benefits in billions of US dollars accruing to US members of the Barbecue Industry Association, the American Association of Nurserymen and convenience-store owners from a 1986 extension of DST in the US.

350 Estimated cost in millions of US dollars to US industries in 2007 to reset computers and equipment to add an extra four weeks of DST in Canada and the United States.

60 Loss in billions of US dollars to investors on US stock exchanges due to spring and fall time changes, according to a 1999 academic study. Researchers concluded the adjustment made individuals "slightly impaired."

4,000 Calls one US airline received daily in 1965 from customers inquiring about the time difference in their destination city. The following year, the US almost universally adopted six months of standard time and six months of DST. Steve Brearton

Going Concern

BRIAN MITCHELL, CA, EXECUTIVE DIRECTOR, TFO (TRADE FACILITATION OFFICE) CANADA

COMPANY PROFILE: Founded in 1980 as a not-for-profit organization, TFO Canada is the key enabler for entrepreneurs from emerging economies to access Canadian markets and acquire international business smarts. With a staff of 11 supported by 50 trade consultants, most of TFO's $2 million in annual revenue comes from fulfilling government projects. In 2009-'10, exporters from 70 countries called on TFO's services.

HOT FACTOR: TFO's visibility is on the rise thanks to a flurry of bilateral free-trade agreements Canada signed with smaller, developing markets including Peru and Colombia. In 2006 and 2007, it was honoured for two of its African projects at the Canadian Awards for International Cooperation ceremonies cosponsored by the Canadian International Development Agency and the Canadian Manufacturers & Exporters.

COOL PROJECTS: TFO helped a Quebec retailer, La Maison Simons, diversify its supplier base by suggesting it visit Peru. Besides finding high-quality, pima cotton fabrics there, the firm also discovered several nimble producers capable of meeting its demands. The resulting orders helped several Peruvian manufacturers ride out the global recession when large US and European brand names cancelled orders at the first sign of economic trouble. TFO's award-winning Design Africa initiative, which involves eight countries, persuaded local decorative arts makers to produce high-end, stylish housewares and furnishings to avoid competing with lower-priced Asian curios. Exporters were also taught how to market and sell them at international trade shows.

IN HIS OWN WORDS: "By bringing together overseas entrepreneurs and national economic support groups with Canadian importers and retailers, we can help create sustainable jobs in developing markets. At the same time, Canadian importers can expand their stable of suppliers and consumers can enjoy wider product choices." Ken Mark

SETH

Paying tax in Canada is simple, says report

Canada ranks 10th out of 183 countries for its ease of paying taxes, according to a study by PricewaterhouseCoopers, the World Bank and the International Finance Corp. This is the first year Canada made the list's top 10, up from the 28th spot last year.

The report, Paying Taxes 2011, measures countries' overall ease of paying taxes by assessing three indicators: number of tax payments per year; time taken to compile returns and submit tax payments, and companies' total tax liability as a percentage of pre-tax profits.

Canada's spike in the rankings is due in part to legislated tax changes; for example, by 2012 Canada will have one of the lowest statutory combined federal and provincial corporate income tax rates in the G7 group of industrialized nations at 25%. Other initiatives, such as the introduction of the harmonized sales tax in Ontario and British Columbia, also contributed to the favourable standing.

Canada is not the only country moving in the right direction on taxation according to the report — from 2009 to 2010, 40 economies made it easier to pay taxes.

Top-10 places for ease of paying taxes

Country	2011	2010
Maldives	1	1
Qatar	2	2
Hong Kong	3	3
Singapore	4	5
United Arab Emirates	5	4
Saudi Arabia	6	7
Ireland	7	6
Oman	8	8
Kuwait	9	11
Canada	10	28
Kiribati	10	10

Source: *Paying Taxes 2011*

What your pet says about you

Your preference in pets may have an impact on your career, according to a survey by US recruiter CareerBuilder.

In the poll of 2,300 US workers with pets, dog owners were more likely to be in senior management, reptile owners were most likely to earn six figures and bird owners were most likely to be happy with their jobs. Owners of certain pets were also more likely to be drawn to particular professions (see below). So the question is: how many CAs own fish?

Dog owners: professors, entertainers, nurses, IT or military professionals.

Cat owners: doctors, realtors, machine operators, lab technicians, care workers.

Fish owners: human resources, hotel and leisure, farming/fishing/forestry, transportation or financial professionals.

Reptile owners: engineers, social workers, marketing/public relations professionals, editors/writers, police officers.

RRSP DEVOTEES

To know RRSPs is to love them. Eight in 10 Canadians (79%) who already had money invested in a registered retirement savings plan were planning to invest the same amount or more in the 2010 tax year than they did in 2009, according to an Investors Group study released in December.

SETH

FLY AND BE FREE

Spring break travelers can take comfort in a *Financial Times*/Harris Poll that found most people in the US and five largest European countries consider air travel to be safe. Furthermore, about one in five adults surveyed think airport security measures, such as the limit on liquids and removal of shoes and belts, should be relaxed.

MORE SOCIAL THAN E-MAIL

Social networks will replace e-mail as the main form of business communication for 20% of employees by 2014, according to IT research and advisory firm Gartner, Inc. The shift will result from a greater availability of social-networking services as well as changing demographics and work styles.

Performance pay a plus in financial services

More than half of Canadians polled believe they would be more productive if they could share in profits or have an ownership stake in their employer's business, a new survey from Kelly Services says. A majority would also like employers to provide incentives to encourage a healthier lifestyle.

The Kelly Global Workforce Index obtained the views of nearly 15,000 people in Canada, including approximately 1,000 from the financial services industry. Overall, it found that 36% of workers are currently in an arrangement where some of their pay is tied to performance targets. Gen-X employees (age 30 to 47) are more likely to be on some form of performance-based pay than those in gen Y (age 18 to 29) and the baby boomer generation (age 48 to 65).

Some key findings from the financial services sector:

- at 50%, respondents have the highest rates of performance-based pay compared with other industries,
- 67% would be motivated to perform at a higher level if they were offered profit-sharing or employee-ownership incentives,
- 32% view health benefits as the "most important" benefit they could receive outside of salary,
- 29% believe training programs are also a significant benefit,
- 86% think their employers should have some responsibility for employee health and well-being, and
- 58% believe employers should provide an incentive if they decide to quit smoking, lose weight or enrol in an exercise program.

Karin French, vice-president and managing director of Canadian operations for Kelly Services, believes that "by supporting employees as they strive for a healthier lifestyle, while also rewarding them for continuously high levels of work performance, both employees and employers may benefit from a more productive and energetic workplace."

This is a summary. For an expanded article in which French expands on the survey findings, please visit www.CAmagazine.com/Kellyworkforcesurvey10.

Soft sells

Given the rapidly changing regulations in the accounting industry, you would think finding candidates with the right technical accounting skills would be the No. 1 staffing challenge for CFOs. But it's actually soft skills — communication, critical thinking and problem-solving — that may be the most difficult qualities to find, a new study from Grant Thornton LLP suggests. CFOs say these skills are needed to understand the implications of shifting accounting standards.

The study, The Evolving Accounting Talent Profile: CFO Strategies for Attracting, Training and Retaining Experienced Accounting and Finance Professionals, presents key research findings distilled from interviews with CFOs on the state of the accounting employment market. The analysis presents insights on a range of concerns facing CFOs in the hiring and retaining of experienced finance professionals.

A full 55% of respondents thought the lack of employees with the necessary soft skills was the most significant challenge in recruiting seasoned accounting professionals. Workload and lifestyle came in second, with 50% citing them as challenges in recruiting. These were followed by the dearth in technical skills among experienced accounting staffers. Developing soft skills also topped the list of training concerns, with 77% of respondents citing this factor as a challenge.

Given that macroeconomic factors are forcing CFOs to pay closer attention to the bottom line, it's not surprising that poor work-life balance and limited advancement were cited by 45% of respondents as key turnover drivers.

The study offers CFOs the following recommendations:

- screen candidates on technical and soft skills,
- address soft-skill needs by training existing personnel,
- employ on-the-job training for technical accounting capabilities,
- focus on career growth potential to reduce flight risk, and
- employ monetary and nonmonetary motivators to retain talent.

This is a summary. For an expanded version, visit www.camagazine.com/talentsurvey10.

Gina Kim is director, industry research and thought leadership, with Grant Thornton LLP

"…the system was implemented on-time, on-budget, and functionally stable. Thanks to our implementation team, and to our outside consultant, we're already taking advantage of SYSPRO's effectiveness in reporting and operations management. In short, we are totally pleased with our decision to go with SYSPRO."

John Diack, President & CEO, Tri-M Technologies

Tri-M Technologies & SYSPRO ERP

In the space of six short weeks in 2010, Tri-M Technologies Inc. re-conceptualized its business processes, disconnected from its old, inadequate business software, and implemented, on an accelerated timeline, SYSPRO ERP.

Headquartered in Port Coquitlam, British Columbia, Tri-M's engineers develop embedded power and computer solutions for a wide variety of applications. Tri-M's products are used in fields as diverse as industrial controls and robotics, military and aerospace equipment, medical devices, and advanced security.

"Prior to SYSPRO," says Tri-M's John Diack, who assumed the role of President & CEO in June, 2010, "the company was basically flying blind. We were using a web-based ERP that was, quite frankly, a joke. There was no integration across departments, and no ability to accurately control or report on our inventory and supply. The company needed to change – quickly. Coincidentally, during the late summer of 2010 we were scheduled to merge two companies together, which presented itself as a natural opportunity to drive the ERP implementation timeline. We knew that the opportunity for change was rich, and we didn't want to wait."

Knowing that service would be key to the success of the implementation, Diack carefully considered the various ERP offerings. "The product we ultimately chose," says Diack, "was competitively priced, but just as important was their regional location, and their reputation for service. Our reference checks proved it out, and the decision was made to go with SYSPRO."

To help ensure that the implementation went according to schedule, Tri-M hired an outside ERP consultant – Mary-Jane Tessarolo, CGA, MBA. "Having been involved in ERP implementations before," says Diack, "I knew we didn't have the internal knowledge, will or experience to do this on our own. Also, because of the accelerated timeline, we needed someone with prior knowledge of the entire process, who could set expectations, work through technical problems rapidly, and understand process issues on the fly."

"Tri-M hired me to lead the project on their behalf," says Tessarolo, "both from the systems and technical side, and from the point-of-view of process and integration." Tessarolo first assessed the business's critical needs, determined the gaps in existing functionality, and suggested a roadmap for change. "At Tri-M, everyone has a full-time job," says Tessarolo. "The fact that I came to the process with a fresh pair of eyes highlights an important benefit of hiring an outside consultant. To go along with that new point-of-view, however, there has to be a willingness to challenge the status quo, and the freedom to drive new processes."

Much of Tessarolo's energy goes towards buffering company employees from the complexities of change. "I spend much of my time on process design to optimize system functionality and improve efficiency. Once that's done, I spend time with employees, showing them, step-by-step, what their new processes will be. Without someone in that role, employees tend to spend a lot of time trying to fit current (and often ineffective) processes into the new system, because they don't understand yet how the pieces of an ERP fit, and work, together."

Tessarolo, with many ERP implementations to her credit, knows that part of driving an ERP project is setting attainable expectations. "Over the years I've learned the pitfalls, risks, criticals, and – very importantly – what isn't critical. Understanding a business's key needs, assessing uncertainty, and ensuring early visible results and improvements are all important steps for the success of an ERP implementation. While working within Tri-M's six-week time frame, knowing what could be put off till later was absolutely crucial."

"There still are functionalities to add," says Diack, "but the system was implemented on-time, on-budget, and functionally stable. Thanks to our implementation team, and to our outside consultant, we're already taking advantage of SYSPRO's effectiveness in reporting and operations management. In short, we are totally pleased with our decision to go with SYSPRO."

Netwatch

BY JIM CARROLL

YOUR GUIDE TO BUSINESS & ACCOUNTING ON THE INTERNET

Farewell old fax

We recently lost an old friend. Our fax machine finally packed it in. This wasn't just any old fax machine. It was a Panafax UF-600, which my wife and I got for our home office and fledgling business in October 1990.

How many products today last 20 years? We dispose of cellphones within a year or two, if not faster, to grab the latest hot features; we go through televisions like we go through fashion. Yet this device, which had a simple, concise and singular purpose, managed to stick with us and fulfil its role for two decades, a remarkable achievement in our era of instant obsolescence.

Looking at the machine as it sits on the office floor, destined for the dustbin of technological obsolescence, I think about the many stories it could tell, providing insight into how quickly our world is changing. For example, it suffered a Y2K failure. With all the hype and hysteria that surrounded this nonevent, our poor little machine suffered a date failure, rolled back into the last century and we were never able to fix it. So for the past 10 years, as a futurist, I've sent the occasional fax with a date of 1910 at the top.

In the early days of my hectic speaking career, the fax machine was the "good news machine." New contracts from speakers' bureaus for events in far-off places would come in; the noise of the fax was a distant early signal of the success that would come with my unique career evolution.

Back in the days before BlackBerrys and iPhones and constant connections, we would come home from a two-week unplugged holiday only to discover rolls and rolls of fax messages spooled up from its thermal imaging system, each one with the details of a new contract. Yet, over time, most of these communications transitioned to the Internet and e-mail. The business success continued, but the vicarious thrill that came with the fax ringer began to disappear. We sort of miss it.

It was a window to change. My sons, who have become young men of 15 and 17, learned about the vastness of the world through the range of technologies that existed in our home office. But I'm not sure they ever understood what the fax machine was for — it became an historical curiosity to them. As the number of faxes received began to decline, the occasional arrival of one every second week always provided the spark for conversation. "Why do some people use the funny machine?" they would ask.

Perhaps the most amusing moment was when the boys were about four and six years old, and we heard the familiar ring of the fax machine during dinner one night. "Oh, there's a fax coming into the office," I said. The youngest quietly got up from the table and went down to the office. He came back a few moments later, commenting that he didn't see it. After a few questions, we discovered that he thought a "fox," not a fax, was coming into the office so he went down to take a look. I think he was disappointed. Brave, too.

Will we get a new fax machine? We're not quite sure; we've come to think that this technology might have finally run its course. We scan most anything we send now; most people send documents via e-mail. The majority of faxes we received in the past year were junk. We pay a monthly bill for a unique phone number that doesn't seem to serve a purpose.

