THE SECOND COMING

The baseball boss is back. Have glory days returned?

Paul Beeston, president and CEO of the Blue Jays
Planning for tomorrow begins with having the most accurate information today.

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What end-users want

Financial statement preparers would be wise to pay attention to what investors, analysts and journalists are asking for.

With capital markets today exhibiting all manner of turbulence, investors would love to get financial reports that tell them what they need to know in a concise, user-friendly and transparent manner. But the talk lately is that many users find financial reports and statements difficult to grasp and think they obscure relevant information. This raises the question: what specific criticisms do users of financial information have about the way it is presented? What do they want to see? We sent writer John Lorinc to find out. In “A few words on statements” (p. 30), he writes, “Economists have long argued that transparency encourages the efficient allocation of resources in global capital markets. But in the post-Enron push for more and better disclosure, did securities regulators and accounting standards boards unwittingly accomplish the opposite effect?” This is a story that members of the profession should pay particular attention to. What do the end-users — investors, financial analysts and financial journalists — of their products think about how they are presented? Their answers will surprise many. The accompanying sidebar is also of interest since it reports on academic research into the connection between clarity of disclosure and financial performance. It is certainly worth reading.

Toronto residents would love to get financial reports that tell them what they need to know in a concise, user-friendly and transparent manner. But in the post-Enron push for more and better disclosure, did securities regulators and accounting standards boards unwittingly accomplish the opposite effect? This is a story that members of the profession should pay particular attention to. What do the end-users — investors, financial analysts and financial journalists — of their products think about how they are presented? Their answers will surprise many. The accompanying sidebar is also of interest since it reports on academic research into the connection between clarity of disclosure and financial performance. It is certainly worth reading.

In “The central flaw of ‘good governance’” (p. 56) our indefatigable controversialist Marcel Côté stirs up more controversy about governance and how it can be improved. He takes aim at the media and points out where it does a disservice to society. Marcel Côté stirs up more controversy about governance and how it can be improved. He takes aim at the media and points out where it does a disservice to society.

This issue also has regulars on taxation (“Leveraging the lode,” p. 38); fraud (“Dangerous liaisons,” p. 42); assurance (“The big bang II,” p. 46); and standards (“Unlocking the value,” p. 48).

Okey Chigbo, Editor
The second coming

Paul Beeston’s return as head of the Blue Jays in 2008 was heralded by the team and fans alike. But is it the bottom of the ninth or the middle innings? Whether he stays or goes, the longtime baseball executive wants more fans in the seats and more victories on the field.

By Paul Brent

A few words on statements

What do users of accounting information think about how it is presented? Clutter in financial reports is a problem, according to the UK Financial Reporting Council. If that’s the case, is there a way to declutter statements? Read what some end-users have to say.

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regulars

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A CHANGED FORECAST

The article “Realistic retirement” by Jim Otar (Personal financial planning, November 2011) is very interesting, but he does not mention that he is referring to a non-registered portfolio. Under tax rules, the annual withdrawal rate for a registered retirement income fund [RRIF] must increase each year until it reaches 20% by the age of 95. Under such a scenario, Bob Smith’s forecast would be very different.

Pierre Gaudette, CA
St-Jean-sur-Richelieu, Que.

Author’s reply:
Pierre Gaudette is absolutely correct; unfortunately, I had limited space.

Because of the punitive mandatory withdrawal rates, Bob’s portfolio would have a larger probability of depletion in a RRIF account. At age 95, the probability of running out of money was 52% in an open portfolio. In a RRIF portfolio, this would have increased to 71%. The median portfolio ran out of money at age 94; in the RRIF, it would do so at age 92.

It is interesting to note that in the US, the minimum mandatory withdrawal rates are based on actuarial life expectancy tables and therefore are much less punitive than Canadian plans. If the US rates were to apply to Bob’s portfolio, the probability of running out of money at age 95 would still be the same as the open portfolio — 52% — and the median portfolio life would have depleted at the same age — 94.

I hope the legislation will change soon and Canadian RRIFs will start using realistic actuarial tables and we won’t be forced to deplete our portfolios en masse when we become most dependent on others (or the government) in our very old age.

In the final analysis, for Bob’s case, the probability of portfolio depletion is unacceptably large, regardless whether it is in an open account or a RRIF. Bob should consider converting his assets into guaranteed, lifelong cash flow using a life annuity. At current rates, he would have a slightly lower income than he requires, but it would be guaranteed for life and provide some inflation protection with a 2% annual increase.

MORE TO THE PROBLEM

I agree with Marcel Côté’s comments in “New ideas about innovation” (Outlook, December 2011), but he is far short in diagnosing the problem. He questions healthcare operations but what about education, another government monopoly subordinated to the teachers’ unions? What about all the public sector unions operating non-competition businesses (e.g., post offices, liquor outlets, national parks, etc.)? What about governments themselves, with expenditures rising faster than the population? Côté offers no solutions. What about having full, true and plain disclosure laws for politicians and bureaucrats to help ensure truthful reasons for old and new program spending and/or taxes? That one change, with appropriate penalties (e.g., heavy fines, long jail terms and prohibition from ever getting public funds or holding public office), would do more to reduce taxes and government spending and increase economic benefits than many current proposals.

James Shutiak, CA, EMBA, CMC, CFE (retired)
Calgary
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Understanding the needs of our 50,000 business clients across Canada has proven that no two are the same.

BDO. MORE THAN YOU THINK.
Competing in the Baja 1000 is not for the faint-of-heart. It’s a dangerous off-road race held annually on Mexico’s Baja-California Peninsula that covers an average of 1,000 miles and takes approximately 30 to 40 hours to complete. So when Kane Fraser, a 38-year-old CA from Williams Lake, BC, decided to enter the race, he was taking on a big challenge — especially considering Fraser is a paraplegic.

The pursuit took on another dimension, however, when Fraser decided to use the race to create awareness about people with disabilities and to raise $25,000 for the Rick Hansen Foundation: $1,000 for every year since Hansen’s Man in Motion World Tour. (The idea was sparked after Fraser and Hansen, also from Williams Lake, went fishing together in November 2010.) To prepare for the race, Fraser enlisted the help of his friend Heino Seibert, owner of Spectra Power Sports Ltd. They chose an all-terrain racing vehicle — the Polaris RZR 900 XP — which he thought would require a few modifications and cost about $15,000; instead it cost several times that amount, taking Seibert and his crew 400 hours to strip it down and rebuild it with race parts. Sponsorship helped to defray the expense.

Fraser trained by taking his quad on long trail rides, but the race was far different than he could have imagined. He and his co-driver made a wrong turn at the San Felipe loop, leading to a 100-mile detour. With the help of locals, they got back on course. Though his team finished about four hours after the allotted time, Fraser achieved his goal of completing the race. And at press time, he’d raised about $17,000 for Hansen’s foundation (he’s still accepting donations online at www.baja1000fundraiser.com).

“I hope to inspire one disabled person to really strive to achieve their goals,” he says.

Deena Waisberg

Easy savings for small business

Here’s a question you should ask your small-business clients: do you use direct deposit?

According to a survey by the US Electronic Payments Association, two-thirds (66%) of small-business owners do not use direct deposit for payroll, and of those who do, only 30% have 100% employee participation.

When you figure that it costs a business up to US$2 to cut and process a hard-copy cheque, compared with US35¢ or less for direct deposit, the savings for a business with 25 employees (paid on a biweekly basis) would be more than US$1,000 a year. Similarly, if businesses switched to direct deposit instead of paying an average of 96 vendors by cheque every month, they could save thousands more annually. While you’re at it, why don’t you ask your client to pay you by direct deposit, too.

Tamar Satov

Résumé

2007 obtains CA designation (BC)
2007 joins PMT Chartered Accountants (Williams Lake, BC)
2008 becomes partner at PMT
2011 completes Baja 1000 and raises $17,000 for Rick Hansen Foundation

Twenty-five years after Rick Hansen’s world tour, Kane Fraser found his own way to raise money and inspire others

Photographs by Tim SWanky/klixPix

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Tamar Satov
CA EXECS PREDICT GROWTH

Business leaders are seeing a moderately positive picture for their companies this year, according to the fourth-quarter 2011 CICA/RBC Business Monitor survey. The survey of CAs holding executive positions in industry found that while only 20% are optimistic about the economic outlook for Canada as a whole, 49% are optimistic about the economic prospects facing their own business, 38% are neutral on their company’s prospects and only 14% are pessimistic.

Consistent with this optimism are the positive projections they have for revenue, profit and number of employees (see chart). The quarterly survey also asked CA executives what they saw as the greatest challenge to the growth of the Canadian economy. At 45%, the state of the US economy is the most frequently cited challenge, though this is down from 57% in the previous quarter. The European debt crisis, at 22%, is second on the list and has increased in importance from 9%.

Despite the lack of optimism in Canada’s economy, only 14% believe the Canadian economy will slip into recession over the year, down from 27%. But this hasn’t stopped respondents from taking preparedness measures: 70% have built up adequate cash reserves, 60% have improved economies of scale and 46% have reduced company debt to prepare for the possibility of a recession. Detailed findings from the study are available online at www.cicarbcbusinessmonitor.com.

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

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<th>Expected change in key measures over the next 12 months</th>
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<tr>
<td>Employees</td>
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<tr>
<td>Profit</td>
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<td>Revenue</td>
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Source: 2011 CICA/RBC Business Monitor Survey, Q4

ASK AN EXPERT

HOW DO I KNOW IF A PROSPECTIVE HIRE LIED ON HIS OR HER RÉSUMÉ?

Unfortunately, hiring managers can’t always take everything on a résumé at face value. That’s why it’s important to get to know a prospective hire by probing for specifics during the interview, conducting thorough reference checks and testing skills where appropriate. Here are five tips to help you verify information on résumés:

Watch for ambiguity. Question vague descriptions of skills such as “familiar with” or “involved in,” which may be signs that a professional is trying to hide a lack of relevant work experience.

Branch out. Inquire if references know of others you can speak to about promising candidates. Also, tap your own network to find mutual acquaintances who might be able to shed light on the person’s background and character.

Get the facts. Ask references to confirm the candidate’s employment history, job titles, responsibilities and salary. If he or she is willing to talk further, ask about the individual’s strengths and weaknesses, interpersonal skills and ability to work on a team.

Ask once, ask twice. Pose interview questions that relate to specific skills. For example, if a candidate must know a particular software program, ask how he or she has used the technology in previous roles. If an applicant’s response is ambiguous, don’t be afraid to rephrase the question.

Put them to the test. Consider hiring the candidate on a temporary basis before extending a full-time offer. This allows both parties to assess whether the position is a fit.

Robert Hosking is executive director of OfficeTeam (www.officeteam.com)
Rally on Bay Street  Toronto’s Bay Street is synonymous with Canada’s financial industry. It’s also a magnet for protestors unhappy with everything from local economic policy to global capitalism.

2  Police cars burned in Toronto’s financial district during the 2010 G20 summit. A month earlier, a radical group that firebombed an Ottawa bank promised more actions in Toronto.

16  Protestors arrested in 1996 after closing the Toronto intersection at King and Bay streets to traffic and declaring it a “greed-free zone.” Demonstrators called for higher corporate taxes.