Whatever our decision might be, it is kind of sad to see an old friend disappear.

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

FAX FACTS

History of the fax machine
http://communication.howstuffworks.com/history-of-fax.htmh

Y2K, the Crazy
www.computerworld.com/s/article/9142659/Y2K_the_Crazy_Computer_glitch_or_mind_blowing_catastrophe_

Work in process

BY MICHAEL BURNS

USING TECHNOLOGY TO IMPROVE THE WAY YOU DO BUSINESS

Making your e-newsletters work

E-mail newsletters are a great vehicle for staying in touch with customers, prospects and referral sources. Despite the time and money spent crafting them, however, they often end up getting classified as junk or spam for no apparent reason.

How do you make sure your newsletters don't end up in a digital dustbin? Here are a few principles to keep in mind. First, Outlook will automatically classify e-mail as junk (spam) if it contains certain keywords or terms such as Free!, 50% off! and Call now! You can also use a free online service at http://spamcheck.sitesell.com that will analyze your e-mail for potential problems. To simplify things, you can ask recipients to whitelist you, i.e., identify you as a safe sender. Unfortunately, they might never look in their junk e-mail or might hesitate to open it.

Many organizations go beyond Outlook protection and deploy filtering programs that identify spam. Sometimes the Internet service provider (ISP) does this for you using tools such as Spam Assassin. You might not have any control over which spam tool is being used or whether it is the most up-to-date version. These programs contain blacklists (domain names that are considered sources for spam) and also use flags to identify spam — certain keywords, subject lines in capital letters, etc.

To stay off blacklists, do not send unsolicited e-mail to strangers, who might report you to the spam filter organizations. The organizations that maintain the blacklists do some checking before classifying domain names as spam sources, but they can make mistakes. You can ask for your domain name to be removed from the blacklist, but that might be difficult. Another way to avoid being blacklisted is to make it easy for your recipients to unsubscribe. You should also steer away from language that could be misinterpreted, such as "free" or "money back guarantee," especially in the subject line.

You can do all of the above and still get nailed, as I did. With some technical help, I made a couple of changes I wouldn't have thought necessary, but they made all the difference. My newsletter was no longer tagged as spam by the program my ISP used.

A spam program typically inspects the e-mail and assigns points to spam indicators. If an e-mail is above a certain threshold, it's in trouble. For example, my newsletter contained the following: "SPF: sender does not match SPF record." E-mail contains information other than what you write, such as the IP address of the web server used to send it. Every domain carries a Sender Policy Framework (SPF) record that describes the acceptable IP addresses for sending mail listed from that domain. SPF records make it harder for senders to spoof the origin of their message. My ISP used its IP address for its outgoing mail rather than my specific domain IP address for outgoing e-mail. Thus, there was a difference between the sender's IP address and the IP address of the web server that sent the e-mail, thereby indicating potential spam. I needed to provide my ISP with an updated SPF record to fix this problem. You will probably need technical help to create the SPF record. If you want to try yourself, however, there is a helpful wizard at http://old.openspf.org/wizard.html.

One way to avoid being blacklisted is to make it easy for your e-mail recipients to unsubscribe

Another problem I had was "BODY: Message only has text/html MIME parts." Some spam filters will automatically strip all html content from an e-mail to ensure nothing malicious will get through. But I solved the problem by including both text and html versions.

Now that I understand the technicalities behind my newsletters, I find they sail through to their intended audience with no hitches. You can do the same.

Michael Burns, MBA, CA•IT, is president of 180 Systems (www.180systems.com), which provides independent consulting services, including business process review, system selection and business case development. Contact 416-485-2200; mburns@180systems.com

A SUMMARY OF CURRENT CICA PROJECTS AND INITIATIVES

April workshops to help SMEs in mining and software sectors implement IFRS

While many large organizations have rolled out full-scale international financial reporting standards (IFRS) projects over the past couple of years, for many smaller companies in sectors such as mining and software, the focus has been on using their limited financial resources for more immediate business needs including, in some cases, business survival. As a result, planning the transition to IFRS has taken a back seat until now.

Because Canada's mining and software industries have specific IFRS standards impacting them and because there are many small to midsized organizations in these sectors, CICA's Continuing Education department is offering special two-day workshops to help these organizations with their transition to IFRS. Fortunately, the transition is not complicated for most of these smaller organizations. It will largely consist of a careful analysis of accounting policies to determine if and how they will change under IFRS. In most cases, there will be limited changes required to IT systems.

The practical industry-specific workshops offered by CICA will provide a hands-on, granular approach to working through the analysis of the most relevant standards. For example, most software companies will need to look at revenue recognition, assessment of functional currency and share-based payments, while mining companies will focus on standards such as provisions and impairment of assets.

The workshop for the mining industry is being held in Vancouver April 14 to 15, 2011; for the software industry, the workshop will take place in Toronto April 27 to 28. These April dates will provide time for organizations that are venture issuers to meet their first IFRS interim financial report deadline of June 29, 2011. For more information, visit www.cpd.cica.ca/IFRS_mining or www.cpd.cica.ca/IFRS_software.

CICA resources help smooth transition to CAS

The CICA has introduced resources to help various stakeholders with the transition to the new Canadian Auditing Standards (CAS). Clearly, auditors will be most directly affected by the new standards. Audit clients, board directors and those who rely on audited financial statements also need an understanding of the new framework.

A new CAS briefings series provides: overviews of six key standards, focusing on vital aspects of the standards' requirements; key considerations for preparers as they plan for year-end audits of their financial statements under CAS; and information to help users of financial statements understand the impact of CAS on the auditor's report and related considerations.

A new publication titled Communicating Successfully with Stakeholders provides information to help auditors communicate with boards of directors, client management and staff, and audit staff about CAS. It covers topics such as detailed changes in the nature, extent and timing of audit procedures; what is expected from management and those charged with governance; and changes to the auditor's report.

A new bulletin in the Director Alert series, prepared by the CICA's Risk Oversight and Governance Board, helps board members work with their auditors to ensure a smooth transition to CAS. New Canadian Auditing Standards — Questions for Directors to Ask highlights some key changes and presents questions that directors or audit committee members might ask of management and their auditors.

The new resources are available for free download on the CICA's designated CAS website at www.cica.ca/CAS.

The new standards are effective for audits of financial statements for periods ending on or after December 14, 2010. They apply to all audits of financial statements or other historical financial information for all entities, regardless of size or the accounting standards applied.

CICA planning another ESG conference

Based on the success of its first conference on environmental, social and governance (ESG) factors, the Canadian Institute of Chartered Accountants (CICA) has another one in the works.

The initial conference in December 2010 attracted more than 80 participants and focused on risk management, financial reporting and disclosure implications of environmental issues.

The gathering highlighted the need for comparable, reliable information for institutional investor decision-making, strategic planning and risk management (including the use of social media), financial statement implications, regulatory reporting, and the issue of determining materiality for reporting purposes.

Dr. Robert Page, National Round Table on the Environment and the Economy

According to guest speaker Barbara Palk, vice-chair of the Canadian Coalition for Good Governance and president of TD Asset Management, investors are taking notice and making a greater effort to better inform themselves of environmental risks in their portfolios.

"All else being equal, those companies that manage their ESG capital more effectively will be in a better position to sustain leadership in the long-run," said Palk.

Participants also heard from Dr. Robert Page, chair of the National Round Table on the Environment and the Economy. "Climate is going to be an area for entrepreneurship, not just for cost," said Page. He added that we are coming into a carbon-constrained future. "The future planning of capital projects and the cost of operating after they're launched must include a price for carbon and an escalating price for carbon as you go forward."

"The ESG conference combined informative sessions and valuable dialogue, and demonstrated the CA profession's on-going leadership in this area," said Frank Colantonio, director, Continuing Education, CICA. "The next ESG conference is slated for October 3 and 4, 2011 in Vancouver, and the conference's Facebook page is ready to receive your input and suggestions."

Visit the Events menu at www.facebook.com/CICAConEd or http://www.cpd.cica.ca/ESGIssues.

New edition of Dictionnaire de la comptabilité et de la gestion financière slated for early 2011

The new edition of the Dictionnaire de la comptabilité et de la gestion financière, originally scheduled for release in hard copy, CD-ROM and online in 2013, will now be released in early 2011. The change in publication date will coincide with the changeover to international financial reporting standards for publicly accountable Canadian companies and takes into account the new terminology introduced with the adoption in Canada of the International Auditing and Assurance Standards Board's International Standards on Auditing.

The Canadian team, including main author Louis Ménard and co-authors Murielle Arsenault, Jean-François Joly and Jean-Jacques Lavoie, met in Montreal and Europe over a three-year period with French and Belgian collaborators to produce the latest edition. The French team included Henri Giot for the Ordre des Experts-Comptables, and Marie-Claude Picart and Cédric Gélard for the Compagnie Nationale des Commissaires aux Comptes, while the Belgian team included Catherine Dendauw, Henri Olivier, Nathalie Houyoux and David Szafran for the Institut des Réviseurs d'Entreprises. The validation of the contents and final adjustments were completed in August 2010.

The Canadian Institute of Chartered Accountants (CICA) obtained the right to draw relevant material for the new edition of the Dictionnaire de la comptabilité et de la gestion financière from the Dictionary of Derivatives and Other Financial Instruments, as a result of its contribution to that publication, which was launched in Montreal in 2009.

This bilingual electronic dictionary, with terms and definitions in English and French, includes approximately 730 entries and is accessible for free on the Internet (http://ocaq.qc.ca/PubliDict).

This project was overseen by the Ordre des comptables agréés du Québec in cooperation with the CICA and was made possible thanks to a grant from Quebec's Autorité des marchés financiers. The authors were Ménard and Antoni Dandonneau. Lavoie chaired the reference subcommittee made up of Donald Lecours, Robert Lefrançois, Jean Marois and Peter Martin. The translation of the definitions from French to English was carried out by Jane Finlayson of CICA Language Services.

Visit CA Store to order copies of the Dictionnaire de la comptabilité et de la gestion financière or to obtain more information on this publication.

Great open field for CAs: Sir David Tweedie

This summer, Sir David Tweedie will step down from his position as chair of the International Accounting Standards Board (IASB). However, he is certainly not leaving the accounting profession. In fact, in 2012, Tweedie is expected to become president of the Institute of Chartered Accountants of Scotland.

"I like the institutes, I like the profession," says Tweedie. "Much of my recent focus has been on accounting standards, but there are other issues. For example, I feel very strongly about the ethics of the profession."

Tweedie, IASB chair for a decade, believes untapped opportunities exist for the CA profession: "I think it opens the investment field, it opens the analytical field, it opens the managerial field and you can travel the world." He sees the global march to international financial reporting standards (IFRS) making things easier for CAs. "You will know the standards everywhere," says Tweedie.

Tweedie says his greatest accomplishment as IASB chair was getting people to buy into the IFRS vision. "Ten years ago, I could not have imagined that by today we would have over 120 countries using our standards in some form, with the G20 leaders calling for rapid adoption of a single set of standards."

Having to win over participants one country at a time, however, proved to be somewhat frustrating to him. "I love dealing with purely accounting issues. While we've made some great improvements to the standards, we've also had to spend a great deal of time pitching the adoption of international standards around the world."

Sir David Tweedie may be stepping down from the IASB but not away from the accounting profession

Tweedie expects that the US will eventually decide to come on board as well. Without the US, he says, it is possible to have international standards but not global standards.

Tweedie says national standard setters, such as those in Canada, are important to the IASB. "They feed back the views from Canada to us," he said. "The standard setters are the boots on the ground."

Tweedie was recently in Toronto for the IFRS North America Conference.

New website for employers of CA students

Canada's CAs have recently launched CAtrainingoffice.ca, a new resource centre for employers and prospective employers of CA students.

Replacing the former catoadvantage website, CAtrainingoffice.ca puts a special focus on employers outside the external audit stream. The site will be particularly helpful to approved training offices as well as organizations that are interested in becoming CA training offices.

All the latest CATO information (documents, forms, contact information, etc.) is available here, including learning modules designed to support those directly involved in mentoring CA students. In addition, written and video commentaries from employers such as Manulife and Research In Motion will touch on the key benefits of training CA students.

The new website is also important to CA students themselves, for it is here that they are able to download their Record of Qualifying Experience — something all students must maintain.

Enhanced user features on this site include:

- e-learning modules that clarify the roles and responsibilities of all parties involved;
- written and video testimonials from current approved training offices outside the external audit stream;
- a one-stop resource for all CATO information — documents, forms, contact information, etc.;
- extensive FAQ section; and
- Record of Qualifying Experience and tips for CA students on how to fill out the RQE

Standards digest

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

RECENTLY ISSUED PRONOUNCEMENTS

CICA Handbook – Accounting	**Date issued†**
Amendments to Introduction to Part I	March 2011
The Conceptual Framework for Financial Reporting (Part I)	January 2011
Amendments to IFRS 1 regarding Severe Hyperinflation and Removal of Fixed Assets for First-time Adopters (Part I)	March 2011
Amendments to IFRS 7 regarding Disclosures — Transfers of Financial Assets (Part I)	January 2011
IFRS 9, Financial Instruments (Part I)	March 2011
Amendments to IAS 12 regarding Deferred Tax: Recovery of Underlying Assets (Part I)	March 2011
Amendments regarding First-time Adoption (Parts II & III)	February 2011
Accounting Standards for Not-for-Profit Organizations (Part III)	December 2010
CICA Public Sector Accounting Handbook	
Amendment to Introduction to Public Sector Accounting Standards	December 2010
Accounting Standards that Apply Only to Government Not-for-Profit Organizations, Sections PS 4200 to PS 4270	December 2010
Government Transfers, Section PS 3410	March 2011

RECENTLY ISSUED DOCUMENTS FOR COMMENT (to February 28, 2011)

	Accounting	**Comment deadline**
EDI	Hedge Accounting	March 9, 2011
RVI	IASB Three-yearly Public Consultation on Technical Agenda	May 15, 2011
	Auditing and Assurance	
ITC	Disclosures	April 11, 2011
ITC	IAASB Strategy and Work Plan for 2012-2014	March 18, 2011
ITC	Review Engagements	April 30, 2011

WATCH FOR

Documents for Comment

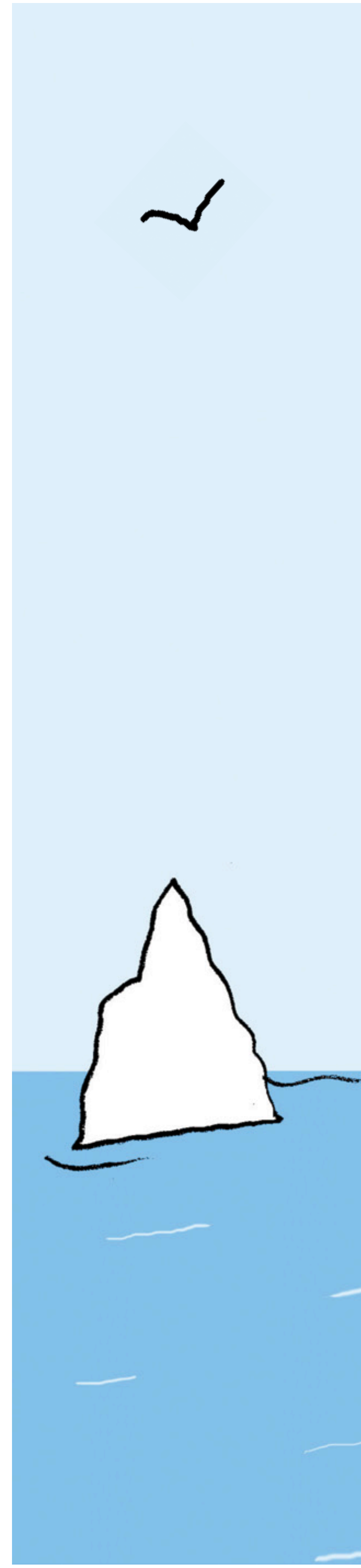
AASB proposals regarding Assurance Engagements on Greenhouse Gas Statements; Special Considerations in Auditing Complex Financial Instruments

IASB proposals regarding Financial Instruments — Impairment, and Asset and Liability Offsetting; Consolidation — Investment Companies

Legend

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

† Refer to each Handbook pronouncement for the effective date and transitional provisions.
The information published above reflects best estimates at press time. Please visit our website for the most recent information.



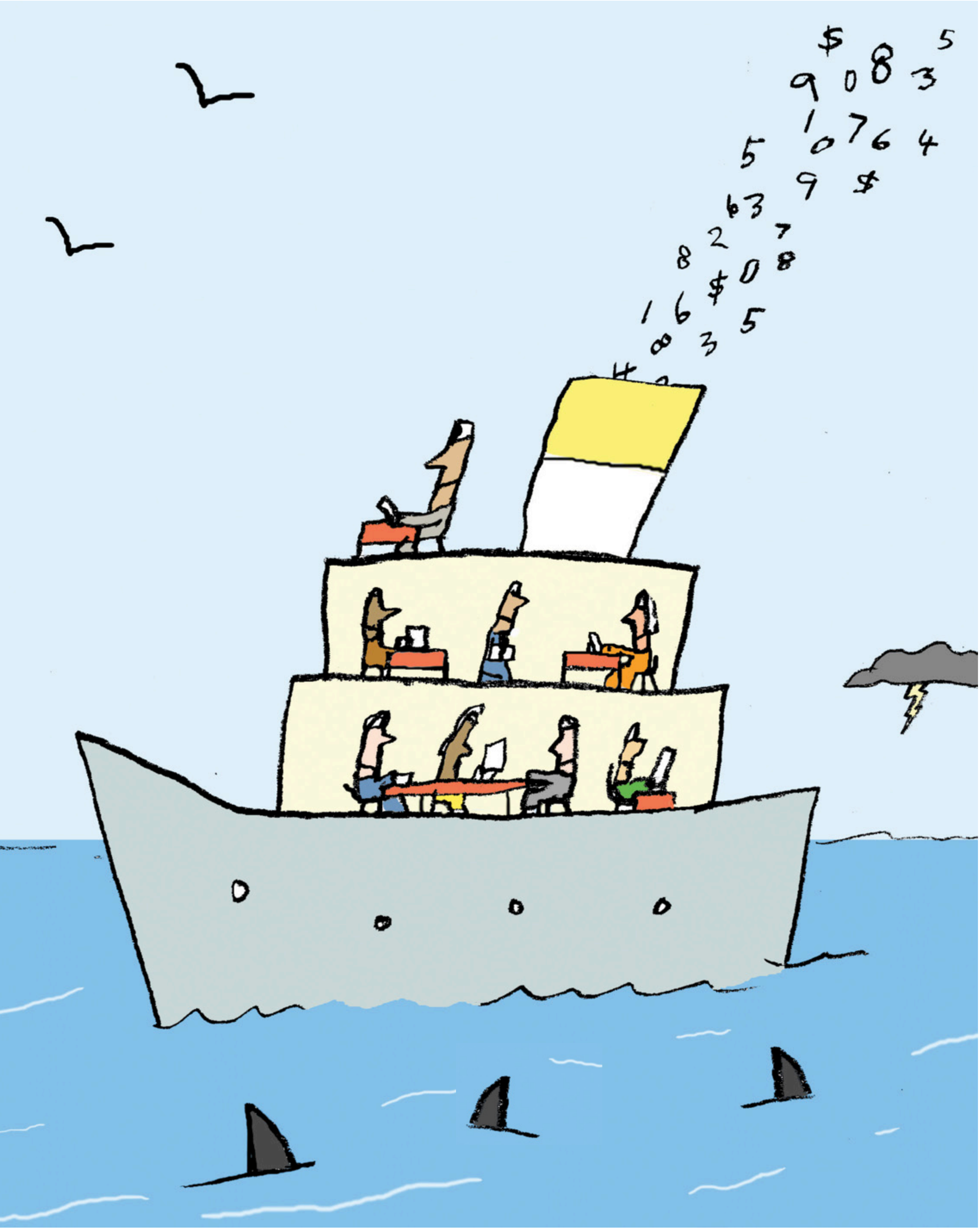
Supervising a team is not easy, yet those at the helm often get little or no direction. Want to lead better? These tips will steer you on the right course **By Deena Waisberg**

How are you managing?

WHEN HALL MURDOCH, MANAGER OF BUSINESS OWNER SERVICES at Meyers Norris Penny in Calgary, was promoted to manager almost two years ago, he was excited and a little hesitant.

Murdoch wanted to learn how to be a good manager because he had seen the havoc a bad manager can wreak. During a stint in New Zealand, one of his supervisors let unreviewed work pile up in his office, then blamed his team when the work wasn't completed in a timely manner. The supervisor called a meeting to tell the team it had to work harder but, as everyone

Illustration by MIKE CONSTABLE



was working extremely hard already, his admonishment only upset them.

"Your whole career up until the time you become manager is working on files and working with numbers, and then [the company says], 'Oh, congratulations, now you're going to manage a team.' And you [think], oh, really? When did accounting teach me to do this?"

Indeed, a bad manager can have a devastating effect on a company and its staff. "There's an expression that people don't leave organizations, they leave managers," says Carolyn Cohen, CA, certified human resources professional and founder of Just In Time Training and Consulting Inc. in Toronto.

In addition to staff turnover, a manager's skill influences how engaged employees are in their companies, which in turn affects the bottom line. According to a 2007-2008 Towers Perrin Global Workforce Study, companies with high employee engagement had a 19% increase in operating income, while companies with low levels of engagement saw operating income drop more than 32%.

Good managers are so important to a company's success, it would be wise for aspiring, new and even seasoned supervisors to review the secrets, skills and best practices that can make them shine as leaders — and get stellar results from their teams. The following advice from CA managers, partners and executives as well as human resources experts can get you started on your path to becoming a better manager.

Project management

It would be great if you could just assign a project to your team and know it would be completed to specifications and on deadline. Unfortunately, it doesn't always work that way. That's why as a manager, you need project management skills to successfully shepherd a project from start to finish.

To begin, give clear directions and set clear expectations. Karen Werger, a partner who comanages teams in valuations and disputes as well as claims and loans advisory at Deloitte in Toronto, walks team members through each section of a file, explains what needs to be done and provides client contact information. You also want to set a schedule for work to be completed and check in as necessary.

People typically tackle the easy tasks first, but Suzanne Bertrand, a partner at Fuller Landau LLP in Montreal who has comanaged the audit group, would tell team members she was going to review the more difficult sections first (inventory and accounts payable, for instance) to leave enough time to deal with issues.

Action item: If you're selecting individuals to work on a project, find out what each person likes to work on and take that into account. "People make more progress in things they do well," Cohen says. For example, Eugene Lee, vice-president of finance at Northgate Minerals Corp. in Toronto, selected internal staff who wanted to learn about international financial reporting standards to work on its IFRS transition.

Delegating

Accountants are often bad at delegating because they tend to be perfectionists. But delegating is a must when you become a manager. Werger is good at it. “I have to be. Otherwise, I’d never survive,” she says. As you become more senior, you take on more responsibilities: overseeing multiple files, business development and talent development. “If you don’t delegate, there’s no ability to do that,” she says. You also run the risk of burning yourself out, notes Cohen.

Ian Clarke, executive vice-president and CFO, business development at Maple Leaf Sports and Entertainment in Toronto, likes to delegate to those who thrive with more responsibility and also offer a different point of view. For example, Clarke had asked one of his team members, who came from media outfit Alliance Atlantis, to look at MLSE’s broadcast business. That person found new research tax credits, which no one else at the company was looking for.

How do you learn to delegate? “It’s partly practice and partly knowing who to delegate to,” says Mike Gooley, vice-president and internal marketing manager at recruiting firm Robert Half International in Toronto. “It’s also trusting in others’ ability to get things done.”

Action item: If you are reluctant to delegate, start with small items and gradually increase the amount as you see your team successfully complete tasks.

Problem solving

When an employee has a problem, managers are often tempted to provide the answer, according to Cohen. But it’s better to guide employees to discover the solution on their own because it builds self-confidence and skills. Renee Martin, a partner at CA firm Smythe Ratcliffe LLP in Vancouver, uses this approach. “I just tend to use a lot of analogies and different examples to try to get the person to relate to the specific problem they’re trying to solve,” she says. If more instruction is needed, Martin will work through the solution with the person and ensure he or she understands the process, so the next time the person can successfully do the task on his or her own.

Action item: Determine when more instruction is required. “I don’t want someone spending three hours on something that I or somebody else could easily help them with in five minutes,” Werger says.

Time management

As a manager, you want to use your time effectively because it affects workflow and productivity. “It’s extremely important to have time-management skills, because without them, you’re going to get swamped,” says Shane Snow, senior manager of the assurance group of Ernst & Young in Saint John, NB.

There are many strategies to help you do this. Snow arrives at the office between 6 and 6:30 a.m. because he can work uninterrupted until 9 a.m. and get more done. He tackles the more difficult tasks early, such as reviewing a complex file, and leaves the planning, problem solving and client calls for later in the day. Stéphane De Nitto, senior manager of the audit and assurance group at PricewaterhouseCoopers in Montreal, on the other hand, uses an agenda and keeps to the schedule to ensure he accomplishes what he plans to do. If you are not good at managing your time, consider taking time-management courses at work or through the CICA.

Action item: Build in extra time, suggests Gooley. If you get a file done a week ahead of the deadline, for example, it will leave you enough time to revise and polish.

Hiring/firing

When hiring, managers emphasize the importance of technical competence, personality (team player, confident, enthusiastic, etc.) and cultural fit with the company. Given that combination, it can take a while to find the right person. Cohen advises holding out for the right fit even if you feel pressured to hire quickly. “You may think you’re getting a body to do the work in the beginning, but it’s going to be very aggravating,” she says. Indeed, De Nitto recalls hiring someone who looked good on paper but whom he had reservations about personality-wise.

His instincts were correct. Once in the job, that person was not open to taking direction.

On the flip side there are times when it's necessary to fire a poor performer. Bertrand was faced with this situation. The poor performer wasn't improving and was bringing down the morale of the team. Another partner was concerned other team members would become insecure about their positions after the firing, but it had the opposite effect: the employees felt reassured Bertrand was able to make a tough decision for the benefit of the team.

Action item: When somebody needs to be fired, don't postpone the task. Other employees will get frustrated if the poor performer isn't pulling his or her weight and there is no consequence.

Open communication

It takes more than an open-door policy to achieve open communication. Staff needs to feel you're approachable and there must be opportunities for two-way discussions. Start by examining your behaviour. Are you consistently even-tempered? "I think you've got to be consistent in your approach day in and day out, and with different engagement teams as well, so people know what they can expect from you," De Nitto says. While having a congenial relationship with coworkers doesn't equal being a good communicator, Martin has found that it can build trust. She takes time to get to know people — the name of an employee's dog or something specific about an employee's child — and they in turn are more likely to approach her when they have a work issue.

You also need to create the opportunity for communication. Lee holds team meetings about once a week. It's a chance to get an update on the progress staff has made on projects, but also allows staff to discuss where it is experiencing challenges and ask questions and solicit advice or insight from Lee. It takes effort to create open communication, but it will reduce the likelihood of misinformation and rumours.

Action item: When comanaging a group, be consistent in your message to staff. At Fuller Landau, there may be disagreement within a management meeting, but once a decision is reached, managers present a united front.

Showing appreciation

Everyone wants to feel his or her work is appreciated. As a manager, you can show appreciation in any number of ways: a performance bonus, time off, a gift or increased profile in the company. When a team at Deloitte was successful in obtaining a large refund for a corporate client that had been in a dispute with the CRA, the team was profiled on the company's internal website. Martin has expressed her thanks to team members for their hard work by purchasing their favourite bottle of wine, a gift certificate to their favourite restaurant or gourmet cookies. Clarke will hand out Leafs or Raptors tickets to staff as a reward for a job well done. Lee gives team members extra time off if they have been working overtime to meet a deadline. It seems like a small gesture, but showing appreciation can contribute to employee satisfaction and help build loyalty.

Action item: Showing appreciation doesn't have to cost a cent. Murdoch says that as an employee, a thank you from a manager for his effort meant the most to him.