60  Activists gathered in 1989 as Broads on Bay Street to protest corporate exploitation of women.

300  Sites targeted for pickets in 1996 as part of demonstrations against provincial budget cuts. Hundreds of agitators chant “shut it down” and attempt to break into the Toronto Stock Exchange.

1995  Year Ontario Federation of Labour delegates marched on Bay Street to protest the erosion of workers’ rights. An OFL leader called bank towers “sanctuaries of greed.”

2,000  Marchers who “occupy” Bay Street last October as part of the global “we are the 99%” movement. One man is arrested for allegedly concealing a hammer.

200,000  Estimated cost in dollars for policing and cleanup of a 2001 demo by anti-poverty activists hoping to keep Bay Street employees from working. Up to 2,000 protestors forced workers to pass through a row of police officers.

Steve Brearton

Going Concern

MIKE URSEL, CA  FOUNDER & PRINCIPAL  QUAKESAFE

COMPANY PROFILE: Victoria-based Quakesafe retrofits wood-framed houses to make them less vulnerable to extensive damage caused by earthquakes. By bolting down a house’s sill plate to its foundation — a project often completed in one day and for as little as $3,000 — a house becomes up to 1,000% safer from seismic damage, according to founder and principal Mike Ursel.

The company hit the ground running when it launched last June. “There seemed to be a pent-up demand, particularly from newcomers to the BC area,” says Ursel, who is a professional engineer. It’s a lean operation: along with Ursel, there are four full-time employees, while it contracts out trained staff to do the retrofit work.

HOT FACTOR: As the only company currently providing this service in BC — there are dozens of such firms in the San Francisco area — Ursel feels the company is well positioned in the growing retrofit market, particularly if and when insurance companies demand that older houses be seismically retrofitted to qualify for coverage.

COOL PROJECTS: While the company continues to sell directly to the public through its website and home shows, it also signed its first authorized dealership soon after it opened for business, and is looking to expand that network by adding up to 10 qualified dealers to serve both Vancouver Island and the Lower Mainland.

IN HIS OWN WORDS: “Because we’re reasonably priced, we think we can help many homeowners protect their homes from a devastating earthquake. Most people are surprised that it’s not a huge investment. For the price of a good sofa, we provide a family some peace of mind.”  

John Shoesmith
Your clients will be surprised how the numbers add up

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Future retirees: adjust your expectations

Working Canadians need a reality check on retirement, finds a poll by RBC. While three-quarters (74%) of the nearly retired (age 50 or older) survey respondents think they’ll spend their days travelling, only 58% of actual retirees report spending time away from home. Similarly, nearly one-third (30%) of nearly retirees expect to winter down south in their golden years, but just 14% of retirees are currently snowbirds.

The poll also reveals differences in retirement expectations between women and men. For example, of those Canadians who have not yet retired, 60% of women plan to do volunteer work after retirement, compared with 53% of men. But of those who are already retired, only 41% of women and 35% of men actually volunteer their time.

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<th>Top-10 ways to spend retirement</th>
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<tr>
<td>Take time for self</td>
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<tr>
<td>Spend more time with spouse/partner</td>
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<tr>
<td>Travel</td>
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<tr>
<td>Spend more time with family</td>
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<tr>
<td>Improve health</td>
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<tr>
<td>Spend more time with friends</td>
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<tr>
<td>Volunteer</td>
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<tr>
<td>Make contribution/give back to community</td>
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<tr>
<td>Improve knowledge of finances</td>
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<td>As a snowbird</td>
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*Source: RBC, 2011*

Don't worry, we happy

Canadians are known for being polite, but perhaps we will soon also have a reputation for being happy. According to a global survey of more than 12,000 professionals on social networking site LinkedIn, 69% of Canadians are happy or very happy with their job, placing Canada in third place. Dutch professionals were happiest (80%) and Japanese were least happy (31%). To underline the point, the survey also finds one of the top career “ambitions” of Canadians isn’t very ambitious at all: the No. 2 response is “I’m happy where I am,” after “get promoted” and followed by “retire early.”

Why are we so satisfied? “A tough economy can make professionals appreciate facets of their job they might otherwise overlook when business is booming,” says LinkedIn’s Nicole Williams. Or maybe we’re just too polite to say otherwise.

BEST BOSSES

Who is primo management material? According to both gen Y (18-29) and gen X (30-47) workers polled in a Canadian survey for staffing firm Kelly Services, gen X make the best leaders. The baby boomer (48-65) participants in the survey, however, strongly believe their own generation has superior business managers.

EXECUTIVE PROFILE

CEOs and other company leaders are more likely to part their hair to the right, bring their lunch from home, drive an SUV, wear navy blue and be right-handed, a poll by US recruiter CareerBuilder finds. The lighthearted “Emulating the big cheese” survey asked executives to reveal what they wear, drive, eat and drink at work.

INCREASE FOR INTERNAL AUDITORS

Despite a sluggish economy, nearly eight in 10 (77%) internal audit professionals in Canada received a base-pay raise in 2011, according to a study by the Institute of Internal Auditors. The picture was even rosier for their US counterparts: more than 90% of internal auditors there got an increase in base pay last year.
What is at the core of the **CCH Accountants’ Suite**?

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Only the applications in the *CCH Accountants’ Suite* integrate with Taxprep® and are powered by the same team that builds and supports Taxprep®.

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For more information visit [www.cch.ca/AccountantsSuite](http://www.cch.ca/AccountantsSuite) or contact your CCH Account Manager at 1-800-268-4522.
Is your name within your domain?

Seeing Paul Beeston profiled this issue takes me back to my first assignment for Thorne Riddell. I was with Beeston’s twin brother, John, who was driving at breakneck speed through rural Nova Scotia in a beat-up Volvo, on our way to start the annual audit of our client Acadia University. That was 32 years ago, about two years before I became involved with the technology that would come to be known as the Internet and would change my career forever.

I recently thought of John and my earliest years as a CA while going through the excruciating process of creating a résumé. I was finishing the Directors Education Program at the University of Toronto’s Rotman School of Management, so it was time to start exploring opportunities on a few corporate boards, which still seem to rely on these career-summary relics.

Therein lay the challenge — I haven’t had a résumé since 1989. I haven’t even had a traditional job for decades, being self-employed and working out of a home office. Heck, I haven’t had a business card since 2002. Instead, www.jimcarroll.com has become my résumé — and my personal brand — replacing the old-fashioned two- or three-page structure invented more than a century ago.

Tom Peters was one of the first to popularize the concept of personal branding in a 1997 article in Fast Company magazine, “The brand called you.” It’s still a good read, describing how workers will have multiple careers, many more part-time projects than actual “jobs” and will need to ensure they properly position themselves — and their brand — to do so.

It is inevitable that at some point you will direct people to an online source that contains a neat, concise summary of what you do. Are you going to send them somewhere that involves some silly-looking web address or will you direct them to your personal branding site, www.your-name.com?

Even worse, if you don’t own your own domain name and all the social-network derivations of it, you may be at risk of someone misusing the name in the future. What if you become a global CEO and some crackpot uses a website with your name to take potshots at you? What if people confuse your brand with other people with the same name? There’s a music journalist in Dublin named Jim Carroll who realized years ago that I grabbed all “his” domain names first.

So where do you start? First find out if your domain name is available and register it. For years, I’ve used the Toronto-based company easyDNS, which manages domains for people and organizations worldwide, to register and manage a plethora of domain names. You can visit its site and see if your name is available in a .com, .info, .ca or other form. If it is, grab it. If it isn’t, try a few variations with your middle initials, nickname or anything else. The key is to ensure you’ve got a domain on which you can build your future online skills summary.

Next, use a site such as Namechk, NameChecklist or KnowEm to see if your name is available on Twitter, Facebook, LinkedIn, YouTube or any other social-network platforms. And how about putting together a quick iPhone app, so your name is registered there? I did — and now no other Jim Carroll in the world can use that name on the App Store. Is it crazy to think that in just five years, when you sit down for a job interview, you’ll ask the other uber-wired person across the Starbucks table from you to simply download your app to get your latest résumé details? I don’t think so.

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

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**PERSONAL BRANDING TOOLS**

- The Brand Called You [www.fastcompany.com/magazine/10/brandyou.html]
- easyDNS [www.easydns.com]
- Namechk [www.namechk.com]
- NameChecklist [www.namechecklist.com]
- KnowEm [www.knowem.com]
Payroll Essentials for Accounting Professionals has been designed for accounting and human resource professionals who have a functional responsibility to oversee the payroll function, but who are not processing an actual payroll. This seminar provides an overall introduction and overview perspective of the payroll function where participants learn about processing and reporting requirements and the responsibilities of payroll practitioners’ in government statutory withholding and remittance.

- Wednesday, March 14 - Montreal
- Friday, June 8 - Mississauga
- Wednesday, June 20 - Whitehorse
- Thursday, August 23 - Toronto
- Friday, September 28 - Burnaby
- Thursday, October 4 - Victoria

Special Payments & Completing the ROE is designed to provide a comprehensive overview of the payroll implications of special payments that fall outside of the norm in processing payroll. The program also deals with the intricacies of the correct completion of the Record of Employment (ROE).

- Thursday, June 7 - Saskatoon
- Thursday, June 7 - Pointe-Claire
- Friday, June 8 - Regina
- Thursday, June 14 - Vancouver
- Thursday, June 14 - Edmonton
- Friday, June 15 - Calgary
- Thursday, June 21 - Toronto
- Thursday, June 21 - Whitehorse
- Friday, June 22 - Halifax
- Friday, August 10 - Mississauga
- Thursday, September 20 - Montreal
- Friday, October 12 - Burlington
- Friday, October 19 - Winnipeg

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.

- Thursday, March 15 - Winnipeg
- Friday, March 16 - Brandon
- Wednesday, March 21 - Pointe-Claire
- Friday, April 13 - Mississauga
- Thursday, April 19 - Burlington
- Thursday, May 3 - St. John’s
- Thursday, May 3 - Swift Current
- Friday, May 11 - Prince George
- Wednesday, May 16 - Yellowknife
- Thursday, May 17 - Fort McMurray
- Friday, June 15 - Markham
- Thursday, August 23 - Edmonton
- Friday, August 24 - Calgary
- Thursday, October 18 - Burnaby
- Wednesday, October 24 - Montreal

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.

- Thursday, April 12 - Toronto
- Friday, April 20 - Burnaby
- Friday, April 20 - Edmonton
- Wednesday, May 16 - Calgary
- Thursday, May 17 - Vaughan
- Wednesday, May 30 - Winnipeg
- Friday, June 22 - Mississauga
- Thursday, July 26 - Markham
- Thursday, August 23 - Vancouver
- Friday, October 19 - Hamilton

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For more information including topics, dates and location visit: www.payroll.ca/go?ca4 • register@payroll.ca • 1-888-729-7652 or 416-487-3380 ext. 118
System selection, done right — Part 2

Last month we kicked off a series of articles to set you on the right track toward a new ERP system. We looked at the first phase of the process — meeting with the buyer, setting out the project scope and sending out requests for proposals (RFP) to vendors. The next step is to compare the proposals when they come in two or three weeks later.

To make the options clear, we draw up a report showing all the solutions side by side. For each requirement in the RFP, the vendors have to mark down a number from one to seven indicating how well their solution fits the need. The higher the number, the better the fit. Seven means the requirement (e.g., foreign-currency translation) is fully addressed in the primary system. This is usually referred to as out-of-box functionality. Zero means the function is not available.