Developing talent

Good managers help employees develop their skills and abilities. They ask about their goals and then look for opportunities to provide guidance and experience in areas of interest. Murdoch starts students out on easier files and then discusses how it went at the end of the process. If the student enjoyed the work, next time he'll assign a more difficult file with a few more accounting issues for a larger company, and keep the person progressing by offering increasingly challenging work. MLSE practises a culture of meritocracy. "What we try to do is take our top 20% and give them more interesting work," Clarke says. For example, he may ask a young financial analyst to do an analysis of a new venture, such as gift cards.

Developing staff is a good retention strategy. It allows people to progress through the company, Gooley notes. That said, if you work in a small company or a small branch of a large company, as Lee does, employees may need to move to another company when they are ready for a more senior role. Northgate Minerals has more than 1,000 employees worldwide but there are only 13 in the Toronto office. "The reality is in our company there are only a specific number of roles. If you become more senior, we'll try to move you into a more senior role, but sometimes that is not possible," says Lee.

Action item: Put young employees on different types of projects and give them a variety of responsibilities so they can discover what interests them and what they are good at, suggests Gooley.

Motivating staff

As a manager, you can only motivate employees to get behind a goal and do their best work if they respect you. If you want them to respect you, you have to respect them. This means involving them in decisions and toeing the line right along with them. A few years ago, Bertrand made a decision about how her team members should assemble a particular file. "They were upset that they hadn't been consulted and they actually didn't like what we had implemented for them because it made their work more difficult," she says. Now Bertrand involves her team in decisions. For example, she recently formed a small committee of team members to test new audit software options and make recommendations.

In addition to including staff in decisions, you need to demonstrate you're part of the team. If you expect your team to work overtime, you need to put in long hours yourself, Gooley says. Because MLSE is a sports business, "We tend to work when people play," says Clarke. The two teams he oversees, IT and finance, both clock overtime. Clarke will sometimes work late along with his team members or will come in early in the morning.

"We do what we have to do. It's not necessarily about face time. It's about what's the deadline, what are we trying to accomplish," he says.

Action item: When establishing a goal for your staff members, consider what's in it for them. "It's got to be something that resonates with the people you want to follow you," Cohen says.

Performance assessment

Every organization has standard performance evaluation forms that managers are required to fill out on an annual or semi-annual basis. But there's more to performance assessment than filling out a form. Cohen recommends delivering feedback immediately as needed, rather than waiting for months afterwards when the employee can't even remember a project. She also advises being specific about the feedback: "Not only do I tell you what the problem is, but I give you examples of when it occurred."

Giving negative feedback is the most challenging part of the process. In Martin's experience, the best way to approach it is as a conversation. She recalls giving one staff member constructive criticism for half an hour and the employee viewed the exchange as helpful because Martin engaged in a conversation rather than an attack. "I just gathered all the examples of areas that needed improvement. I said, 'Can you tell me what's wrong with this?' And sometimes she would say, 'Oh, I know how to make this better next time.' Then I might add to that."

Action item: Sit next to an employee rather than behind a desk when giving feedback, says Martin. It breaks down barriers.

Finding a mentor

A mentor can provide invaluable one-on-one guidance and learning opportunities — and can help fast-track your career. One of Bertrand's informal mentors was a partner at Fuller Landau with whom she worked closely on many files. He taught her about delegating work, setting expectations, training team members and giving feedback. He also brought her to client meetings. "He was instrumental in having me develop not just as an audit manager, but as a professional who is able to serve private enterprise clients," she says.

One of Murdoch's mentors is a senior manager at Meyers Norris Penny in Edmonton. Murdoch instinctively dials his phone number when he has a problem because his mentor can still relate to the situations Murdoch encounters. Where do you find a mentor? Often an informal mentor relationship develops when two colleagues work together and one is more experienced. Some organizations also have a formal mentorship program where you are matched with a more senior practitioner or executive.

Action item: "You can have a mentor from afar," Cohen says. You might not be able to contact the mentor, but you can read about, watch, study and develop an idea of what he or she would do in various circumstances.

Becoming a good manager can be a lengthy process as there is much to learn. The aforementioned tips are a good start, but if you feel you need even more advice, management courses might be a good option. Many companies offer their own courses or will pay for a manager to take an external course.

Making the effort to learn management skills is a worthwhile investment, says Murdoch. When he was promoted to manager, he was moved from the Edmonton to the Calgary office of Meyers Norris Penny. He walked into an intimidating situation: dealing with all new people and a brand new role. And predictably, he was tested by his staff. But as he developed his skills, he has had success. Management tasks that he used to find stressful or that he didn't know how to deal with have become routine. And best of all, Murdoch says, "I've definitely earned my team's respect and I think we work well together."

Deena Waisberg is a freelance writer based in Toronto

Essential reading

We asked CA managers and partners what management books they would recommend. Here's a list of what's in their library:

- ***The 7 Habits of Highly Effective People: Powerful Lessons in Personal Change*** by Stephen R. Covey
- ***Eat That Frog! 21 Great Ways to Stop Procrastinating and Get More Done in Less Time*** by Brian Tracy
- ***How to Win Friends and Influence People*** by Dale Carnegie
- ***The Leader Who Had No Title*** by Robin Sharma
- ***Leadership: 50 Points of Wisdom for Today's Leaders*** by General Rick Hillier
- ***Managing the Professional Service Firm*** by David H. Maister
- ***The One-Minute Manager*** by Kenneth Blanchard and Spencer Johnson
- ***Our Iceberg Is Melting: Changing and Succeeding Under Any Conditions*** by John Kotter and Holger Rathgeber
- ***Strengths Based Leadership*** by Tom Rath and Barry Conchie

Online resources

- ***525 Ways to Be a Better Manager*** by Ron Coleman (http://books.google.ca) Type in "525 Ways to Be a Better Manager"
- ***How to Be an Even Better Manager*** by Michael Armstrong (http://books.google.ca) Type in "How to Be an Even Better Manager"
- **Be a Better Manager.com** (www.beabettermanager.com/index.asp)
- **Be a Better Manager: Chester Elton** (www.youtube.com/watch?v=p8P6OZwxEuo)
- **Be a Better Manager: Live Abroad** *Harvard Business Review* (http://hbr.org/2010/09/be-a-better-manager-live-abroad/ar/1)
- **How Could You Be a Better Manager?** *Datamation* (http://itmanagement.earthweb.com/career/article.php/3579891/How-Could-You-be-a-Better-Manager.htm)
- **Parenting 101: How to Be a Better Boss at Work and Home** *BusinessWeek* (www.businessweek.com/careers/workingparents/blog/archives/2009/10/tips_for_being.html)
- **10 Things You Can Do to Be a Better Manager** (www.businessknowledgesource.com/blog/title_10_things_you_can_do_to_be_a_better_manager_030548.html)

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- April 15, 2011 – Vaughan, ON
- June 1, 2011 – Edmonton, AB
- June 2, 2011 – Calgary, AB
- June 16, 2001 – Barrie, ON
- June 17, 2001 – Mississauga, ON
- June 17, 2011 – St. John's, NL
- June 22, 2011 – Kitchener, ON
- June 23, 2011 – Belleville, ON
- August 12, 2011 – Toronto, ON
- September 21, 2011 – London, ON
- September 22, 2011 – Ottawa, ON
- September 22, 2011 – Thunder Bay, ON
- September 23, 2011 – Halifax, NS
- September 23, 2011 – Vancouver, BC
- October 6, 2011 – Sudbury, ON

Employment Standards is a comprehensive introduction to the standards of employment across the country, including a jurisdiction-by-jurisdiction review of: hours of work; statutory/public holidays; paid and unpaid leaves; vacation; pay frequency and statement of wages.

- April 6, 2011 – Toronto, ON
- April 14, 2011 – Edmonton, AB
- April 14, 2011 – Winnipeg, MB
- April 15, 2011 – Calgary, AB
- April 15, 2011 – Red Deer, AB
- April 15, 2011 – Whitehorse, YT
- April 29, 2011 – Richmond, BC
- May 5, 2011 – Nanaimo, BC
- May 11, 2001 – Kitchener, ON
- May 12, 2011 – Moncton, NB
- May 19, 2011 – Kamloops, BC
- June 22, 2011 – Montreal, QC (English)
- June 23, 2011 – Mississauga, ON
- July 27, 2011 – Markham, ON
- August 11, 2001 – Surrey, BC
- August 19, 2011 – Calgary, AB
- September 30, 2011 – St. John's, NL
- October 14, 2011 – Halifax, NS

Taxable Benefits and Allowances is designed to provide you with a comprehensive overview of the payroll implications for a full range of taxable and non-taxable benefits and allowances. The program provides legislative details on a number of common benefits and allowances, their statutory withholding treatment, and year-end reporting requirements.

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- April 14, 2011 – Toronto, ON
- May 5, 2011 – Sudbury, ON
- May 12, 2011 – Timmins, ON
- May 19, 2011 – Richmond Hill, ON
- June 16, 2001 – Burlington, ON
- June 21, 2011 – Montreal, QC (English)
- June 23, 2011 – London, ON
- August 18, 2011 – Calgary, AB
- September 22, 2011 – Richmond, BC

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Almost 6,000 Canadian CAs can be found on various types of postings abroad. While compensation is often a big attraction, the benefits go far beyond the monetary

By Robert Colapinto

Foreign SERVICE »»

When family and friends make the long trek to Doug and Catherine Fraser's home, they can be excused for thinking the couple has made a well-deserved bid for early retirement. All around the sprawling villa, palm trees shade the walls from a searing 50°C midday heat. A world-class golf course and exclusive beach club nearby only add to the impression that the duo are calling it a day.

They aren't. Doug Fraser, 52, is an oilman. For 25 years, he doggedly chased the black gold and crunched its numbers from Canada's big city head-

Illustration by MICHELLE THOMPSON


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quarters to isolated permafrost locales such as Cold Lake, Alta. Now, he has simply moved on to yet another stage in his energy-rich career.

Just to the west of the Frasers' villa, a vast desert encroaches, its sand dunes breaking like waves against mirage-like skyscrapers guarding one of the newest and most opulent oil towns on the planet. Home is Abu Dhabi, capital of the United Arab Emirates. Work is serving as CFO of one of the Gulf States' newest international energy companies, TAQA (which means energy). "It's really a world away from anything we've ever known, what with the culture and customs, the language and, yeah, the heat," he explains. "Still, we relished the challenge to take part in what's really become a groundswell of CAs pursuing careers on the international stage."

Fraser's choice seems in step with a trend in the profession to take better advantage of a marketplace that is increasingly global in scope. Almost 6,000 of the CICA's 77,000 members can be found on short-term or permanent international engagements. Within this group, a little more than a third (36%) are women and 64% are men — percentages that correspond closely to those found in an informal *CAmagazine* survey (see "Have CA, will travel," p. 32).

What are some of the favourite destinations for expat CAs? The US leads the way, hosting almost 40% of all Canadian CAs (see "Top destinations for international CAs" below). Next in line is Bermuda, which seems to appeal particularly to English-speaking CAs. This is easy to understand: it is close to home and the Institute of Chartered Accountants of Bermuda (ICAB) is a part of the CICA. Not surprisingly, the UK and Hong Kong are also high on the list of preferred locales for anglophone CAs, while Switzerland and France are proportionally more popular for francophones. But tiny numbers of expats can also be found in places as far-flung as Bouvet Island or Vanuatu.

As for age, official stats show that slightly more than 60% of expat CAs are in the 30- to 49-year-old category, and another 19% are between 50 and 59. Similarly, 76% of English-speaking survey respondents and 88.6% of their French-speaking counterparts are in the 24- to 54-year-old range — the most formative period in a CA's career.

Adam Bryk falls squarely into that category. When Deloitte offered the 46-year-old Torontonian a posting as national reorganization services leader at Deloitte's Mexico City office two years ago, he jumped at the chance. He had long hankered to expand his horizons and saw it as a way to "get the most out of the designation."

TOP DESTINATIONS FOR INTERNATIONAL CAs

	OVERALL	ENGLISH	FRENCH		OVERALL	ENGLISH	FRENCH
US	2,235	2,127	108	Germany	38	35	3
Bermuda	927	909	18	Ireland	29	26	3
Hong Kong	588	587	1	Japan	29	29	0
UK	456	447	9	Netherlands	26	24	2
Cayman Islands	231	220	11	Saudi Arabia	23	23	0
Australia	229	219	10	Luxembourg	21	13	8
Switzerland	139	88	51	Mexico	21	19	2
China	79	78	1	Israel	18	18	0
France	70	33	37	Pakistan	18	18	0
UAE	53	49	4	Belgium	17	12	5
New Zealand	50	49	1	Trinidad and Tobago	16	16	0
Barbados	49	49	0	Greece	14	14	0
Singapore	49	47	2				
				Total	**5,425**	**5,149**	**276**

NB: Total number of CAs abroad (all countries) as of December 2010: 5,795
Total with English as preferred language: 5,491
Total with French as preferred language: 304

Source: CICA

First, though, Bryk consulted with sons Harrison, 21, who is at Thompson Rivers University in Kamloops, BC, and Campbell, 19, who is at Dalhousie University in Halifax. "We're quite a unit, despite pushing the borders of the continent's geography," he says. "So it was crucial, of course, that we all agreed to this move." One caveat Bryk gladly accepted was to jet home as often as possible. The "guys" regularly gather at a family cottage north of Toronto in Parry Sound, Ont., with last Thanksgiving featuring a little duck hunting. "It's a great base, especially to get some fresh air and to see some stars, which are not too common down here."

Built on a reclaimed low-lying lake bed, greater Mexico City, with its 21 million inhabitants (the largest in the Americas) and one of the greatest concentrations of exhaust-exhaling cars in the world, is in a permanent state of smog alert. Bryk may not be big on daily jogs through the city, but he does make sure to get out of the office as much as possible. "If there's a little time to soak up the culture — the tastes, the smells, the feel of a new country — then all the better," he explains. Bryk has made a point of exploring the city — wandering through its vast open markets, taking part in what seem to be almost weekly carnivals and parades, and has happily gotten lost in some of the city's more dubious barrios. "It's not quite going native, but close," he says.

Although the Big Four firms' international placement programs are popular, most members abroad work in industry — particularly at multinational companies

At work, Bryk's mission is to build up Deloitte Mexico's restructuring and insolvency practice. The barriers to overcome are not just culture and language, but also an undercurrent of corruption and an underachieving judicial system. "In Canada, you have rules of law and judges who are expert at all the nuances of, say, an insolvency," he explains. "But in Mexico the judges have very little experience in this area, so it can be frustratingly slow. Still, for me, these differences just add an interesting challenge to building the Mexico practice and integrating it into our operations in the US and Canada."

Although the Big Four's international placement programs are popular, posting assignments in the two- to three-year range, most international CAs work in industry, particularly at multinational companies. These CAs are often expected to make longer, if not permanent, commitments abroad. That might explain why the majority of survey respondents have been away for more than five years. Fraser, for example, is fairly certain he will finish his career in Abu Dhabi before returning home to retirement.

With more than 27,000 Canadian expats working in the UAE capital in various industries, he says, the culture shock and struggle to adapt to new business practices have not been as great as some might expect. "The emirate is not just up to date and highly sophisticated by any accounting standard, it's also very safe and cosmopolitan. Liquor, bikinis on the beach, casual clothing — they all are acceptable in what is a strictly Islamic country. Just don't take pictures of Arab women," he warns. "That's a real no-no."

Differences in financial systems and culture between Canada and the Czech Republic were immediately apparent to Rita Duran early in her first engagement as an audit manager for KPMG in Prague back in 1996. Duran, who was 31 and working in audit at the time, often wrestled with steely eyed post-Soviet-era retailers who were reluctant to adopt proper audit procedures. "Actually, given the hangover from the communist system, they had no clue about audit," she says. Still, some had novel ways of managing inventory control and theft. "When

"You have to be interested and inquisitive **if you truly want to make a difference working abroad," says expat CA Claude Lalonde. "If the plan is to remain holed up in your hotel the entire assignment, be prepared for some tough times"**

I interviewed one managing director about his approach to internal controls," she says, "he pointed to the corner of his office, and standing there against the wall was a rifle — what he referred to as management by fear." It was just this sort of experience that helped Duran decide to make this move a permanent one. "It was all these characters trying to make this utterly mysterious changeover to a market economy after so many decades. And I was there in the mix," she says. "It was fascinating." Duran now lives and works in Düsseldorf, Germany, where she services the firm's interests as a senior manager in KPMG's Transaction Advisory Services in that country.

For Mike McDonald, 31, senior manager at Grand Cayman's Genesis Trust & Corporate Services Ltd., work on the British West Indies island chain offers fewer contrasts with Canadian best practices than do Mexico or the former Soviet bloc. "One of the really big differences is that most of the accounting-related work here is done under a bright Caribbean sun and beside clear blue waters," he says. McDonald has an easygoing five-minute commute into the Caymans' financial centre, George Town, where nearly 600 banks cater to the offshore interests of thousands of businesses around the world. As a self-described tax-efficient jurisdiction, the Caymans attract not just multinational financial institutions, but also hundreds of accountants from the UK, Canada and the US.

McDonald and his wife, Jodi, who are both from Grand Prairie, Alta., had taken their honeymoon cruise to the islands in 2001. "And when I suggested we move to the Caymans in '04, the words had barely left my mouth before Jodi said she was in," he recalls. The couple made the leap just two months before Hurricane Ivan bore down on the islands. The result, as McDonald puts it, was a "devastating US$1.85 billion in destruction, with 95% of Grand Cayman's buildings damaged, including our home." But that nightmare beginning seems to have been the only hitch in what has become a fantasy-like career move.

Jodi landed a rare teaching position at a private school, while McDonald started off at Fortis Bank, preparing net asset values for its powerful hedge funds. He later moved on to Genesis, where he provides fiduciary services to Cayman companies and alternative investment funds. "My CA training seems a perfect fit," he says, "because this work often entails very complex transactions that remind me of a UFE case study where you must pull out key items/risks/rewards/issues from the transaction documents. In fact, so far my CA has been quite portable — the perfect passport."

Another attraction to an international career is the potential for significantly higher compensation, which in the case of Fraser and McDonald is tax free. But the benefits are not only monetary. As McDonald says, he doesn't know what his counterparts in Canada might be making, but the real compensation is in the lifestyle, which is hard to put a figure on. The McDonalds take full advantage of the island's many idyllic pleasures, and spend most of their leisure time snorkeling and diving in the Caribbean Sea. But they do maintain their Canadian roots, McDonald says. For him, that includes playing hockey, even if it's without ice. "In 2007, I won a spot on Team Cayman and went to Germany for the World Ball Hockey Championships. There's no way I would have made Team Canada, so there's yet another plus to moving down here."

Still, it is likely that a heftier than normal paycheque remains one of the more alluring benefits for those contemplating a career abroad. In the 2009 CA profession compensation survey, the average overall compensation countrywide was $186,543. However, when CAs ventured abroad in traditional and non-traditional sectors, the mean ballooned to $325,000. "Salaries for CAs returning to Canada tend to rise beyond the averages," says Jylan Khalil, director of CA qualification at the CICA. "It's clear that this international exposure is seen to have great value with strong transferrable skills when they return."

The increasing value of overseas experience is reflected in the booming business being done at the international placement departments of the Big Four accounting firms. PricewaterhouseCoopers' 2010 report, Talent Mobility 2020, found the number of people on international assignments increased by 25% over the past decade. Surveying more than 900 companies worldwide, the report predicted a further 50% growth in the movement of CAs and other skilled professionals by 2020. "As more and more borders come down, people are just more fluid in where they can go," says Brandi-Lynn Scales, PwC Canada's senior manager, international assignments. And demand is expected to increase as PwC and competing firms jostle for a place at the table in a growing number of emerging markets. "For CAs, there's this new opportunity to progress their careers by working in a variety of different territories, learning different disciplines and best practices," she says. "In almost every situation, it's a win-win for both sides — both personally and from a business standpoint for the corporation."

PwC's Talent Mobility study is in keeping with similar reports generated by Deloitte and Ernst & Young. All warn of a global marketplace that will reach its full potential only if unnecessary barriers to the movement of skilled workers are lifted. These reports also work on the assumption that accountants must and will have a leading role in this new era of globalization.

This perspective aligns with the CICA's ongoing efforts to ensure the profession provides for reciprocal migrations of qualified accountants to and from Canada. Currently, the CICA has assessed and accepted the qualifications for accountants

from 13 countries. In turn, these foreign institutes have vetted the CA's standards of education, examination and experience — signing mutual recognition agreements that will allow CAs to more easily transfer their skills abroad. Additionally, the Global Accounting Alliance was formed in 2005 to help monitor the status of these reciprocity agreements, stimulate dialogue and further facilitate the global mobility of the profession.

Despite this trend toward more open borders, major hurdles still stand in a number of markets. Germany and its Institut der Wirtschaftsprüfer (IDW) has reserved certain practice areas for its own members. Audit, for example, remains closed for those who have not qualified in Germany. Wolfgang Böhm, the IDW's Vancouver-born director, international affairs, was himself denied audit qualification back in the mid-1990s (see "Worlds apart," *CAmagazine*, January/February 1996, p. 16). Since then, little has changed. "There are still significant differences in business law, vast differences in tax law and other areas where national standards or practices differ from those in Canada," he says. Although a career in audit was dashed, Böhm, now 49, stuck it out in Germany. His choice was mainly a personal one, however. In 1993, he met his future wife, Anke, during a brief visit. "We needed to decide who was going to move because we couldn't afford the long-distance phone calls anymore. Since I have dual citizenship, it was easier for me to move to Germany."

Böhm now lives with Anke, daughter Elina, 10, and son Henrik, 5, in the village of Meerbusch-Osterath, outside Düsseldorf. "We can shop on foot for most things — not to mention not needing to drive home at night from the half-dozen village pubs," he explains. "Visitors from North America are treated to a brief spin on the autobahn on the way from Düsseldorf to Osterath, where at first they don't even notice we are driving at well over 200 kilometres per hour!" Böhm's technical and political work involves contrasting the accounting, auditing,

HAVE CA WILL TRAVEL

By definition, globe-trotting CAs are hard to pin down. That's why *CAmagazine* decided to learn more about them. We ran an online survey and at the time of writing had received 688 responses – 609 to the English version and 79 to the French – as well as several dozen e-mails from CAs agreeing to be interviewed. While it was impossible to talk to everyone, the survey allowed us to draw an interesting portrait of the typical international member. The responses, though not statistically relevant, do correspond in many ways to our findings from other sources.

NB: Not all CAs answered all questions. Also, because of multiple answers and rounding, percentages do not always add up to 100. For open-ended questions, we have included only a sampling of responses.

AGE	ENGLISH %	FRENCH %
24 to 39	35.6	51.9
40 to 54	41.2	36.7
55 to 64	16.7	7.6
65-plus	6.4	3.8
LENGTH OF TIME IN LOCATION		
Less than a year	5.3	3.8
1 to 2 years	10.4	15.2
3 to 5 years	16.9	21.5
More than 5 years	67.4	59.5
REASONS FOR WORKING ABROAD		
Gain work experience to bring back to Canada	46.1	49.2
Asked by firm	33.8	54.2
Work/life balance	35.8	27.1

Other: weather, greater opportunities, return to homeland, higher pay, lower taxes, relocation, following spouse, etc.

PLAN TO RETURN TO CANADA	ENGLISH %	FRENCH %
Yes	48.1	44
No	51.9	56
WORKED IN ANOTHER COUNTRY OR COUNTRIES		
Yes	52.9	38.5
No	47.1	61.5
AREA OF WORK		
Public sector	4.3	2.8
Public practice – Big Four	16.7	22.5
Public practice – local firm	5.2	2.8
Not-for-profit	5.9	1.4
Academe	2.9	1.4
Industry – international company	52.7	59.2
Industry – local company	18	9.9

SPECIALTY

Responses included: internal audit, financial reporting, reinsurance and investments, enterprise risk management, strategy consulting, mergers and acquisitions, control

LIKE MOST/LEAST ABOUT LIVING IN CURRENT LOCATION

Most: different culture, lifestyle, travel opportunities, no snow or income taxes (Caribbean), chance to meet people from around the world (Geneva), train system (Europe), cultural life (New York), etc.

Least: island fever, distance from friends and relatives, language hurdle, etc.

Source: CICA

legal and cultural paradigms of English-language accounting bodies around the world with those in Germany. "In my view, the Canadian CA travels relatively well in terms of the basic competencies and skills obtained," says Böhm.

If anyone can attest to the adaptive nature of the Canadian CA designation, it is Claude Lalonde. At 68, the native northern Ontarian is a veteran of more than a dozen assignments throughout the developing world. Cutting his teeth on home turf — first for Revenue Canada and the Office of the Auditor General — Lalonde finally gave in to his wanderlust in the mid-1980s, taking on work for the Canadian International Development Agency, the World Bank, the United Nations and public sector consultancy groups. "Essentially I'm contracted by national governments that are sorely in need of assistance in bringing their audit standards at least into the 20th century, and with luck the 21st," he says. And at times his job can seem a little on the dodgy side. In 1999, while working for the Office of the Comptroller and Auditor General of Bangladesh, his car was damaged after being doused with a noxious corrosive: "I call it the ultimate acid-test for a job well done," he says. Worse still was Pakistan in 2002. "It was just after 9/11 and extremists were very active in the country," he recalls. "I had soldiers guarding my door. It was very tense." Still, Lalonde's wife, Louise, insisted on joining him. And with almost tragic results. "The church she regularly attended, but not that Sunday, was bombed and five people we knew were killed. How she puts up with me I have no idea."

The reason Lalonde takes on such assignments is simple: he loves the challenge and adventure, but is also deeply committed to helping people. On his current posting in Freetown, Sierra Leone, he has found some high ground — the top floor of his house — for his cellphone because the country has no landlines. "People need efficient government, effective financial infrastructures, potable water and food, cheaper energy, whatever," he says. "And we have the skills to make these things happen more smoothly. We just have to know what they want and how best to get it to them."

Lalonde, along with Bryk in Mexico and Fraser in Abu Dhabi, gets out and speaks to businesspeople, government officials and others to get a feel for the environment and task at hand. "You have to be interested and inquisitive if you're truly going to make a difference working abroad," he says. "If the plan is to remain holed up in your hotel the entire assignment, well, be prepared for some tough times."

In Fraser's view, the biggest mistake westerners working in the UAE and Saudi Arabia can make is to barge in and try to impose foreign practices and methods with little interest in the traditions and history of their hosts. "Every day, we're learning as much from them about their cultures and business practices as they are from us," says Fraser. "It just soaks in, but only if both sides want to listen and learn. We can't come into a job as know-it-alls, with our way or no way. The global economy's demand for thorough and verifiable standards of financial practice and reporting is vital, but we have to tread very carefully. That's true accounting."

According to Lalonde, Canadian CAs are well suited for international work because they put into practice one of the more important elements of their training — the ability to communicate. "Communication is our greatest asset," he says. "It's part of a willingness to listen, to empathize, to translate needs into action. Otherwise you're just lost in this profession." Lalonde will soon finish his work in Sierra Leone and be on the lookout for new challenges. "People think I'm crazy taking on these assignments," he admits. "But it sure makes for an interesting and dynamic life. I mean, what's more stimulating than being able to communicate the ideas of your chosen profession, to untangle thorny financial situations that have a direct effect on the lives and livelihoods of peoples from all walks of life on this planet? I guess you really can't know the feeling till you get out there and give it a shot."

Robert Colapinto is a freelance writer in Toronto

By Stevan Novoselac + John Sorensen

If there's smoke, is there fire?

It's hard to say how the CRA or courts will interpret the reportable transaction regime, currently in initial draft legislation

GARY CLEMENT

The Income Tax Act has rules to combat tax strategies that Parliament considers "abusive," including the general anti-avoidance rule (GAAR). Nonetheless, aggressive tax planning that falls outside the tax shelter reporting rules may be difficult for the Canada Revenue Agency (CRA) to detect because such planning is often complex and deliberately designed to stay off the radar screen. Consequently, the CRA wants an early warning system to detect aggressive tax planning before new and aggressive tax schemes proliferate.

The Department of Finance released initial draft legislation in August 2010. The new rules were to come into force January 1, 2011. However the legislation has not been enacted and therefore it is difficult to say how the CRA or a court would interpret it. Finance has tried to draft the legislation to reasonably limit its application and not adversely affect ordinary commerce. Nonetheless, the new regime may have a significant impact on taxpayers and their advisers and there remains a risk of unintended negative effects on commerce and taxpayer-adviser relations.