We are often asked whether the vendors’ responses can be trusted. Generally, yes. For one thing, the requirements are very specific; for another, the vendors know they will be caught if their responses are inaccurate.

Typically, we select four vendors for the next round, where we ask them to make a two- to three-hour Internet presentation. We give them a certain number of minutes for each topic — 15 minutes for general ledger and financial reporting, 10 minutes for accounts payable, etc. Based on this demonstration, two or three vendors are selected for an on-site demonstration (called the proof of concept), where they show how their solutions would improve the existing business process.

It is worth noting that we do not prepare the to-be business process for our clients. Vendors already have processes embedded in their solutions based on their experience with other companies in the same or similar industries. We believe it is more practical and cost effective to leverage these processes than to reinvent them, even though some tweaking might be necessary.

Usually one vendor comes out on top after the proof of concept demonstration, but the contest is not over yet. We usually ask each contender for two to three references from companies that are similar in terms of size and industry.

Last but not least is contract negotiation. This starts with the first estimates given by the vendor and heats up at the end. Vendors are generally prepared to offer major discounts on their licences, but not on their implementation or maintenance fees. We recommend asking them to break out the implementation costs by module being implemented (such as accounts payable) and also by task (such as training).

Even after all this analysis, there might still be some unknowns, and the vendor might not be prepared to offer a firm price for the implementation. We recommend asking the vendor to come in for a paid consulting engagement to get a better sense of your business and people. After this, you should get a firm price for the implementation and a detailed project plan.

The whole selection process will take a minimum of three to four months, with most of the time allocated to waiting for the vendors to respond to the RFP and preparing for the demonstrations. We are very sympathetic to vendors that go through this rigorous selection process. They can spend a lot of time only to find they were unsuccessful. The least we can do is give them time to respond to all our requests.

Next month, look for our annual business intelligence survey. In May, we’ll examine the various roles in the software-selection process: sponsor, project manager, etc.

For an expanded version of this article, visit www.camagazine.com/systemselection2.

Contract negotiation starts with the vendor’s first estimates and heats up at the end of the process.

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
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CICA breakfast session focused on integrated reporting

A DISCUSSION PAPER titled “Towards integrated reporting — communicating value in the 21st century” was the focus of a special breakfast session presented by the Canadian Institute of Chartered Accountants in late 2011. Robert Herz, certified public accountant and former chair of the US Financial Accounting Standards Board (right), provided an overview of the discussion paper at the Toronto event.

The discussion paper was published by the International Integrated Reporting Council. The IIRC was established in August 2010 by the Prince of Wales Accounting for Sustainability Project, the Global Reporting Initiative and the International Federation of Accountants. The IIRC brings together a cross-section of representatives from the corporate, investor, accounting, securities, regulatory and standard-setting communities.

The discussion paper features proposals for the development of an international integrated reporting framework and outlines the next steps toward its creation and adoption. The goal of integrated reporting is to provide more comprehensive and meaningful information about how an organization creates and sustains value.

Herz is a member of the Accounting Standards Oversight Council.

Canada’s three legacy accounting bodies issue Unification Framework

CICA, CMA Canada and CGA-Canada presented to their members a proposed framework for uniting Canada’s accounting profession in January.

The three national bodies believe unifying the profession would allow them to better meet the evolving needs of Canadian accountants and national and international business communities, as well as to continue to protect the public interest. The decision to move forward and develop this national framework follows an extensive consultation period involving members, governments, regulators, employers, business and other stakeholders.

The framework calls for the creation of a new designation — chartered professional accountant (CPA) — and a new certification program. The Canadian CPA would draw upon the strengths of the existing three organizations to become an internationally recognized and highly respected business credential.

The framework for unification is based on four fundamental objectives:
- to best position the profession to protect the public through the provision of a common certification program and a single set of high ethical and practice standards;
- to enhance and protect the value of the designation in an increasingly competitive and global environment;
- to contribute to the sustainability and prosperity of the Canadian accounting profession; and
- to govern the accounting profession in an effective and efficient manner.

The structure of the framework is consistent with the unification process underway in the province of Quebec. The Quebec orders of CAs, CMAs and CGAs have agreed to unify under the CPA designation.

The national organizations have circulated the framework and CPA certification program to their members and the councils and boards of the provincial and territorial accounting organizations as a platform to review and consider unification and as a means to engage members, governments, regulators and other important stakeholders. As the Canadian accounting profession is provincially regulated, decisions to issue merger proposals are being made by the provincial bodies.

More information about the Unification Framework can be found online at www.CPACanada.ca.
A Parent’s Guide to Raising Money-Smart Kids, published by the Canadian Institute of Chartered Accountants (CICA), is designed to put parents at ease when preparing their children for life’s important financial decisions.

According to a recent CICA study, 78% of Canadian parents surveyed have tried to teach their children financial-management skills, but the majority (60%) do not believe they have been very successful.

The convenient format of the CICA guide allows parents to quickly zero in on the information they need. Each chapter describes how to approach money management with a specific age group and discusses the essentials of financial literacy — earning, saving, spending, sharing and investing. Age groups covered include children aged five to eight, pre-teens, teenagers and young adults.

The guide’s author is Robin Taub, a chartered accountant and highly experienced financial consultant who is a passionate advocate for financial literacy and lifelong learning. Taub firmly believes that to be effective, teachers and parents must first be good financial role models.

“How parents manage their money greatly influences their children,” Taub says. “The first chapter of the book outlines 10 healthy financial habits parents can use to keep their affairs in order and model responsible financial decision-making for their children.”

A mother of two, Taub also believes it is essential for kids to gain not only financial knowledge but also the values and discipline needed to ensure they put the skills they learn into action.

“Having money-management skills alone is no guarantee of financial success,” Taub says. “True financial capability is powered by strong, lifelong values in combination with financial knowledge and skills.”

The CICA publication is available in ebook and hard-copy formats and can be obtained by visiting www.castore.ca/moneysmartkids.
### RECENTLY ISSUED PRONOUNCEMENTS

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† 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.
CAS resources from CICA

The CICA has three new resources to help auditors implement the Canadian Auditing Standards (CAS) requirements for communicating with those charged with governance. These include an Implementation Tool for Auditors, a Client Briefing for Auditors and an FAQ for Auditors. The following new resources can be accessed from the CICA website at: www.cica.ca/CAS.

IMPLEMENTATION TOOL FOR AUDITORS — COMMUNICATIONS BETWEEN THE AUDITOR AND THOSE CHARGED WITH GOVERNANCE: WHAT, WHEN AND HOW?
This tool provides a practical tabular list of matters that auditors are required to raise with those charged with governance. It includes relevant references to CAS and the required form of communication and suggested timing for each communication. Effective two-way communication can assist auditors and those charged with governance with their respective responsibilities — discover how in the tool.

CLIENT BRIEFING FOR AUDITORS — THE IMPORTANCE OF EFFECTIVE TWO-WAY COMMUNICATION BETWEEN THE AUDITOR AND THE CLIENT (I.E., THOSE CHARGED WITH GOVERNANCE)
This client briefing provides auditors with a document for discussion with clients. It explains the importance of effective two-way communication between the auditor and those responsible for oversight of the financial reporting process and highlights what actions clients can take to help their auditors with their responsibility and what benefits an adequate communication process could have for the clients.

FAQ FOR AUDITORS — QUESTIONS AUDITORS FREQUENTLY ASK WHEN IMPLEMENTING CAS REQUIREMENTS RELATED TO COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE
This FAQ is designed to answer key questions auditors may have on the topic.

LEADING INTERNATIONAL ASSOCIATION
INAA, a leading international association of accountants and audit firms, is actively seeking new member firms in Vancouver, Calgary, Edmonton and Montreal among other Canadian cities. Potential applicants should be full service accounting/audit firms with a need for and interest in national and international representation.

For details of how membership in INAA could benefit your firm, please contact: recruitment@inaa.org or telephone Lionel W. Newton, FCA, at 416 640 5006 ext. 336
Is it the bottom of the ninth or glory days, again? Whichever, longtime baseball exec Paul Beeston hopes for more Jays fans in the seats and victories on the field.

IN THE FALL OF 2008, when Paul Beeston was named president and CEO of the Toronto Blue Jays, the move was described both as a “return” by the affable Beeston to the organization that he worked with for more than two decades and an “interim” appointment. Both characterizations were inaccurate given the cozy relationship the Jays’ first employee has had with the baseball franchise from the time it was a twinkle in a brewery executive’s eye to World Series champion to its present status as a source of programming content for a multimedia communications giant. The truth is Beeston never truly left the Jays, even after decamping in 1997. 

By PAUL BRENT • Photography by EDWARD GAJDEL
out of the ball game,” won’t be heard soon as Beeston waits for the Blue Jays’ home opener game
His personality has made him one of the most popular baseball executives, but it’s Beeston’s accounting skills that have made him a treasure for his corporate owners. “An accounting background is almost critical. You have to be able to read a P&L. You can’t lose money and be successful”

for a job in New York as president of Major League Baseball. Although he had no official role with the team, Beeston maintained an office in the cavernous SkyDome (now Rogers Centre) for himself and his faithful secretary of 34 years and would hang out in the 300-level executive offices. His five-year New York stint with MLB was a commuting affair: he never sold the Lawrence Park-area Toronto home he and his wife purchased when they moved to the city and he typically flew back every weekend. And even after he retired following his time in New York, the office remained. “I never really left, but you know I came in the back door,” says Beeston. “I stayed out of the way of the people who were operating it but it was a terrific situation for me.”

It may not have been clear to him at the time, but there were plans to make his interim status permanent pretty much from the beginning. Far from a caretaker, Beeston held the interim CEO role for a busy year. Over that span he fired the team’s long-time general manager, named a surprising replacement and began the long process of rebuilding the Jays organization, which was at a nadir in the standings — a process that included trading franchise pitcher Roy Halladay.

While Beeston was searching for a replacement, the Jays’ owners, Rogers Communications, worked to convince him to accept the president’s job. After a year Rogers succeeded and Beeston accepted a three-year contract — ending more than 20 years of handshake agreements with the Jays.

“I have never had a contract [before], I never wanted a contract,” says Beeston. “I never really believed in contracts. I have never read it. I know what is in it, I know what my job responsibilities are — if they are not happy, just sayonara, goodbye.”

Beeston’s recent machinations as president and CEO have given the Rogers brass plenty of material to make an appraisal of his performance. As interim president, he fired general manager J.P. Ricciardi after determining that the team was headed nowhere after eight years in that post. Beeston made the controversial decision to promote the team’s then 32-year-old assistant general manager, Alex Anthopoulos, to the top player-management position.

The appointment of Anthopoulos, a tireless dealmaker and savvy judge of baseball talent, was arguably Beeston’s signature achievement in his second go-round with the team. Anthopoulos not only traded Halladay for a handful of blue-chip prospects, he has made a number of other key trades of popular pitchers and position players that have lightened the team’s payroll and stocked its player system with talent that was all but barren a few years ago. The new general manager and team president have also devoted resources to rebuilding the franchise’s scouting and development (coaching) systems, which are key determinants to successful drafting, trades and free-agent signings. Indeed, the Beeston-Anthopoulos partnership recalls to some observers the success the Jays president had with Pat Gillick, executive vice-president of baseball operations, in the exciting 1980s-1990s stretch when the team grew to be contenders and champions. “I think another partnership is forming with Alex Anthopoulos,” says Phil Lind, vice-chairman of Rogers Communications.