Reportable transactions

Under the draft legislation, an avoidance transaction (as defined in subsection 245(3) of the act) that meets two of three hallmarks is a reportable transaction. According to Finance, although the hallmarks are not evidence of abusive tax avoidance, their presence suggests transactions with an increased risk of abusing the act.

The three hallmarks are:

• The fees an adviser or promoter (or anyone not operating at arm's-length from such a person) are entitled to receive (immediately or in the future and either absolutely or contingently) for a transaction are a) attributable to the amount of the tax benefit from the transaction; b) con-

tingent upon obtaining a tax benefit from the transaction; or c) attributable to the number of taxpayers who participate in the transaction or who have received advice regarding the benefits of the transaction.
• The adviser or tax-scheme promoter requires "confidential protection" about the transaction, prohibiting details from being disclosed to any person or the CRA. (This is not to be confused with legal privilege, which protects the client rather than the adviser.)
• The taxpayer or person who entered the transaction for the benefit of the taxpayer obtains contractual protection, including any insurance (other than professional liability insurance), indemnity, compensation or guarantee that protects a person from the failure of the transaction to achieve a tax benefit or which pays for any expense, fee, tax, interest or penalty associated with resolving a dispute with the CRA concerning the transaction or any promise of assistance with any dispute.

The definition of "reportable transaction" also applies to each transaction that is part of a series of transactions that includes the avoidance transaction. The definition further provides that if one hallmark applies to one transaction in a series and another hallmark applies to another transaction in the same series, each transaction in the series becomes a reportable transaction.

Obligation to file information returns

Reportable transactions must be disclosed to the CRA in an information return by June 30 of the calendar year following the year in which the transaction occurred. Information returns must be filed by every:
• person who receives a tax benefit from a reportable transaction;
• person who entered into a reportable transaction on behalf of another person who received a tax benefit; and
• adviser or promoter (and anyone not dealing at arm's-length with such a person) who is or was entitled (immediately or in the future and absolutely or contingently) to a fee that is described in the reportable transaction definition or to a fee in respect of contractual protection. Where multiple professionals within a single firm provide advice on any reportable transaction or series, only one information return needs to be filed.

If any one person files an information return with full and accurate disclosure of the transactions, this is sufficient to discharge the obligation of everyone else who must file a return.

Filing an information return is not an admission that the reported transaction may be subject to GAAR, or that any transaction is part of a series of transactions. However, the information return will obviously provide an early warning system to the CRA and a roadmap to an assessment for a CRA auditor.

Consequences for failure to file an information return

Failure to report a reportable transaction to the CRA could result in the denial of the resulting tax benefit and a penalty. The penalty for failing to file an information return is the total of each amount that is a fee an adviser or promoter (or nonarm's-length person) is entitled to receive in respect of:
• the reportable transaction;
• any transaction that is a part of the series that includes the reportable transaction; or
• the entire series that includes the reportable transaction.

If more than one person is liable for a failure-to-file penalty, the liability is joint and several. However, any penalty assessed against a tax adviser or promoter would be limited to that person's fee.

The usual statutory limitation period for reassessing a taxpayer does not apply to reportable transaction filings.

Defences for taxpayers, advisers and promoters

The proposed legislation includes a due-diligence defence, which may allow taxpayers, advisers and promoters to avoid penalties if the person has exercised the degree of care, diligence and skill to prevent the failure to file that a reasonably prudent person would have exercised in comparable circumstances.

According to Finance, the expected standard of care may differ depending on the role of a particular person, as follows:
• a person receiving a tax benefit would be required to make reasonable and good-faith efforts to determine whether a transaction is an avoidance transaction and/or whether a transaction is part of a series of transactions that includes an avoidance transaction and to make reasonable and good-faith efforts to ensure that full and accurate information is disclosed;
• a person who enters a reportable transaction on behalf of someone else is required to exercise the same degree of care, diligence and skill as if the person had entered into the reportable transaction; and
• advisers and promoters are required to exercise adequate care, diligence and skill to determine whether a tax benefit may arise from an avoidance transaction or series and whether two of the three hallmarks are present. However, advisers would not be expected to inquire whether other or previous advisers have or had contingent fee arrangements with a common client, which of course could be a hallmark. Notwithstanding that, if a client is known to be involved in aggressive tax planning, tax advisers should consult with the client to determine if any hallmarks are present. Similarly, if hallmarks occur in the initial transactions in a series and an adviser on later transactions is not and could not be aware of those initial transactions, the adviser may avoid liability for penalties.

The definition of "reportable transaction" also applies to each transaction that is part of a series of transactions that includes the avoidance transaction

Practical concerns

Although Finance has indicated it does not want the proposed legislation to affect normal commercial transactions, the provisions may be overly broad and may therefore impede ordinary commercial arrangements for a number of reasons.

First, clients routinely consult with tax professionals to obtain advice to optimize their tax positions. Consequently, the threshold for these provisions to apply, namely, the existence of at least one avoidance transaction, might be met whenever professional tax advice has been rendered.

Second, the fees hallmark may be too easily triggered. Fee structures vary widely and it is not unusual for clients and professionals to agree on something other than hourly rates for establishing the value. Contingent fee arrangements are legal and it is not uncommon for a tax adviser to reduce fees, with a premium paid for a successful outcome, or charge no fees whatsoever unless a favourable result is achieved. Such fee structures may be a hallmark under the proposed legislation.

Third, the contractual protection hallmark may also be too easily triggered. Tax representations and warranties or indemnities respecting tax liabilities in agreements of purchase and sale may be characterized as contractual protection, even though they occur in the normal course. Finance is aware of and concerned about this potential issue.

Fourth, limitations on the extent of any penalty are unclear. It is not known if penalties against an adviser would be limited to the tax-related work, or if all the fees associated with preparing and executing a transaction would be caught. Arguably, fees for all the work associated with a transaction, including non-tax legal work, may be captured by the penalty provisions. This would extend the scope of the penalty well beyond tax advice.

Fifth, lawyers and accountants are bound to maintain client confidentiality by their ethics and rules of professional conduct. Lawyers are further bound by solicitor-client privilege, which dictates that confidential client communications cannot be disclosed to anyone. It is well established that privilege belongs to the client, not the lawyer. Consequently, it is not within a tax professional's ability to proactively disclose client information. Finance does not want advisers to breach solicitor-client privilege but expects lawyers to obtain assurances from clients that they will file required information returns. This could put lawyers in an untenable position of being exposed to potential penalties, where the client does not file an information return and the lawyer is precluded from filing an information return without the client's authorization. Further, if a lawyer diligently informs the client of the legal requirement to file and the risks of not filing, that lawyer could not rely on that communication to establish a due-diligence defence, since disclosing that communication would breach privilege.

Finally, although the legislation was to have come into force at the start of 2011, it is also intended to apply to any series of transactions that commenced before 2011. It may be impossible for professionals to meaningfully comply with the rules to the extent they relate to transactions that predate January 1, 2011. The reality is tax practitioners sometimes can't recall the precise details of recent transactions let alone ones that occurred months or years ago. It would be unfair and unduly onerous to expect all tax professionals to search every old client file to ascertain whether a hallmark may have been present in any past deals that might be regarded as part of a series of transactions. If a tax professional can't reasonably be expected to remember or locate any and all hallmarks in respect of past deals, the professional can't reasonably be expected to report going forward.

Conclusion

The CRA requested and obtained a statutory regime to detect aggressive tax planning. The scope and meaning of the proposed legislation will only be fully understood once the CRA and the courts interpret it. However, the breadth of the legislation is open to criticism and it is hoped that in practice it is interpreted restrictively in order to avoid any unintended outcomes.

Stevan Novoselac is partner with Gowlings in Toronto. John Sorensen is an associate at Gowlings in Toronto

Technical editor: Jay Hutchison, tax managing partner, Canada, E&Y

 By Stephen Cole

So many questions

For a fairness opinion or damages calculation, nothing beats engaging with the right people

When it comes to figuring out what an engagement is really about, an insatiable curiosity and asking a lot of questions are vital. The best route to being a good litigation accountant or business valuator is to ask a lot of questions, learn to listen, then figure out the real question — the essential valuation issues. As the renowned abstract painter of black and light Pierre Soulages once said, "It's what I do that teaches me what I am looking for." The following interchange makes this point.

Plaintiff's counsel: *Ms. Jones, can you tell the court something of your background and qualifications to value these shares?*

Ms. Jones: *I've been trained to ask good questions and to hear what is unsaid.*

Plaintiff's counsel: *Ms. Jones, are those your most important qualifications?*

Ms. Jones: *Yes.*

Plaintiff's counsel: *Ms. Jones, do you have any other qualifications?*

Ms. Jones: *Well, yes. I believe I have an in-depth understanding of the business underpinning the shares in question. I have extensive experience in analyzing business plans, budgets and forecasts and building models to forecast business performance within a reasonable range.*

Plaintiff's counsel: *Ms. Jones, do you have any objective qualifications?*

Ms. Jones: *Well, yes. I am a CA, CBV, CFA and enrolled in the DIFA program at the moment.*

Plaintiff's counsel: *Thank you. Ms. Jones, I assume that before you took this engagement you were an expert in the industry and had undertaken numerous similar engagements.*

Ms. Jones: *No. Actually I've never valued a business in this industry before.*

Plaintiff's counsel: *Ms. Jones, you didn't tell us what your undergraduate university degree was in. I presume it was in engineering or commerce. Is that correct?*

Ms. Jones: *No. It was in anthropology. I've wanted to be a business valuator all my life and because the culture of each business is so crucial to projecting future business outcomes and the related value, anthropology was really the only place to start.*

Today there is much data available; in fact there is a plethora of information thanks to the Internet and search services. As a result, increasingly what will distinguish good work is not the breadth of supporting data per se, but its focused application. What will distinguish a valuation or damages opinion is its focus. The ability to raise and resolve the essential and the contentious questions

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— that will be the new competitive advantage.

The type of questioning process, the finding out what you need to know, adopted by world-renowned architect Norman Foster will bring forth the right questions to be answered. They will often not be the ones you are initially asked. As has been written, there are very few real valuation disputes — even when, on the surface the problem seems to be about valuation. Most often it's about something else. Staying open-minded and curious and aggressively enquiring "all around the matter" in order to obtain a real understanding of the business context or the relationship of the disputing parties can be enormously helpful to "getting the right question" before you finalize your opinion. Here are some examples.

The right definition of value of real estate; is intent relevant?

The business is a family real estate company where Dad owns sufficient voting preferred shares to provide him outright control of the company. The shares have nominal value. Each of four siblings owns one-quarter of the common shares, acquired 25 years ago as a result of an estate freeze by Dad. One sister runs the business; the other three siblings are passive shareholders.

In all the scenarios the key question is to determine the relevant definition of value — and that may be legislated or an instruction or it may be the valuator's determination. Having said this there may be other key issues.

You are asked to value one-quarter of common shares for Canadian income tax purposes. The key question is the relationship between the parties — because based on fair market value and absent an "evidence of control by the family group" (as per CRA's IC89-3), there could be a significant minority discount applied against the quarter interest.

In another scenario, you are asked to value the shares of one sibling's quarter of the common shares because the sibling is divorcing. There are two relevant definitions of value: fair market value and a fair value. The marriage has broken up after 30 years. What is the key question now? Is it the same as above — a holistic understanding of the relationships between the parties? The relationship of who to who? Is the intent of Dad relevant — during the marriage, at the date of separation, currently? Do you need to know the pattern of dividends, salaries and bonuses to the family members over the marriage? Is any of this relevant to fair market value or to a fair value? By definition there cannot be more than one fair market value. But, and also by definition, for each different set of facts, there can be a different fair value.

In another assignment you are asked to value three-quarters of the common shares. On Dad's recommendation and in agreement with all the siblings, the operator sibling will buy out the interests of her siblings. Is the sum of the parts to be equal to the whole? Only by questioning all the parties to understand the context, dynamics and sociology of the transaction can the right transaction value and terms be determined — one size does not fit all.

The appropriate public company comparable and public to private discount; or how many angels can dance on the head of a pin?

The business is a reasonable size but there is significant key-man dependence and a weak middle management. It is very profitable and part of an industry with several public competitors that are larger and might initially be considered prospective purchasers. The company's internal controls are poor. The sole owner is 70 years old.

While there is a lot of literature on this topic and inexhaustible amounts of public company data, most private businesses are not prospective IPOs. Except as a sanity check or in the absence of any other data points, public comparables are best used only as secondary tests or directional value indicators.

You are asked to value 100% of the issued and outstanding shares as part of the company's strategic planning process. So what is the real question? It's likely about the quality of the management or lack thereof. Resolution of the succession issue will drive all the other essential strategic and business inputs to the valuation model.

Private businesses that have the qualities of a stand-alone public business are usually pretty obvious — their size, profitability, quality of governance and the like are telltale signs. If it ain't a contender then move to the private company comparables and traditional private company inputs.

Of course, if the business is an IPO prospect or highly desirable target for a public buyer, the debate will extend to market-pricing issues or synergy questions and of how accretive the acquisition needs to be for a prospective buyer.

Staying open-minded and curious in order to get a real understanding of the business context is helpful to getting the right questions before finalizing an opinion

In the case at hand, by asking the right organizational, cultural and sociological questions you have determined that the owner could never be a public CEO or chairman. In the alternative, the business may present a fabulous opportunity to a private equity firm or new management team, in which case value will be driven off the business plan and succession-related initiatives. Or there may be a horse race between strategic buyers. But I doubt they will be figuring out the public to private discount in order to make their bid. They will be questioning the synergies.

Are the numbers reliable or does firm culture trump all?

The business is a young public company, almost a national airline. In June 2010 it undertook a successful secondary share offering implying significant goodwill and future profits. It is being sued for damages, which are agreed to be a function of profitability over the next 10 years.

You are asked to determine the profit base, annually, for the next 10 years, as the primary driver of the damages. The plaintiff says profits will be fabulous — based on the profit base implied by the pricing of the secondary share sale, an exhaustive analysis of landing rights, slots, load factors, fuel prices and an array of other future-oriented inputs. The defendant says, despite its recent share sale, the business will never, over time, make a dollar.

A close look at the airline industry reveals it to be highly sensitive to economic cycles, the cost of fuel and labour and geopolitical and environmental factors. Aviation traffic rises and falls at twice the pace of economic output, so a non-inflationary, tepid growth forecast for the economy at large will have a disproportionate impact on the industry. And the relatively high fixed costs of airplanes, airport facilities, and labour mean airlines can't easily adjust to reduced passenger traffic.

This is an industry that has seen 35 Chapter 11 filings in the past 10 years, including major carriers such as Delta Air Lines, Northwest Airlines, and UAL Corp., parent company of United Airlines, which was the largest bankruptcy filing in US aviation history. The industry's losses total US$58 billion in the nine-year period since 2001. And while some airline companies have swung back to profit in the second quarter of 2010 (its best quarter since 1978), they did so by reducing capacity and raising fees, which is not a long-term solution.

For a fairness opinion or a damages calculation, there is no substitute for personal interviews, visiting the business and meeting with management and industry persons

So what are you looking for? What would make you and the court believe that this airline can defy gravity and sustain long-term profitability, as SouthWest and WestJet have done? Whatever it is you are looking for, it will most likely be found by asking a lot a questions about the culture of the airline and its operating philosophy. The distinguishing features supporting a credible long-term profit plan will not first be found in the numbers — if it can be proven at all.

This is not about how to undertake the questioning process or the checklist of issues to canvass — checklists abound. However, for a fairness opinion or a damages calculation, there is no substitute for personal interviews, visiting the business and meeting with management and industry persons; actually talking with and engaging other folks — the right folks — walking the walk.

This sounds touchy feely, interactive and personal. How about doing it by e-mail? Yeah, and maybe the architect doesn't really need to talk to the intended users of the space or visit the site — after all, one office is just like another, isn't it? Maybe one business is just like another too?

Stephen Cole is managing director with Duff & Phelps in Toronto. He is *CAmagazine*'s technical editor for Business valuation

By Merridee Bujaki + Bruce McConomy

Corporate disclosures

Why companies choose to disclose, or not, forward-looking information in their corporate annual reports

Why do some companies provide extensive forward-looking disclosures while others remain relatively silent? What prompts some companies to disclose important discretionary information in their letter to shareholders rather than in the management discussion and analysis (MD&A)? Is the extent of disclosure likely to change as companies move to adopt IFRS? Recent developments in academic research help address these and other questions. Literature on voluntary versus mandatory disclosures and a sample of Canadian public companies illustrate the form and content of forward-looking disclosures in Canadian annual reports.

To illustrate the range of disclosure options used by Canadian companies, we report some results of a study that examines the inclusion of voluntary disclosures of future performance expectations in the MD&A, letters to shareholders and front sections of a sample of TSX 100 Canadian corporate annual reports. (The study is part of our ongoing research program examining annual report disclosures in Canada.[1])

Voluntary versus mandatory disclosures

Accountants have long known that disclosure is important for companies and users of financial statement information. This has also interested academics, resulting in a significant body of literature on the topic. A leading scholar summarized previous theoretical work in "Essays on Disclosure," which cited more than 130 scholarly articles on the topic.[2] His summary provides a useful framework for understanding corporate disclosure.

In its simplest form, the voluntary disclosure decision can be understood as managers having an incentive to disclose if the benefits of disclosure exceed the related costs. Of course, assessing benefits and costs of disclo-

Form and content of forward-looking disclosures in Canadian corporate annual reports

Format of disclosures		Location of disclosures		Quantitative vs. qualitative	
Text	95.4%	MD&A	81.5%	Qualitative	78.2%
List	2.7%	Letter to shareholders	12.0%	Quantitative (in $s)	12.0%
Table	1.9%	Other front matter	6.5%	Quantitative (in units)	9.8%
Total	**100%**	**Total**	**100%**	**Total**	**100%**

Content of disclosures (based on 4,991 disclosures)					
Product related	12.0%	Risk/risk management	4.6%	Employee expectations	2.3%
Market related	11.8%	Service expectations	4.3%	Number of locations	2.2%
Growth expectations	10.2%	Capital expenditures	3.4%	Capital or debt related	1.6%
Revenue expectations	6.5%	Investor relations	3.2%	Capacity expectations	1.5%
Operating control/ efficiency	6.4%	Customers	3.1%	Acquisitions	1.2%
Cash-flow expectations	5.7%	Profit expectations	3.0%	Return of equity	0.7%
Financing/refinancing plans	5.5%	Productivity expectations	2.9%	Leverage expectations	0.7%
Vision, mission/strategy	4.8%	Cost-reduction plans	2.4%	**Total**	**100%**

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sure can be difficult, making it a challenge to predict a specific disclosure decision. This is particularly so as there is no comprehensive theory of disclosure that explains what companies disclose. The scholar suggests that the disclosure literature can "best be characterized as an eclectic [mix] of ... economics-based models, each of which attempts to examine some small piece of the overall disclosure puzzle." [2] To make sense of the vast body of research, he groups disclosure studies into three broad categories based on the theoretical models that underlie the research. The first disclosure category he identifies is a set of association-based disclosure models that link disclosures to changes in stock price and trading volume. Studies of this type often assume investors have rational expectations about what a company will disclose, so when the actual disclosure decision is made investors will adjust the stock price for any new information contained in the disclosure. For example, based on a biotechnology company's past disclosure practices, investors might expect an announcement about the results of testing of an important new drug at the end of March 2011. If no disclosure is made, investors might infer that the company has bad news and is delaying its disclosure. So, the share price may decline until a detailed disclosure is made about the drug test results.

The second category of disclosure includes discretionary-based disclosure models, which examine incentives that explain why managers choose to disclose some things and not others.

The third category includes efficiency-based disclosure studies that help explain why disclosure exists in the first place (e.g., the role of disclosure in perfect markets and in imperfect markets with information asymmetry where some investors are better informed than others).

A good way to illustrate the discretionary disclosure conundrum faced by managers with conflicting incentives about whether or not to disclose is to consider two extremes: disclose all the information that might be useful to investors versus disclose nothing (or at least nothing beyond what is required by law). If managers choose to disclose nothing, the level of information asymmetry between the manager and potential investors would be very high, and research suggests the cost of capital would rise prohibitively.[2] On the other hand, if managers disclose too much information, it may cause them to incur significant proprietary costs, helping their competition and hurting the company's business prospects.

Other factors likely to affect the disclosure decision include the legal environment, rational expectations, information uncertainty and the market for managers. The legal environment may support or discourage disclosures. For example, managers are more likely to disclose forecast information when going public in Canada or the UK than in the US where lawsuits are more prevalent.[3] As discussed, according to a rational expectations perspective, if a company fails to make a disclosure when one is expected, investors may assume the worst and bid down the price of the company's shares. Thus there is an incentive to fully disclose to differentiate the firm from firms of lesser quality. These expectations are mitigated by information uncertainty that suggests if investors cannot be sure whether managers possess information, they are less likely to assume that nondisclosure implies bad news. Finally, the market for managers suggests managers may be influenced to voluntarily disclose forward-looking information (including voluntary earnings forecasts) in order to reveal their expectations for the future. If a manager's expectations are subsequently met, the disclosure will have served to signal management's talent for anticipating the future.[4] Thus a manager's reputation may be enhanced and his or her personal market value may be increased, so he or she may be able to command a higher price for his or her services.

Recently the debate over disclosure has focused on mandatory versus voluntary disclosure. For public companies, there are many mandatory disclosures such as disclosures within financial statements (and related notes), MD&A and disclosures about corporate governance. However, many of the disclosures made in annual reports are not required in the strictest sense. It has been argued that most theories of disclosure ignore the simple notion that many items are disclosed because managers have a duty to disclose material information.[5] In short, materiality is a is a key factor in determining what is required to be disclosed under GAAP or IFRS, and by the Ontario Securities Commission (OSC), SEC and other regulators. Consequently, it can be argued that only when managers determine that a piece of information is immaterial, or when the firm has no affirmative duty to disclose the information, is a disclosure truly voluntary.[6] So managers must balance their obligation to disclose material information with their disclosure incentives; this should be kept in mind when evaluating disclosures in the MD&A and other sections of annual reports.

Managers must balance their obligation to disclose material information with disclosure incentives. This should be kept in mind when evaluating disclosures in MD&A

MD&A disclosure requirements

The OSC suggests that the MD&A focus on material information. Deciding what is material requires professional judgment. To assist preparers, the OSC suggests information be considered material if a reasonable investor's decision whether or not to buy, sell or hold securities in the company is likely to be influenced or changed if the information in question was omitted or misstated, a definition that is similar to *CICA Handbook* requirements.[6] In addition, the OSC suggests the MD&A should address company performance and other factors such as liquidity, capital resources, off-balance sheet arrangements, transactions with related parties and key fourth-quarter events. Most importantly, from the perspective of our study, the MD&A should also include a discussion of the company's future prospects, including trends and risks that are reasonably likely to affect financial statements in the future. Similarly, a key objective of the MD&A is to provide information about the "quality, and potential variability, of [the] company's earnings and cash flow, to assist investors in determining if past performance is indicative of future performance" (OSC, FORM 51-102F1, Part 1 (a)). From a user's perspective, it may be useful to contrast the required disclosures in the MD&A and the voluntary disclosures that may be made in the MD&A and elsewhere in the annual report. The former may be driven by materiality, while the latter are more likely to reflect a manager's bias and the disclosure incentives discussed above.

The OSC performs annual reviews of a sample of public company continuous disclosures, including financial statements and the MD&A. A common complaint over the years by the OSC is that companies fail to provide much more than a generic discussion of risk factors and uncertainties that will materially affect future financial performance. Similarly, for items such as the transition to IFRS, many companies do not go beyond information that is boilerplate in nature.[7] Therefore it may not be very useful to users of the annual reports. The OSC reviews concentrate on information within the MD&A section of annual reports, much of which can be considered mandatory disclosure. In our study, we go beyond the MD&A and assess disclosures in the letter to shareholders and front section of annual reports, allowing us to evaluate the form and content of required and voluntary disclosures by companies.

Form and content of forward-looking information in reports

In our research into the disclosure of forward-looking information, we used key word searches in companies' annual reports (searching for words such as "future," "expected" and "anticipated") to isolate predictions of future performance by companies. As mentioned, we go beyond the MD&A and assess disclosures in the letters to shareholders and front sections of annual reports (appearing before the MD&A).

Regarding the form and content of forward-looking information provided, we found that the vast majority (95.4%) of the disclosures are in narrative or textual form, with the rest split between tables and lists (bullets). Of 23 categories of forward-looking information examined in our study, the three most prevalent are those addressing product-related issues, market-related issues and growth prospects (see table on page 40). These are followed by references to future revenue, operating controls, cash flows and financing/refinancing plans. However these disclosures are not evenly distributed among the various sections of the annual report. For example, if you reviewed only the MD&A section of the annual report, you could miss about one-third of the comments regarding a company's growth prospects.

While most forward-looking annual report disclosures are found in the MD&A (81.5%), annual report users should also consider disclosures in letters to shareholders (12%) and other front matter (6.5%). We found companies are more likely to make qualitative references (78.2%) to future items and trends, rather than quantitative ones (21.8%), e.g., companies are about four times more likely to make statements such as "we plan to open new stores" rather than "we expect revenue to increase by $x.xx" (see table). Also, despite the OSC's call for disclosures to be a balanced discussion that openly reports bad news as well as good news, of the disclosures categorized as good news versus bad news, we found 80% were good news. When discussion centres on good news, about two-thirds of the time it is disclosed in the MD&A, and one-third in voluntary areas such as the letter to shareholders. In contrast, bad news is almost exclusively disclosed in the MD&A (96%) where companies may feel more balanced disclosure is mandatory under OSC requirements. This highlights the risk of only reading the letter to shareholders, which research shows is the most widely read part of the annual report.[8]

Conclusion

Securities regulators are often disappointed in the extent to which firms are willing to provide forward-looking information in their annual reports. We provide an overview of why firms might choose to disclose, or not, such information, together with a summary of the form and content of information disclosed. In future research we intend to compare forward-looking information disclosed in annual reports with subsequent annual reports to see if, and how, companies disclose whether they were successful in achieving the predicted results. As we look to future trends, research suggests that voluntary disclosures may decline, reducing the benefits of any increase in required disclosures under IFRS.[9] This is based on the expectation that different countries' legal environments and political situations will continue to have a significant effect on disclosures. If Canadian companies do not perceive that a level playing field exists in terms of disclosures made by their competition internationally, they may be willing to provide only required (material) disclosures. Voluntary disclosures of forward-looking information may be curtailed if such disclosures are not being provided by foreign competitors.

Merridee Bujaki, CA, is an associate professor, accounting and auditing, at the Telfer School of Management, University of Ottawa, and an ICAO doctoral fellow. Bruce McConomy, CA, is a professor, financial accounting, at the School of Business & Economics, Wilfrid Laurier University, and director of the CA/Laurier Centre for the Advancement of Accounting Research and Education

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Technical editor: Christine Wiedman, PhD, FCA, School of Accounting and Finance, University of Waterloo

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By David Malamed

Friendly fraudster

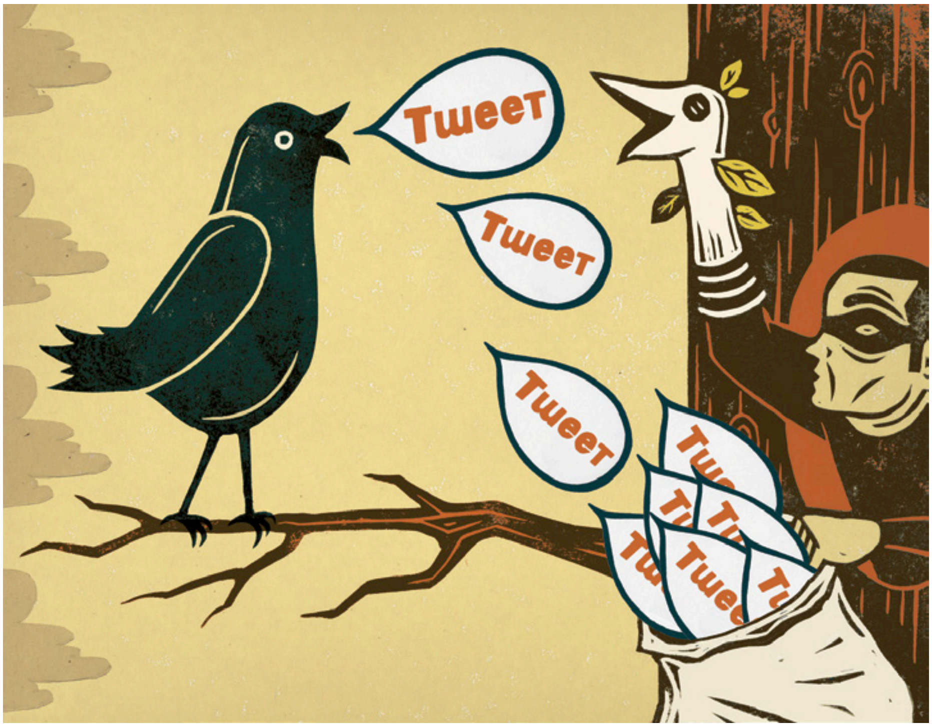
As social media sites gain in popularity, users need to be aware of the dark side of sharing too much information

A few years ago I conducted a small experiment on Facebook. It was unscientific but very revealing about how easy it is to gain personal information and potentially use that information to commit fraud. I created a profile for myself using a false name and the picture of a then-popular TV star. The name I chose was Michael Duarf, fraud spelled backward. I uploaded a headshot of Wentworth Miller, the star of TV drama *Prison Break*, as my profile picture.