For his part, Beeston says the Jays are again close to becoming a force in a division that has long been dominated by the big-spending powerhouses of the New York Yankees and Boston Red Sox. “At the end of this year I am so pleased about where Alex is taking the team and where Steve Brooks [vice-president of business operations] is taking things. We always talk about the baseball of it; we never talk about it from the business point of view,” he says.

The Jays’ budget today is smaller than during Ricciardi’s heyday with the club when late owner Ted Rogers was determined to field a winner. Today, Beeston has been charged with getting the team to break even. The business side includes cementing the Jays’ status as “Canada’s team,” which is a default position since the departure of the Montreal Expos but not something Beeston is taking for granted. As part of the undertaking, team events are held during the off season in Eastern and Western Canada and there is an effort to ensure that games are broadcast nationally whenever possible.

The Jays are cautious when speaking about their player budget and intentions to open the vaults to attract high-priced, established talent. The franchise does admit it spent more in 2011 and that the GM has the green light to spend more in 2012. The reality is that the Jays today are a solid, mid-market team with a payroll to match. That’s a far cry from its early years in its retractable-roofed stadium when its championship teams attracted back-to-back annual attendance figures of four million. Last year’s attendance was about 1.8 million for the 81-win, 81-loss Jays, less than half that of the glory years and well below that of the freer spending Ricciardi-era team when the franchise was Ted Rogers’ shiny new toy.

The team enters the 2012 season in a bit of a “chicken and egg” conundrum. Beeston has said that the club will spend more in salaries, provided that fans return to Toronto’s domed stadium in greater numbers than in recent years. The fans, and sports media for that matter, say the Jays have to be better
than a .500, fourth-place division finisher to get more bums in Rogers Centre seats.

In the end, recapturing the success on and off the field of the early '90s when the SkyDome-Rogers Centre was a novelty is in the hands of its young general manager, not of Beeston. “We are very close and because of the philosophy [of building with] draft choices and everything, we are close enough that once this gets going, it could be 10 years’ sustainability of being an elite team in an elite division,” says Beeston. “We have an advantage that very few have and everyone in sports should want and a lot of people in Toronto are afraid of; that is, we have the Yankees and Boston as one-quarter of our schedule.” In other words, playing good teams is more of a draw to fans.

Beeston is convinced the Jays have or will soon have the talent necessary to compete with the juggernauts of New York and Boston because other teams are asking about the availability of the players now toiling in the feeder system clubs and there is internal data that show the health of the fan base. “We have got to give people a reason to come back,” he says. “But we can tell from our television ratings, we can tell from the demand for tickets, we can tell the direction it is going from no-shows and from your paid attendance. Those are critical numbers.”

An old-school accountant who professes “I don’t do email” and still has an old-style calculator complete with paper roll placed prominently on his desk, Beeston says he is energized by the younger generation within the Jays organization. “Working with young people is an incredibly invigorating experience. They have the energy and they think differently because they are schooled differently and their education is different and their recall, and their ability to get that information is so much quicker,” he says in his rapid patter. “They just get on that thing, they get on their phone, their computer, they get that information while we say, ‘Get the baseball encyclopedia.’”

While his ebullient personality has made him one of the most popular executives in Major League Baseball, it is Beeston’s sober accounting skills that have made him a treasure for his corporate owners at Labatt and more recently Rogers. “I would say [an accounting background] is almost critical. You have to be able to read a P&L. You can’t lose money and be successful.”

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So how did a London accountant end up as the business brains behind one of the most successful baseball franchises in modern times?

“The fact that I was a CA, the fact that I liked to drink beer, that was a perfect combination for [then Labatt president] McDougall,” says Beeston was all about, you learned what financing was about,” Beeston says. He contrasts that with a role in a big firm where an accountant might work on just one client for the better part of a year.

If Beeston and Rogers ever part company, it is unlikely it will be the communications company that will pull the trigger. “When Paul is over there, there is no concern over here because it is going to run, it is going to run well,” says Lind, who played a key role in convincing Beeston to stay with the Jays a second time. Lind describes the turnaround during the CEO’s current three-plus years with the team as “quite dramatic and quite positive.” With just months left on Beeston’s contract, it is a safe bet to assume Rogers will attempt to keep him from retiring — again. “I’m not sure I want to discuss that with you, but from what I am saying, you can make certain assumptions,” says Lind.

One Jays observer who is not surprised at Beeston’s successful second act is his predecessor as president, Paul Godfrey, now president and CEO of Postmedia Network Inc. “He should have accepted it right off the bat,” he says. “He was the logical guy. The search started and ended with him and I was thrilled.”

On a clear and cool November morning, the off season when management is plotting to sign free agents and trade for players with other teams, and sports reporters fill print and air space with unsolicited advice about what the team should do, Beeston makes time for yet another media interview. Hunched over his desk and facing a blank wall in his new, rather cramped office, he rises and greets visitors with his legendary informality and friendliness.

Dressed in black dress pants, wool sweater and clutching an unlit, well-chewed cigar, he sprawls comfortably in one of two matching lounge chairs before bawling to his secretary, Sue, for coffee. Up close a visitor is struck by the fact that he looks much younger than his 66 years, somewhat remarkable given the demands of his job and his penchant for beer and Monte Cristo cigars.

Just how did a London accountant end up as the business brains behind one of the most successful baseball franchises in modern times? Having the right neighbour for starters. Beeston was fast friends with Labatt Breweries president Don McDougall when Labatt was trying to land a team for Toronto as part of its efforts to sell more beer in the city.

The trouble was McDougall knew next to nothing about baseball, while Beeston and his gang of London buddies regularly took road trips to Detroit for the Tigers games. “He thought I knew everything there was to know about baseball,” Beeston recalls. “The fact that I was a CA, the fact that I liked to drink beer, that was a perfect combination for McDougall.”

Those connections led Beeston to become the first employee of Labatt’s baseball team in 1976. At the time, the brewer and its business partners had an agreement to buy the San Francisco Giants and relocate the team to Toronto. The plan was for Beeston...
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to be the lone Canadian of the management team, as it was expected that most of the Giants’ front office would move north with
the team. His job would be to “set up the accounting, set up the financing, set up the taxation, and then it kind of evolved into the
business side — the ticketing. I knew nothing about that.” The
Giants deal fell through at the 11th hour and Labatt, businessman
Howard Webster and the Canadian Imperial Bank of Commerce
landed an expansion franchise that became the Blue Jays.

In the realm of professional sports where franchises were
typically owned by wealthy business types, the Jays’ tripartite
ownership structure was an oddity but the owners soon estab-
lished themselves as a model franchise. “It was a terrific own-
ership group to work for,” says Beeston. “We always take credit
for the successes that the ball club had but if we hadn’t had the
ownership group it would never have happened. They had
the patience and they had the money.”

Solway recalls working with Beeston in those early days.
“If you had asked me then if I thought Paul would achieve what
he has achieved, I would have said no. He was such a good guy
and he was so much fun that you tended to overlook his abilities.
You thought a guy who is that much fun to be with is unlikely to
be a serious businessman. But he turned out to be a very serious
businessman and he is still as much fun to be with.”

Solway, who was for years chairman of the Blue Jays and one
of Beeston’s closest friends, attributes part of Beeston’s success
in baseball to that gregarious, fun-loving personality. “He has
a fabulous laugh, people love to be around him,” says Solway.
“People like him. I have never heard anybody tell me that they
don’t like Paul Beeston.”

The executive among the Jays’ ownership group who recog-
nized that Beeston brought more than just accounting skills to
the team was Peter Hardy, then chairman of John Labatt Ltd.
and later chair of the Blue Jays board. The two men were an “odd
couple,” in the words of Solway. Beeston liked to drink beer, talk
and have fun. Hardy was quiet, more than a generation older
and, despite his role at Labatt, not a drinker. “He was the guy
who recognized that Paul had skills.”

A few years into the Jays’ existence, the team’s direction was
put into the hands of Beeston as executive vice-president of busi-
ness operations and Gillick as executive vice-president of baseball
operations. Gillick, a rangy former professional pitcher, who, says
Lind, had a “mind like an IBM computer,” could effortlessly recall
player statistics and was a shrewd judge of talent. Together they
formed a successful management team that quickly transformed
a hapless startup franchise into a contender in less than a decade.

But it was a tougher task than it might seem. The Gillick-
Beeston duo had to cope with a sinking Canadian dollar, an unfa-
miliar and unattractive city in the eyes of established players and
perhaps the worst stadium ever to host a major league ballgame.
Exhibition Stadium was a converted football stadium on the
shores of Lake Ontario that often provided winter-like conditions
from April to June.
The CICA’s Women’s Leadership Council is a voice for women CAs. We act as a catalyst for change, promoting a work environment within the Chartered Accountancy profession that provides for the retention, promotion and advancement of women to positions of leadership without bias, unintended or otherwise, based on gender. We provide resources and education to further women's advancement in the CA profession.
Toronto’s initially less-than-appealing status as a destination for the baseball fraternity meant that the management was often forced to recruit players from beyond the traditional talent hotbeds. Jays scouts were heavy on the ground in Latin America and the early teams had a large Latin contingent, among the most notable being Alfredo Griffin, Tony Fernández and George Bell.

Gillick, inducted into the baseball hall of fame in Cooperstown, NY, for his success as a World Series-winning general manager with the Jays and Philadelphia Phillies, was able to zero in on the players the developing Jays needed to win a championship. He was less than ebullient, however, meaning that the job of Toronto booster fell to Beeston. “He wasn't excellent on the face-to-face things; meeting the guy and persuading him to do anything, that was Paul,” says Lind. “Paul could talk you into anything, including talking a lot of Americans into playing in Toronto.”

Gillick, an adviser to the Phillies and living in Seattle, shares that view. “I don't think [Beeston] got into judging [baseball] talent,” he says. “He got into judging personalities and makeup. He was very good about evaluating people. He could meet people for the first time and make a quick judgment not only from a business standpoint but from a baseball standpoint if they fit.”

Canny personnel moves transformed the Jays from a perennial playoff contender in the mid-'80s to World Series winners in 1992 and 1993. With the team hitting a plateau in the win column late in that decade, Gillick pulled the trigger on a key trade for outfielder Devon White and the blockbuster deal for outfielder Joe Carter and future Hall of Fame infielder Roberto Alomar.

In 1992, with the Jays poised for the playoffs, he landed ace pitcher David Cone in a trade that lead them to the team's first Series win. In the off-season, Gillick and Beeston had dinner with Paul Molitor and his agent and convinced the baseball great to join the team’s successful championship squad the following year.

How much of a role Beeston played as comanager in those franchise-changing and ultimately successful trades and signings depends on who you talk to. “Paul won't say this to anybody but in the key trade in Gillick’s career, Paul urged him to make it,” says one long-time Jays colleague of the Alomar-Carter trade for Fred McGriff and Fernández.

The jury — composed of fans and the ever-critical sports media — is still out in regards to whether Beeston has found a new Gillick in the choice of Anthopoulos as general manager. A generation apart, the two men share the gift of the gab, as well as an enthusiasm and passion for the game. Age-wise, Anthopoulos is between the Beestons’ two children: Aimee (a brand manager with Nike Canada) and David (a lawyer with Skadden, Arps, Slate, Meagher & Flom LLP).