At random, I sent out a request to 20 people to be their friend. Within 20 minutes five people accepted me. One woman noted my picture was that of Miller, but this was not said in a negative tone. Many people use pictures of famous people as their profile image, so it's normal on the site to see a celebrity (or cartoon image) as a person's way of presenting him- or herself.

Now accepted as a friend, I had access to significant information about this very trusting woman. I knew her married name and her exact date of birth, which she unwisely listed on her profile. Her husband, understandably, was her friend and he had an unusual first name, which made it easy to find out where they lived using an online telephone directory. She also had her brother as a friend. Their relationship was easy to identify based on communications between them ("Happy birthday, bro!"). Now I had her maiden name, which is golden to a fraudster. Many people still use this information as a key security question when opening a credit card, among many transactions. As an added bonus, I found the name of her dog (people often use a pet's name as a security question) and that of her children (tagged in several pictures, and also a common security question).

Within five minutes I had enough personal data on the woman to use her identity to open credit cards in



BLAIR KELLY

her name (giving an address that sent the cards to me) and possibly even obtain a mortgage. I could create false identification documents in her husband's name and hers using pictures, for example, of myself and a female accomplice. If required, I could create ID using their pictures. To an experienced fraudster, either production would be child's play.

The skyrocketing popularity of social media sites such as Facebook, MySpace, Twitter, LinkedIn and others has many benefits, especially bringing people together. New and old friends, sometimes distant acquaintances and strangers, eagerly share personal information ranging from birth dates to news about an upcoming vacation or attendance at an event on a specific evening. That can be fun, but dangerous.

Christie Alderman, vice-president of new products at Chubb Personal Insurance, told Forbes.com that she knows of a US$200,000 theft in New Hampshire that resulted from the victim posting on Facebook that he was away on holiday.

Facebook is the Goliath of social media sites with more than half a billion members, many students but, increasingly, many older people. The business networking site LinkedIn, with more than 80 million members, arguably provides more valuable demographic information for a fraudster as the majority of its members have jobs and often a work history. Classmates has in excess of 50 million members. Older users might have forgotten the name of someone claiming to have been in high school with them decades ago. It would not be hard to convince them that you went to school together.

By getting personal information through a social media site, a fraudster could call a company and use that information to hook into the firm's network

The willingness or need of people to connect with others also has a dark side. By readily sharing personal information that in previous generations might never be revealed even to friends (or portioned out in an appropriate manner), social media users can make themselves — and, in some instances, their employers — vulnerable to fraud, reputational damage and even corporate espionage.

Identity theft, like social media sites, is also growing. According to the 2010 Identity Fraud Survey Report conducted by Javelin Strategy & Research, a US firm that provides research to the financial services industry, the number of identity fraud victims in the US jumped in 2009 by 12% from the previous year to 11.1 million adults. This marked the highest increase since the survey was first conducted in 2003, reports Javelin. The total scammed? About US$54 billion. Using the one-tenth rule for Canada, that makes ID theft in this country at more than $5 billion annually.

Fraud, in general, is also increasing. In its 2010 Report to the Nations, the Association of Certified Fraud Examiners estimated the cost of fraud to the global economy in the previous year was a staggering US$2.9 trillion. It was the first time the semi-annual report looked at fraud numbers outside the US.

"Fraud knows no boundaries, and anti-fraud professionals worldwide face more challenges than ever in detecting and combating it," said the association's president, James Ratley.

That truism applies to social media fraud. People sending requests to connect on a social media site could be located anywhere, just hoping that some are accepted and the door to the acceptor's personal information opened.

There are other ways to obtain users' information, such as setting up a fraudulent site in the name of a celebrity.

In 2009 Tony La Russa, manager of the St. Louis Cardinals baseball team, settled a lawsuit with Twitter, which has 90 million users and counting, after he discovered an account had been opened in his name. Under his name, the unidentified fraudsters posted comments that made light of the death of two Cardinals' players and of drunk driving. MSNBC's Keith Obermann and several professional athletes, including NFL players Asante Samuels of the Philadelphia Eagles and DeMarcus Ware of the Dallas Cowboys, also had false comments posted under their names on Twitter.

Most of the fake Twitter postings are pranks. "We shouldn't be surprised by this," Frank Farley, a psychologist at Temple University, said in a newspaper interview. "I'm frankly surprised we haven't seen more of it. Through social media, we have created the capacity or opportunities for people to take such actions. It's the old 'if you build it they will come.'"

However, the potential for false information to be deliberately planted is no joke. Just look at what happened to Apple in May 2007 when an erroneous story was posted on the blog Engadget. It said that the launch of the iPhone and the Leopard operating system were being seriously delayed. This sent Apple's stock down to US$103.42 from US$107.89 in six minutes, wiping out about US$4 billion of market capitalization and costing a lot of investors a lot of money.

Imagine what a fraudster who has created a false Twitter account in the name of a prominent businessperson or financial guru could do with a malevolent tweet. The message on a social site wouldn't just have to concern a company's financial health. It could attack the reputation of a key senior employee. A false posting accusing a senior executive of sexual harassment, for example, could force a valuable employee to resign because of the notoriety associated with the allegation.

Another concern involves social engineering, the process by which fraudsters use information about employees and a company to commit a variety of fraudulent scams, particularly access to a company's computer systems. Several years ago, Todd Snapp, president of RocketReady, a Tampa-based security firm that specializes in finding human security weaknesses, said he believed there is not a company of any size right now that is not being attacked by social engineers trying to obtain some kind of information.

By acquiring personal information on employees through social media sites, a clever fraudster could call a company and use that information to gain the confidence of someone who can hook the con man into the firm's network. A typical ruse, Snapp explained, could begin with the fraudster pretending to be an employee working from home. He calls someone whose name and details he gleaned from a site: "How are the kids? I remember that Johnny was crazy about hockey. He still playing?" Then the fraudster asks certain questions. Sometimes the person pretends to be from the IT department. "We're having trouble with the system and we just need you to log in so we can check the status because we think there's been a breach. What password are you using?"

Does social engineering work? Snapp said that as of several years ago his company's success rate at obtaining sensitive information on a company when it conducted a mock social engineering assault, including passwords, was 30% to 35%. And that was just before the explosion of social media sites.

Social media has also made corporate intelligence much easier to conduct, says Scott Koegler, a former chief information officer who has been writing about technology for two decades.

One of the most closely guarded trade secrets in most enterprises is the customer list, and while getting every customer list may not be as simple as this example, consumer electronics retailer Best Buy is a good place to start. Best Buy's Twelpforce is the company's online service presence, made available through Twitter. Within 30 seconds, you can find that Twelpforce has more than 30,000 followers. These are presumably Best Buy's customers. This list can be viewed directly within the Twitter interface, and with a little programming ability the list can be extracted using Twitter's application programming interface and messaged.

To obtain what he calls more nefarious information gathering, Koegler says it's a matter of using any of several data-mining applications that can sift through Twitter feeds, Facebook, LinkedIn, and other conversational arenas to extract seemingly unrelated information from casual conversations. When those comments are fed through semantic processing systems to provide some contextualizing, it's easy to imagine how information an organization may not want disseminated could be gleaned from thousands of unrelated comments, he says.

Companies should also be aware of the potential for overly zealous employees posting false information about their company in an attempt to bolster the firm's reputation or revenue.

For a few years leading up to 2006, the CEO of Whole Foods Market, John Mackey, posted messages on Yahoo Finance Forums under the pseudonym Rahodeb, an anagram of his wife's first name, Deborah. In his posts he criticized the management of rival Wild Oats Market and wondered why any company would consider buying it. In truth, Whole Foods was considering doing just that.

When *The Wall Street Journal* outed Mackey in June 2007, it prompted the US Federal Trade Commission to seek a temporary restraining order and court injunction that halted Whole Foods' pending US$670-million acquisition of Wild Oats. The US Securities and Exchange Commission also investigated Mackey to see if he had been attempting to manipulate the stock price of Wild Oats prior to the acquisition.

Although Mackey was cleared of all charges and the deal went through, the damage to his personal reputation and that of his company was considerable. He resigned from his position in 2009.

In another case in 2009, a Honda employee at a lower level posted comments on Facebook that focused on Honda's new Accord Crosstour. Most of the reaction on Facebook to the car's design was negative so Eddie Okubo, a product-planning manager, added a positive spin without declaring his relationship to the company.

When Okubo was exposed, the outrage against Honda was visceral. A bad public relations problem became an even worse one. It also meant potential customers who did an Internet search on the Crosstour would more than likely come across the misrepresentation, perhaps forever.

With such potential dangers lurking in the social media landscape, what can companies and individuals do to protect themselves from clever fraudsters?

Companies should be aware of the potential for overly zealous employees posting false information about their company in an attempt to bolster the firm's reputation

The answer, as always, starts with education. Employees need to know that making comments about the workplace can be potentially damaging, no matter how innocuous they might seem. A casual and kind message on Facebook from one colleague to another, such as "Congratulations on your new position as IT manager," should not be shared with the world.

An educational initiative can be presented in a company through seminars on how to use social media at work and at home, and by the creation, distribution and mandatory signing of a formal policy on social media usage. It should clearly spell out what information to reveal on these sites and should clearly explain how fraudsters and social engineers can use it to adversely affect the company.

Employees should be advised not to provide details in their profiles, including dates of birth, relationship status, home town, names of pets, hobbies, children or anything that fraudsters could use to decode passwords.

It is possible some employees will resist such restrictions. It is unlikely the usage rules can be mandated (except for those that take place at work). Make sure staff knows any policy on social media does not mean the positive aspects of it can't be enjoyed. Emphasize that by following these guidelines staff and the company are being protected. Most of all, share these insights with employees in a manner that a friend would.

David Malamed, CA·IFA, CPA, CFF, CFE, CFI, is a partner in forensic accounting at Grant Thornton LLP in Toronto. He is also *CAmagazine*'s technical editor for Fraud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Outlook

BY MARCEL CÔTÉ

WHERE ECONOMICS AND POLITICS MEET

Where are we heading?

What's going on in democratic countries? Almost everywhere, citizens are feeling let down by their governments and becoming increasingly apathetic. Canadians are no exception. For nearly a decade, no federal party has been able to claim that it represents the views of a majority of Canadians. Minority governments, which have been in power since 2004, are likely to be the rule for some time to come. In fact, a recent survey indicated as many Canadians feel the country is heading in the right direction as those who don't.

The situation is scarcely better in the provinces, where governments lose voter support as soon as they are elected.

The same can be said for the US and Europe. The electorate is becoming more polarized between left- and right-wing parties, with the result that voters are opting out of the system in growing numbers. In the US voter turnout has dropped dramatically.

Many analysts link the decline of the democratic ideal to the poor performance of industrialized economies during the past 35 years. Their 3% annual long-term growth masks a different reality for citizens. In almost all industrialized countries, the average citizen's real income has barely budged. In the US, the median household income has been almost stagnant since 1975. What's more, nearly all the benefits of US economic growth have been swept up by the richest households belonging to the top quintile. In 2007, 1% of the wealthiest citizens in the US received 23.5% of its national revenue, compared with a mere 9% in 1975.

Obviously, households amass wealth over time, which can improve their situation. But the fact that families increasingly need two salaries to make ends meet belies the popular belief that progress is being made. Economically speaking, most households are simply treading water.

The increasingly fragile economy is reflected by growing insecurity, particularly in the US, where the current unemployment rate is higher than Canada's, its social safety net is less advantageous and, to top it off, residential real estate values (the main source of wealth for the middle class) have plummeted. More than 20% of single-family dwellings in the US now have a negative value, with this percentage soaring to 80% in Las Vegas. In other words, the mortgage burden has become higher than the value of the house, signifying the end of the American dream.

The public's political alienation can also be attributed to baby boomers. Born between 1946 and 1965, they are rapidly reaching retirement age. One Canadian out of three is currently in this age bracket. In Canada, as in other industrialized nations, baby boomers dominate society, holding nearly all the top positions. And because they're still healthy, they want to hang on to them. What's more, baby boomers are no longer at an age where they are dreaming of a new and better world. They've become seniors who think more about conserving than building. Over the years, they've acquired certain assets and their children are now adults. With retirement in view, they're mainly interested in safeguarding their position. Politically, they tend to be grumpy and often cantankerous voters. Their motto has become "me, myself and I."

Politically, baby boomers tend to be grumpy and often cantankerous voters. Their motto is "me, myself and I"

Democracies have to face this dual reality: on the one hand, slow economic growth that mainly benefits the wealthy; on the other, baby boomers who just want to leave well enough alone. This can't continue; we have to accelerate growth and distribute its benefits more equitably.

However, there's no simple solution. It takes political courage to challenge the status quo, particularly in an aging society. But political disconnect, together with economic stagnation, isn't an acceptable option. We've seen what's happened in Japan, which has been dealing with this situation nearly 20 years and has become more bogged down in political and economic inertia. That's one direction we don't want to take.

Marcel Côté is founding partner at SECOR Consulting in Montreal