And what would Beeston do if he ever decides to call it a game? If his six years on the sidelines is any indication, his routine wouldn’t be very different. During his so-called “retirement,” the Beestons traveled to bucket-list-worthy destinations such as Antarctica and Iceland. He also found time to serve as the chairman of the Centre for Addiction and Mental Health during a period when he helped launch a $1-billion expansion of CAMH. He speaks of the place with the same enthusiasm he uses to describe the Jays’ farm system or playoff prospects. He is also a member of the board of supermarket giant Loblaw Cos. and Toronto-based investment firm Gluskin Sheff & Associates Inc.

His wife, Kaye, is a longtime supporter of the Toronto arts scene, and the thought of her dragging her husband to art shows is a source of amusement among their friends and family. “I won’t be going to the ones that I don’t want to, I have been to [too many],” he says. “She is into contemporary art and I am into modern art like Jack Bush,” Beeston says, pointing over his shoulder at a painting on his office wall.

Having retired and unretired to head the Jays again, Beeston is unwilling to say whether he will re-up with the team when his contract ends later this year. “To me, retirement wasn’t really retirement, it was unemployment, it was not getting paid for doing things you really enjoyed,” he says.

Paul Brent is a Toronto-based writer and journalist

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Like all professional investors, Robert Floyd spends a lot of time poring over disclosure documents. And not surprisingly, the president of Birch Leaf Investments of Mississauga, Ont., has formed some trenchant opinions about what he finds in the deluge of quarterlies, annual reports and proxy circulars that cross his desk.

He is indifferent to the self-congratulatory content about corporate social responsibility (CSR) and often skips over the boilerplate in the management discussion and analysis (MD&A) as well as overly detailed technical descriptions of marginal product lines — a hallmark of Nortel Networks’ annual reports. “You tend to jump to the numbers,” confesses Floyd, a certified financial analyst.

As for those numbers, even audited figures can prove vexing if the company hasn’t fully explained how currency exchange rates figure in its calculations or which accounting assumptions go into deriving key financial measures that would allow Floyd to benchmark the firm against rivals. “When compar-
ing companies, what you want to see is that companies are using similar [accounting] standards,” he says. “If you’re looking at any item, you have to understand how [it’s] derived.”

In the lingering aftermath of the 2008 credit crisis, many investors have nervously watched international capital markets heave and rock in what seems to be an endless cycle of surges and meltdowns. So crisp, user-friendly financial information has never been more important for investors spooked by the comatose US economy and the debt chaos in the Eurozone. But after a decade of post-Enron reforms coupled with the complex transition to international financial reporting standards (IFRS), there’s mounting evidence that disclosure is becoming increasingly complex, despite efforts by the US Securities and Exchange Commission (SEC) and other regulators to encourage more plain-English reporting.

Certainly, large institutional shareholders are voicing their concerns. In August 2010, the Canadian Coalition for Good Governance fired a warning shot, calling on issuers to prepare simpler financial statements; to distinguish audited and unaudited information; to improve capital expenditure reporting by explaining more clearly how such investments relate to the company’s core business; and to provide full disclosure of related-party transactions and other conflicts of interest. “Clear and plain disclosure is an effective and constructive communication tool that will ultimately lead to a better alignment of the interests of shareholders with the interests of the board and management,” the group said.

Other observers share the coalition’s frustrations. “The basic thrust of financial accounting is that it gets more and more complicated every day,” says Karim Jamal, the CA distinguished chair in accounting at the Alberta School of Business at the University of Alberta and CAmagazine’s technical editor for education. IFRS alone could lead to a 50% to 60% increase in the length of notes to financial statements. “There’s a broad level of concern among regulators that the average user can’t read them,” he says.

Which raises a thorny problem. Economists have long argued that transparency encourages the efficient allocation of resources in global capital markets. But in the post-Enron push for more and better disclosure, did securities regulators and accounting standards boards unwittingly accomplish the opposite effect?

STRIPPED TO ITS ESSENCE, FINANCIAL REPORTING IS ABOUT storytelling. How has a company performed over a given period and what, by inference, does that story say about the firm’s future? But because reports are geared at a very diverse audience, the needs and interests of users vary greatly. Some investors focus on cash-flow metrics while others are drawn to the technical minutiae in the notes or the product-line descriptions. Companies, for their part, can only do so much to ward against misinterpretations. Indeed, like all narratives, these corporate stories can be told more or less compellingly. As Jamal says, “There’s a difference between good writing and bad writing. It’s not easy to communicate well.”

Last year, the UK’s Financial Reporting Council (FRC) broke open the simmering concerns about the usefulness of financial disclosure with a strongly worded report on the accumulation of “clutter” in annual reports, quarterly reports and other reporting. Prepared by the Financial Reporting Review Panel and the Accounting Standards Board, “Cutting clutter: Combating clutter in annual reports” did not mince words about its diagnosis of the dilemma facing many investors: “Clutter,” the report’s sponsors wrote, “undermines the usefulness of annual reports and accounts by obscuring important information and inhibiting a clear understanding of the business and the issues that it faces.”

Clutter, the FRC report said, describes a species of financial reporting that is dense with detail but ultimately reveals little about a company’s performance. It includes immaterial disclosure that serves to obscure or inhibit interpretation of key information, as well as the accumulation of unchanging boilerplate language that piles up in a lot of disclosure documents. “Inmaterial disclosures are remarkably common, for example detailed notes supporting line items that are small — often the case for share-based payments. However, reports also contain explanatory narrative information that is either wholly or largely unchanged from year to year. It is the changes that can often be illuminating but, without comparing the precise text, it is often difficult to identify them.”

The FRC fingered a complicated dynamic that will be familiar to anyone who deals with publicly traded companies. Anxious about shareholder lawsuits and regulator scrutiny, some issuers and their legal advisers will err on the side of caution by over-reporting, while auditors take a tick-box approach to compliance. “All of those involved in the annual report process are influenced by others’ behaviours; the combined effect is often a barrier to cutting clutter,” states the report.

In Canada in 2011, the adoption of IFRS has exacerbated the sense of confusion as companies reconcile historical financial information with restatements or recalculations arising from the new standards. On the transition issues, says The Globe and Mail’s Streetwise columnist Boyd Erman, investors are adapting and recognize the importance of international standards for firms competing in a global marketplace. “This happens,” he says. “It’s a pain in the butt to learn some new rules but it’s no big deal.” Accounting standards organizations, moreover, have sought to define immateriality and allow issuers to exclude IFRS-mandated information that doesn’t directly bear on the company’s performance.

But the reality is that investor expectations and needs vary greatly, so relevance is in the eye of the beholder. Floyd cites the example of drill core data that turns up in the disclosures of mining companies. He says mining analysts revel in this kind of granular technical detail. In a different sector, Nortel was infamous for packing its financial reports with highly detailed arcane about relatively insignificant product lines, the success or failure of
which wouldn’t make a big difference to the company’s overall performance. Biotech and other early-stage R&D companies also tend to include highly detailed information about the commercialization process, often folding in minor developments as a new drug therapy, for example, inches its way through the regulatory approvals pipeline. In some cases, the proliferation of this kind of information may be intended to create a sense that an early-stage tech company is larger than it actually is. As a professional investor with less specialized knowledge, Floyd prefers to see management put this type of information into a broader corporate context with a discussion about the implications of the sample findings or new products.

When asked about overly detailed disclosure, analyst Craig Geoffrey, a University of Waterloo lecturer who used to run a small hedge fund, finds himself thinking about proxy circulars and corporate governance disclosure. Executive compensation has been a very hot topic in recent years, especially with poorly performing firms that continued to pay out large bonuses. But despite all the media hype about over-paid CEOs, Geoffrey isn’t convinced that the information helps him make investment decisions. “I’m not sure that investors are focusing on the details of executive compensation.”

Of course, others disagree. Floyd scrutinizes notes about the allocation of options, although he doesn’t spend a huge amount of time on such data. “You want to see fair compensation but not egregious compensation,” he says. “Is it important? Sure it’s important. You want to know if the CEO or senior executives are milking the company.” According to Jamal, executive compensation disclosure could and should be much more transparent: “If they wanted to, they could make it relatively transparent. But they don’t want to.”

For Mike Lyons, chief investment officer for Lyons Asset Management Inc. in Oakville, Ont., the main concern isn’t so much about clutter as it is about reliability and precision. An accountant and CFA, Lyons focuses his attention on a company’s cash flow, receivables, inventories and liabilities, as well as the dividend stream. “The real issue is, how much cash is this company generating?” he says.

In his view, the asset side of the balance sheet is more problematic for many public companies because those figures rely heavily on accounting and valuation estimates. “I’m a CA,” he says. “My problem is knowing how much estimation there is in some of the numbers in the financial statements.”

Indeed, when assessing a company for its investment potential, Lyons takes balance-sheet figures for goodwill, land values and equipment with a grain of salt because the actual value for such assets doesn’t really become apparent until the company attempts to sell them. “That’s where you get into fake precision debates,” he says.

The standard auditor’s report, attached to financial statements, creates its own skepticism, even though auditors now can be held liable for their judgments. The investors interviewed for this story agreed they’d prefer to see external auditors looking for fraud or other forms of calculated mismanagement rather than just confirm numbers. In fact, Geoffrey says, less-sophisticated
THE OBfuscation Analysts  Is there a link between the clarity of disclosure and financial performance?

Feng Li, Ernst & Young associate professor of accounting at the University of Michigan’s Ross School of Business, has pioneered the technique of applying linguistic analysis methods to tens of thousands of disclosure documents to gauge readability. His goal: to determine if there’s a relationship between annual report readability and future performance. “If disclosure readability is strategically used by managers to hide adverse information, a relationship between firm performance and readability would be expected,” he observed in a 2006 working paper.

Indeed, when analyzing sentence lengths and word choices, Li found that firms with lower earnings tend to file annual reports that are more difficult to understand. He discovered a similar link between readability and the performance consistency over time. In another University of Michigan study, published in 2011, Li and two colleagues discovered that firms with less readable 10-Ks attract less accurate analyst earnings forecasts and a greater dispersion of shares.

His analysis also shows that executives in poorly performing firms may deliberately make their disclosure more opaque in order to drive up the cost of analysis as a means of protecting the share price. By contrast, strongly performing companies have an incentive to be clear in their reporting as a way of signaling investors that they’re a safe bet. “While the SEC may be worried about boilerplate legalese, perhaps what’s more relevant to investors is possible management obfuscation,” the working paper states. For companies that lace their reporting with dense legal language, adds Karim Jamal, CA distinguished chair in accounting at the Alberta School of Business at the University of Alberta, the inference is that “they’re being cautious and don’t want to give” the information.

Alastair Lawrence, assistant professor in the Haas School of Business at the University of California, Berkeley, pressed the connection further while completing a doctoral thesis at the Rotman School of Management at the University of Toronto on whether individual investors invest more in firms with readable, concise and transparent financial disclosures. Relying on discount brokerage data, he found that individual investors and institutions prefer to buy shares in firms with “readable, concise and transparent disclosures.” His research was the first study to link individuals’ investment returns with the quality of financial disclosures.

Lawrence says, “If individuals are not grasping the information, they’re disadvantaged.” While his research was based on investment data from the 1990s, the question of disclosure accessibility, in his view, has only grown more relevant: “The golden question is, what is the ideal disclosure environment for all investors?”

—JL

investors may overestimate the value of the audit because they don’t understand the limitations of the sampling process.

The other category of disclosure information that receives less-than-stellar grades involves the push in recent years toward a more quantified assessment of a company’s environmental and social record. As the horrific BP oil spill in the Gulf of Mexico in 2010 demonstrated, the financial consequences of environmental disasters can be enormous; therefore a risk assessment is critical for investors. As BP’s 2010 annual report notes, the company is in the process of paying out US$30 billion to make amends to the victims of the Deepwater Horizon disaster. Whether BP shareholders realized the sheer magnitude of the risk to which they were exposed is another matter. Despite such disasters, some investors view sustainability and CSR as a way for a company with a poor environmental track record to show it is trying to be a good corporate citizen, and see the data in such reporting as extraneous to hard-nosed decision-making.

It’s an attitude that seems to prevail among some business journalists. John Daly, veteran editor and investment writer at The Globe and Mail, says such content tends to serve as a distraction. As he notes, “A lot of journalists go straight to the 10-K and the black-and-white information.” Ermans agrees: “I’m a pretty hard-core cash-flow statement, financial-ratios kind of guy,” he notes, adding that discussions about CSR data almost never come up when he talks to analysts and investors.

Others argue that CSR tends to get ignored for a different reason. Citing KPMG’s international fraud surveys, Duff Conacher, founding director of Democracy Watch, says the SEC has tougher standards than Canada does when it comes to forcing publicly traded firms to reveal incidents that could have a material impact on performance, such as corporate fraud. “Investors would be much less likely to invest in such companies,” he says.

Shareholder exposure to environmental disasters and fraud isn’t the only sort of risk not fully accounted for in financial reporting. Geoffrey points out that companies such as banks or telecom giants fail to include a frank discussion about regulatory risk in their disclosure documents. Case in point: the embattled Bank of America. The massive lender has been plagued by lawsuits claiming billions of dollars in damages, as well as questions about its foreclosures practices. In late August 2011, uber-investor Warren Buffett staked a US$5 billion bet on the company. But within days of Buffett’s move, the Federal Housing Finance Agency whacked BofA with yet another lawsuit, claiming it misled publicly owned lending organizations about the quality of loans it had packaged and sold.

Geoffrey also says most bank disclosures in particular tend to be silent on the impact of new international banking rules on their operations and key metrics, such as liquidity ratios. “I think you see the bare minimum based on what they have to tell,” he says. “But if there’s a major regulatory risk, that should be disclosed and tied into the balance sheet.”

But the move toward much more detail in the notes to the financial statements does help investors assess other forms of risk, such as currency fluctuations and their impact on commodity fluctuations, or contingent liabilities such as the value of a long-term lease on a manufacturing facility. As Geoffrey points
out, if a company decides to change its production methods, that lease can become a financial millstone.

Analysts and sophisticated investors also say they benefit now that notes to financial statements include raw data and explanations about how certain values have been derived so the calculations can be verified independently. “Most people don’t bother undoing aggressive accounting so companies can get away with it,” says Partha Mohanram, the CGA Ontario professor of financial accounting and associate professor at the Rotman School of Management at the University of Toronto. “Now at least you can blame investors for not doing their homework.”

Yet despite the masses of additional information in financial reports as well as the move to IFRS, some types of performance content don’t appear consistently in the disclosure documents. Some companies, for example, include segmented market data while others do not, while many offer it up in response to questions on quarterly conference calls for analysts and the financial press. Geoffrey recalls listening in on such a call with Alcoa, a US-based aluminum-production company. In response to one question, the executives on the call began talking about their operations in Russia and South America, offering information that he knew wasn’t part of the firm’s disclosure documents. “That’s information investors would love,” he says.

But while some larger companies post digital recordings or transcripts of those calls on their websites, it is not a universal practice, which means those on the conference calls have a leg up on ordinary investors. Geoffrey says the transcripts should become part of the System for Electronic Document Analysis and Retrieval database of financial documents. But Lyons points out that with segmented data, consistency over time can be a concern for investors looking for reliable information.

Daly tells a revealing story about a riddle at the core of a feature about Barrick Gold Corp. The Globe’s Report on Business magazine had dug into some of the problems at one of the company’s African mines. To round out the coverage, the magazine wanted to figure out how much that particular mine earned — a task that proved to be “incredibly difficult,” Daly explains. “It’s a fairly simple question — how profitable is this mine? But it was tough to answer even though there’s a ton of detail in these reports.”

Mining companies, in Daly’s experience, pack their disclosure documents with technical detail aimed at analysts and geologists. But the information can be impenetrable for a general reader, he says, noting that companies often foreground different income measures to gauge profitability: some focus on EBITDA while others, such as the dot-com firms of the late 1990s, like to talk about operating earnings. Erman adds that some firms, such as TD Bank, rely on “made-up measures” such as return on invested capital instead. “Companies will always invent metrics that show them in the best light,” he says. “I’m afraid that won’t change.”

Yet the difficulty of comparing organizations that rely on dif-
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ferent or exotic accounting measures sometimes isn’t just a mathematical riddle. Often, says Daly, companies seem to deploy complexity to obfuscate. As Jamal says, the increasing complexity in corporate disclosure sorts investors into two broad groups: those who can make sense of all the information and those who can’t.

Complicated information forces some investors to rely more on equity analysts and large institutional funds. Indeed, such disclosure means that research firms and fund companies can recoup their investment in analysts with the skills to decipher the notes and recalculate the numbers. Less savvy individual investors, meanwhile, gravitate toward companies with straightforward financial reports. This division poses a dilemma for regulators, Jamal adds; “From a regulatory point of view, are they protecting the small investor and the integrity of the market?”

IN ITS REPORT ON CURBING CLUTTER, the FRC proposes a few basic approaches for companies looking to clarify the content of their disclosure. At the beginning of the process for generating an annual report, the authors say, investor relations officials should aim to answer some fundamental questions, among them: what are the overall objectives, tone and areas of focus? Is there a consensus on what constitutes materiality and how to reduce clutter associated with trivial or boilerplate disclosure? Who will be responsible for vetting the annual report for consistency with these objectives? And what are the plans for communicating more effectively? The FRC also recommends senior managers devise a way to monitor the ongoing development of the annual report with an eye to reducing duplication and calibrating discussions of risk factors so they reflect the significance to the overall health of the company.

But will such changes make the world better and safer for small investors? Not everyone is convinced by the anticlutter/proreadability arguments. “I don’t think the problem is of too much or too little information,” says Mohanram. “The problem is that people aren’t using the information correctly. There’s a huge amount of research that shows that people ignore more of what’s in the footnotes.”

Erman says he’s not distracted by clutter, arguing that investors eventually figure out how to navigate through the maze of information that flows out of a publicly traded firm. “People will adapt,” he says.

As Jamal points out, much depends on an individual company’s corporate culture and its willingness to be as frank and open with investors as possible. In fact, despite the persuasive efforts of regulators and professional bodies such as the CICA, which hand out annual awards to the issuers with the best financial reporting, the matter of the readability of corporate disclosure documents won’t be resolved any time soon. After all, corporations often have complicated and messy stories to tell. “Everyone wants life to fit into an Excel spreadsheet,” says Mohanram. “Unfortunately, that’s not the way the world works because each firm is different.”

John Lorinc is a Toronto-based writer.
Leveraging the lode

Companies have many business incentives at their disposal; they just need to know what’s there and what’s best for them.

The landscape of government incentives is broad and includes such things as tax credits, grants, loans and rebates at the federal, provincial and municipal levels. And such an extensive landscape makes it difficult to focus on what’s worth chasing to bring value to your business and to gauge the efforts of pursuing government incentives (applications, reviews, audits, reporting) against the competing needs for your team’s time in running the business.

Government incentives can be grouped in two broad categories: tax credits and discretionary funds. Tax credits are defined in tax legislation and the taxpayer is entitled to the credit if the criteria in the tax legislation are met. In the event of a dispute with the tax authorities, the tax system provides specific recourses toward a resolution.

Discretionary funds are not based on entitlement. They are distributed based on the fit of the project and the applicant with respect to the purpose of the fund, based on the discretion of the government department providing them. Once funding decisions are made, generally there is no direct recourse available to those denied funding.

Governments across the country often provide incentives for similar purposes, with encouragement for job creation and for changes in behaviours in specific industries and sectors generally topping the list.

The scientific research and experimental development tax credit program is one of the country’s flagship incentives to encourage increased spending in R&D. Recently it has been under scrutiny as part of the expert panel report on support for Innovation in Canada, known as the Jenkins report. It examined the $5 billion of R&D funding provided annually by the federal government and administered through 17 departments and agencies. The panel made six major recommendations on simplify-
ing what it perceived as a confusing and complicated landscape.

Both the panel and the federal government made it clear that incentive funding for R&D is a national priority, so there is no suggestion that support will be increased or reduced. Rather the recommendations of the panel would result in a direct funding approach, different from the current approach of using a tax-credit system. This would result in a very different environment for small and midsized Canadian-controlled private corporations and will be the subject of significant debate going forward. The recommendation to create a new Industrial Research and Innovation Council will also need study to ensure duplication is eliminated rather than created. (The full report is available online at www.rd-review.ca.)

Other changes in behaviour frequently encouraged through government incentives include:
- interactive digital media product development;
- employment of apprentices; and
- reduction of energy consumption.

Many provinces offer a form of refundable tax credits related to the creation and production of digital media products. While provinces vary in their administration, interpretation and legislation, there are some commonalities. The products are intended to inform, educate or entertain and are not for promotion of the corporation or products of the corporation.

These are products a user can interact with, with a combination of text, sound and images (still and animated).

What is particularly interesting is the tax credit rate that many provinces are offering (see table “Provincial tax credit rates,” to the right).

The variations of expenditures that can qualify are also interesting. Product creation can include activities beyond software and hardware design and development and testing. It can include graphic design, storyboarding and content creation. The words often used in respective legislation are costs that are “directly attributable” in the form of salaried labour and subcontractors.

The natural fit for these tax credits are gaming and e-learning software companies. However products have qualified in such areas as manufacturing environments, financial institutions, aerospace and defence companies and media companies. Understanding the intricacies of the rules opens possibilities where one would generally not expect to find interactive digital media products.

Employment of apprentices/on-the-job training tax credits
Nonrefundable federal tax credits and refundable provincial tax credits (Quebec, Ontario, Manitoba and BC) are available for the employment of qualified apprentices. The word “apprentice” is not defined in the relevant federal or provincial legislations, but generally it means someone who builds on formal learning through on-the-job training. Apprenticeship tax credits are thus available to corporations that provide on-the-job training for recognized apprenticeship programs.

Some traditional examples of apprentices are plumbers, electricians and mechanics. These can be considered Red Seal apprentices where, after completing their training and interprovincial exams, they are generally licensed to work in most provinces. The list of Red Seal apprenticeship programs is long; and what is interesting is that the provinces mentioned offer refundable tax credits for their own list of apprentice programs, some of which include the Red Seal apprentices. Some provinces have additional apprenticeship programs for which they are encouraging employment by way of tax credits.

An overview of the tax credits available for employee-qualified apprentices is summarized in the table on page 40.

The list of qualifying apprentices differs amongst provinces. Corporations often do not realize they employ qualified apprentices and fail to claim their entitlement to the tax credits.

Reduction of energy consumption
Incentives to reduce energy consumption often take the form of rebates from respective hydro service providers across the country. Most, but not all, provinces offer some level of rebates to energy consumers who take action to reduce energy overall, with many incentives focused on peak usage periods.

<table>
<thead>
<tr>
<th>Province</th>
<th>Tax credit rate</th>
<th>Unique characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prince Edward Island</td>
<td>35%</td>
<td>This incentive is general to IT development, not exclusive to interactive digital media product development</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>Up to 50%</td>
<td>Product must be completed within three years</td>
</tr>
<tr>
<td>Quebec</td>
<td>26.25% to 37.5%</td>
<td>Product development must primarily take place in Quebec</td>
</tr>
<tr>
<td>Ontario</td>
<td>40%</td>
<td>Product development must primarily take place in Ontario</td>
</tr>
<tr>
<td>Manitoba</td>
<td>40%</td>
<td>Pre-approval of project required. Maximum refund of $500,000</td>
</tr>
<tr>
<td>British Columbia</td>
<td>17.5%</td>
<td>Qualifying corporation must derive its income primarily from interactive digital media products</td>
</tr>
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Generally speaking, the incentives are a function of the improvement in energy consumption: the more you reduce consumption, the higher the incentive. Some incentives are based on the improvement of the efficiency of the building envelope (over and above a baseline), others are focused on higher efficiency equipment and capital (for example, energy-efficient lighting, high-efficiency heating, ventilation and air conditioning [HVAC] systems).

While the amount of the incentives depends on the province and the amount of energy saved, companies can recover anywhere between 15% to 50% of their costs.

As a rule of thumb, such energy conservation incentives are discretionary and require preapproval. The philosophy is that the incentive is to encourage and promote choices that lead to energy conservation. If buildings have already been constructed and energy-saving equipment installed, there is no longer a need to encourage making choices to reduce hydro consumption.

Some provinces also offer incentives to reduce natural gas consumption and often do not require preapproval. The basis is similar to hydro incentives where it can be based on the improved natural gas efficiency of the building envelope or tied to specific capital equipment that consumes less natural gas.

**Seeking value through incentives**

Government incentives can be significant and can assist a company in achieving its business plan and objective. They can also distract critical resources while looking at seemingly unlimited sources of government funds and spending significant time preparing and supporting applications. It is important to identify incentives that are significant for your business and to develop a plan for accessing them.

Government incentive programs can take significant time between application and receipt of cash. In many cases the timing of the cash receipt is variable. From a budgeting perspective, this makes it difficult to predict the timing of the cash receipt.

There is significant competition for discretionary funds. Applicants could be competing against other small, medium and large corporations, research institutions or government institutions. Governments make funding decisions on the strength of the applications and the supporting documentation, putting significant emphasis (and risk) on the quality of the submissions. These decisions are made to support the intent and purpose of the government fund and there is generally no recourse once a funding decision is made.

Tax-based incentives also require knowledge and time to bring value to the applicant. Although there is an entitlement if the project meets the rules outlined in the legislation, subjective interpretations or lack of evidence can derail claims.

Stacking government incentives is another important planning consideration. Discretionary incentives typically have limits on the amount of total government funding that can be accessed for a given project. These limits usually do not include tax credits. Planning can reduce the impact of stacking rules on certain expenditures.

Many challenges that can be encountered in researching incentives and in preparing and defending applications and claims can be avoided with a proper plan.

### The impact on business

Business incentive mechanisms around the world are shifting rapidly as governments actively deal with a wide range of challenges. To maintain economic competitiveness in an increasingly challenging global context, companies should take advantage of all the valuable incentives available. The incentives discussed highlight the need to carefully consider what is available and which incentives are of most benefit at the earliest opportunity.

Susan Bishop is partner, tax incentives practice market leader with Ernst & Young in Toronto. Terry Lavineway is senior manager, tax incentives practice with Ernst & Young in Ottawa

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<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Tax credit</th>
<th>Filing deadline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal</td>
<td>10% of salary to a maximum of $2,000 nonrefundable per qualified apprentice per year for the first two years of apprenticeship</td>
<td>18 months from taxation year-end</td>
</tr>
<tr>
<td>Ontario</td>
<td>35% to 45% of salary to a maximum of $10,000 fully refundable per qualified apprentice per year; maximum of four years</td>
<td>Only statute-barred deadlines apply</td>
</tr>
<tr>
<td>Quebec</td>
<td>30% of salary to a maximum of $11,700 fully refundable per qualified apprentice per year</td>
<td>18 months from taxation year-end</td>
</tr>
<tr>
<td>British Columbia</td>
<td>10% to 20% of salary to a maximum of $4,000 fully refundable per qualified apprentice per year; maximum of four years</td>
<td>30 months from taxation year-end</td>
</tr>
<tr>
<td>Manitoba</td>
<td>5% of salary to a maximum of $2,500 fully refundable per qualified journeyperson per year</td>
<td>Only statute-barred deadlines apply</td>
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</table>
A CA career is a challenging one, but your life goals and demands need and deserve so much of your time. How do you balance the two priorities?

The CICA Work/Life website is a great place to start. With online tools, resources and specific information on work/life issues for CAs, the life balance you’re looking for may be just at your fingertips.
Dangerous liaisons

Sometimes being thought of as a simple number-cruncher lurking in the background can be a good thing.

The first victim of Tony Soprano’s wrath in the inaugural episode of The Sopranos, the classic HBO crime-family series, is an accountant. As Tony talks to Dr. Jennifer Melfi, who will become his therapist, he flashes back to a brutal incident, which he refers to as “having a coffee.” It begins with Tony, in a new Lexus 400, chasing a balding businessman who is on foot. The character is 44-year-old Alex Mahaffey, a CPA at the Blue Cross and Blue Shield Association, who has become involved with Tony through a Medicare false-billing scheme.

Mahaffey, a compulsive gambler and overwhelmed with debt, reluctantly agreed to help with the fraud. Once hooked up with Tony, he ended up owing the mob boss a considerable amount of money. To fuel Tony’s anger, Mahaffey had been heard saying Tony wasn’t that tough.

Tony catches up with his running prey and sideswipes him with the Lexus, breaking the CPA’s leg so badly the bone was visible. As Mahaffey writhes in agony on the ground, first Tony, and then his nephew, Christopher, punch and kick the CPA in front of shocked onlookers.

Pity most accountants in TV shows and movies. They are usually cast as either a Caspar Milquetoast or a scheming villain who uses financial acumen to help others steal or defraud. The latter was most evident in The Godfather: Part III, in which an accountant known as God’s Banker — based on Roberto Calvi, a real-life central figure in a massive international fraud who was known by that nickname — foolishly tried to scam the Corleones out of hundreds of millions of dollars. When Vincent Corleone becomes the godfather, he orders the accountant killed and his body hung from a bridge in full public view. In real life, Calvi suffered the same fate: he was left dangling on a rope tied to scaffolding on Blackfriars Bridge in London in 1982.
An accountant is almost never the central character in a film, with a very few exceptions. One is the 2001 short film (35 minutes) called *The Accountant*. It’s the story of an unnamed CPA retained by two brothers to help save their heavily mortgaged rural Georgia farm from being expropriated by a bank. The mutton-chopped accountant is portrayed as a quirky, hard-drinking man of few words whose philosophy is that “you can tell a lot about a person’s comings and goings if you know how to interpret the numbers,” with one oft-repeated caveat: “There’s always a 4.5% margin of error, plus or minus.”

The accountant suggests several ways to save the property (“it’s doable but it ain’t purty”), including inflating inventory, lopping off an arm or leg to collect insurance, arson for profit (he advises that the family dog has to die in the fire because the investigators will figure “no one’s that coldblooded” and the owner’s natural grief and bereavement “will be the clincher”) and murder. It would be unfair to give away the ending of this engaging film, other than to say it won the 2002 Academy Award for Best Short Film, Live Action.

Most CAs, forensic or otherwise, don’t become involved in files that could end with them proposing murder. But there are engagements that belie the tired cliché of an accountant’s life being enervating and boring. Some files are anything but routine and can, on occasion, place a CA in a dangerous predicament.

If a case requires a CA to work in a city or country known for its violence or lawlessness, that obviously increases the potential for something untoward to occur. A decade working on a large-scale fraud investigation in Kingston, Jamaica, one of the most dangerous cities in the world. Although the murder rate has decreased significantly, in 2006, the small Caribbean nation reported 1,300 murders, many in the capital city. Car jackings are also prevalent, with the driver and/or passengers sometimes taken for ransom. Between 1999 and 2006, the *Sunday Observer* reported there were more than 1,000 cases of kidnappings and ransoms. The Toronto team, which made more than 50 trips to Jamaica, had strong police protection while there and never ran into trouble. But the potential was there, a threat underlined by the rusty machete one of their regular drivers stored under his seat. “If we come to a street where there’s any kind of blockage, like a stalled car or something burning, we’re turning around right away,” he told his Canadian passenger. “Without question. And fast.”

In an Asian city a few years ago, a Toronto forensic accountant got caught up in a volatile situation at a factory where he was part of a small team investigating allegations of fraud involving groups in several countries. When the workers learned some local managers were suspected of illegally skimming profits, a riot erupted at the plant. The CA was trapped in the building for several frightening hours before police restored calm. He was particularly concerned that he might be mistaken for someone on the management side. As soon as the riot broke out he removed his jacket and tie and tried to make himself look as much like a working guy as possible.

The best way for CAs to protect themselves when on assignment is to assess, as best they can, what they could be walking into, says Sandy Boucher, senior investigator with Grant Thornton and a former detective chief inspector with the Royal

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Hong Kong Police, where he specialized in organized crime and narcotics. "A risk known and identified can be mitigated," he says. "You're far more vulnerable when you have no idea what's going on or who might be involved in a case. As a cop, I used to say it's not the detectives who are most at risk, unless they're going through a door. It's the uniformed guys who are wandering out on the streets and have no idea what they're going to encounter around the corner."

On many files, CAs are more like street cops than detectives; they are in the background and have their guard down, assuming it's only the door bashers who have something to fear. That can be a mistake. "Always have your head up and be aware that you can get caught up in trouble," says a forensic accountant who has investigated fraud in several emerging economy countries.

When forensic accountant Doug Kalesnikoff and former RCMP investigator Stewart Kingdon were working on a massive fraud case and subsequent royal commission of inquiry in Antigua in the early 2000s, they were aware that factions on the island were not pleased that some of the previous government's dirty laundry was being exposed. It was rumoured, for example, that one minister of state carried a gun while testifying on the stand. A one point, an untitled letter entitled "Danger" was delivered to the office of the inquiry's three commissioners. That office was located at the Royal Antiguan resort, where Kalesnikoff (now an assistant professor at the University of Saskatchewan) and Kingdon (back with the RCMP) had their office and living quarters. Chillingly, they were also named in the threat.

The letter said, in part: "No one is safe anymore. You will be killed. No one knows the hour, date or time when this sad event will occur. It will be done Jamaican style ... it will happen and soon. A cocktail or bomb should start you off. We have people everywhere. Good Luck. I will do anything to protect my government." The letter also warned: "In my home town of Jamaica, when people get greedy like the commissioners, Douglas, and Stuart [sic], they should be shot and killed." Nothing came of the threat but it was unnerving.

When CAs know they are on a potentially dangerous file, especially in a strange land, Boucher says there are some simple rules to mitigate risks. "My advice is to keep a low profile. There are some who draw attention to themselves starting when they land at the airport, with their business cards stuck on their briefcases, talking too much and too loudly," he says. "It's easy and prudent to do the opposite. For example, when Boucher was working on a contentious fraud case in a small country he and his team stayed at a small local hotel, deliberately avoiding the one most foreigners checked into.

In other words, act the opposite of Leo Getz, the loudmouthed accountant in the Lethal Weapon movies played by Joe Pesci. A federal witness who agreed to testify in a money-laundering case, Getz's blabbering could be heard over a hurricane. He had strong views on many topics, particularly how the average guy is exploited — Getz used a more profane phrase — by everything from drive-through fast-food outlets to cellphone providers.

Boucher's second rule is for CAs to have a clear idea whom they are dealing with. That's where due diligence and background checks are essential. When Boucher was investigating a $78-million affinity fraud, he discovered the perpetrator, Canadian Salim Danji, was betting and laundering money through an online gambling site. Further investigation revealed that the small-time owner of the site had hooked himself up with a serious crime figure.

"The mom-and-pop guy realized he had suddenly caught himself a whale who was betting sometimes hundreds of thousands of dollars a day," says Boucher. "He couldn't handle it, so he got in bed with a guy named Ron 'the Cigar' Sacco, who was a real organized crime guy majorly into rackets and gambling. We were obviously concerned to learn this and started looking for him so we would know where he was. Fortunately, he was soon arrested on gambling and money-laundering charges so any danger was removed."

Gathering intelligence is an important part of keeping yourself safe, says Boucher.

His third piece of advice is to ensure that you work with a trustworthy local person. Boucher remembers an engagement in a country that had many areas considered unsafe at night. "But we had a local guy who knew how to protect us and we never had any problems," he says. "Most people know how to read their own cities, know what areas to avoid, know how to sense that something doesn't look right. Your radar is attuned to your environment and it helps steer you away from trouble. You need a person in a foreign location who can provide that for you."

Unless circumstances demand it, Boucher strongly advises against getting armed, an option few CAs are likely to consider.

"If a threat is so serious you're considering getting a gun, perhaps you should reconsider the file. If it feels that dicey, get away. Guns blazing is not a good thing."

Based on films involving accountants, it seems CAs are more dangerous to others than victims of crime on the job. Neither role is desirable. Maybe being thought of as simple number-crunchers lurking in the background is actually a good, and safe, cover.

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The big bang, II

Canadian companies have completed their first IFRS statements, but the transition is not yet over as they face a new phase

Canadian businesses have issued their first international financial reporting standards (IFRS) financial statements and most still face numerous challenges in implementing the new accounting standards on a day-to-day basis.

It appears the transition exercise is far from over.

The International Accounting Standards Board (IASB) has more than 30 review projects on its agenda over the next few years. This, the second unavoidable wave of changes — consolidation, financial instruments, leases, financial-statement presentation — is already dubbed the Big Bang II in Europe.

Canadian publicly accountable enterprises must be equipped to deal with this flood of new material and unfortunately no one’s business is an exception. These extensive reforms will not only have accounting implications, they will also affect management information (including performance indicators), your business’s strategic decisions, operations, internal controls and information systems. Given this change in management process, businesses need to identify their challenges and prepare the key players, such as internal and external auditors, in the process of managing the change.

The lesson of the financial crisis

To understand what prompted such a flurry of activity by the IASB one needs to look back to the 2008 global financial crisis. IFRS was at the centre of the storm. The critics of fair-value accounting accused the IASB of exacerbating the crisis, because of the fair-value model used in the current standards and the complexity and lack of transparency of financial information.

And accounting regulators reacted swiftly to the debate. Committed to implementing the G20 recommendations to strengthen standards following the crisis, the IASB, in collaboration with its US counterpart, the Financial Accounting Standards Board (FASB), developed a work plan intended to enhance financial risk transparency.

In addition to the urgent need for reform following the crisis, there has been increasing consensus on the need to converge the two main accounting frameworks, i.e., international standards and US standards.
However, the commitment to converge dates back to the early 2000s and materialized in 2006 with the signing of a MoU. After the financial crisis, and within the G20, political stakeholders clearly reaffirmed their support of the MoU. In this context, the IASB plans to significantly amend a number of standards relating to joint arrangements, leases, income taxes, revenue recognition, pension obligations and financial-statement presentation.

For some, part of the new material responds to the ongoing need to improve existing standards, with regards to consolidation of investment companies for example, and to develop standards for new issues, such as rate-regulated activities.

**Big Bang II and its implications**

Now back to the Big Bang II or the second transition. Clearly, this wave of changes will affect every type of industry. The extent of the reforms will present a myriad of major strategic and operational challenges for Canadian businesses.

At a strategic level, take the example of the replaced IAS 31, Interests in Joint Ventures. Removing proportionate consolidation and, indirectly, the contribution of this type of partnership to revenue and operating results may lead companies to review their external growth strategy or change the form of existing agreements.

Similarly, redefining the concept of control and the disclosure requirements for special purpose entities may force enterprises to question their financing strategy and operational structure. By 2013, there will be a requirement to include all information about special purpose entities in the financial statements.

Another aspect that will have a significant impact on businesses relates to key performance indicators. The debt ratio of businesses should increase, since the requirement to recognize all leases will add debt to the balance sheet, not to mention that overall debt will include contingent rents, possible renewal options, purchase options and guaranteed residual value.

As for profitability indicators such as gross margin, businesses can expect to see a decrease or mismatch of their margin, which is attributable to such factors as delayed revenue recognition for some long-term contracts and sales with warranties, a decrease in revenue resulting from the recognition of an average percentage of bad debt at the time of sale, as a separate line item adjacent to revenue (contra-revenue).

Other performance indicators, such as earnings before interest and taxes (EBIT) and operating income will change due to multiple variables. For example, capitalizing all leases will result in straight-line rental expenses being replaced by front-loaded costs and amortization. Moreover, there will be a need to systematically provide for tax risks and other obligations.

The project to revise financial-statement presentation is a small revolution in itself. IAS 1 (Revised) has already introduced the fundamental concept of comprehensive income, which redefines income and hence performance. The most relevant concept of income is one that measures changes in equity or value to shareholders. Income is no longer simply defined as the difference between revenue and expense recorded in a given period but now includes the effects of fair-value volatility, which is recognized in equity.

The second phase of the financial-statement presentation project should set out a new financial-statement structure to provide more consistency and better clarity of value-creating activities. In each of the financial statements, financing activities would be presented separately from other activities.

The impact of the new standards, the overall second wave, on procedures and information systems is also an integral part of these expected challenges. In businesses, all administrative functions or those that use financial information could be affected by the new accounting standards. The potential implications include the capacity of systems to produce a reliable set of financial statements in accordance with the proposed new structure, the option to automate the measurement and valuation of certain transactions, such as leases, and the requirement to once again adapt internal control processes relating to the reporting date, consolidation, lease management or income monitoring and control.

**Models, information systems and business and financial processes will have to be reviewed. And a change-management process may have to be implemented**

Finally, models, information systems and business and financial processes will probably have to be reviewed. Internal controls may have to be adjusted and a change-management process implemented. A review of the documentation relating to the financial statement closing process and certain operational processes could necessitate updating documentation of controls affecting financial reporting. Consequently, the control-certification process may require adjustments.

For some enterprises, these changes could be so substantial as to require a project-management process. Internal auditors will want to closely assess all the effects on internal controls and they will have to coordinate their work with external auditors’ work to ensure a smooth transition to the new accounting standards.

Businesses are dealing with some major challenges. Preparing for these changes and performing simulation exercises will be a must. It will be important to determine beforehand the best strategy for adapting management and performance-assessment practices and for increasing awareness of these issues among directors, audit committees and investors. Given this context, staff will have to work with external advisers, especially external auditors, to ensure the success of this new phase.

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Unlocking the value

The audit engagement can and should be a value-added service for your micro-entity clients. And here’s how it can be done

Many small, not-for-profit organizations need an audit by a professional accountant as a condition of funding. The most obvious product of the audit that these micro-entity clients receive is the audit report, though how many users actually read it is dubious. The report opinion is either unmodified or modified, not unlike the result on a test that you either pass or fail. The report itself does not say much about the financial health and general state of the client or the quality of the audit. As such, the audit report itself is not a selling point. So what is it that thousands of micro-entities in Canada value in their annual audit? There are a number of benefits they receive and value, including:

- **Expertise in financial reporting that every skilled auditor brings to the engagement:** most micro-entities do not have reporting expertise in house, and for that reason they rely on their auditors for assistance in the preparation of their annual financial statements.

  - **Review of internal control systems related to financial reporting that comes with every audit:** these controls are usually not very complicated in a micro-entity, but management often lacks the knowledge to evaluate the effectiveness and adequacy of them. The annual review of the design and implementation of the controls and the requirement for the auditor to report any significant deficiencies give management and the board of directors, if applicable, a good idea of whether their controls are adequate.

- **Professional review:** the annual audit gives micro-entities the opportunity to review their results for the year with a professional accountant.

  Another benefit to the client is the industry knowledge the auditor can provide management. Auditors across the country have significant industry-specific knowledge they can provide any time in the year if asked by their clients or can pass on at audit time. This is not an audit requirement, but is often the byproduct of the audit. For example, in the case of work for childcare centres in Ontario, that knowledge consists of an understanding of the funding system, available grants, pay-equity legislation in Ontario and taxation rules for not-for-profit entities — be they registered charities or otherwise. This is knowledge that takes professional accountants time to acquire.

  Auditors can provide their micro-entity clients with financial-reporting expertise that is specific to a client’s industry, warn the clients of deficiencies in internal control, provide them with an opportunity to review annual performance and deliver valuable industry expertise throughout the year. Those are services worth paying for. Having public accountants audit micro-entities annually is a value-added service, with this type of involvement in financial reporting significantly improving the quality of the reported information.
What is an affordable price for an audit of a micro-entity?
As noted, industry knowledge and audit expertise take considerable effort for an auditor to acquire and maintain. As a result, determining an affordable price can depend on whether your micro-entity client sees the audit as a value-added service or purely as a cost of doing business — that is, a commodity.

A commodity is an undifferentiated product that can be provided by many suppliers and something for which the lowest price is usually considered the best price. Where the audit is seen as a commodity, the market will usually set the price as the lowest amount any auditor will accept. Often when an audit is mandatory, it is viewed as a commodity and considered a cost of capital. In this case, the auditor will often be pressured to lower the audit fees. With reduced fees, the client will sometimes be receiving less than optimal service. Remember, purchasers usually only get what they pay for.

Without in-house accounting expertise, micro-entity management often welcomes the help of an auditor with financial reporting and the opportunity to talk to an expert in financial management often provides the help of an auditor with financial reporting and the opportunity to talk to an expert in financial management who has an intimate knowledge of both the business and the company. If that is the case, the audit becomes a service unique to a specific micro-entity client. It will not likely be seen as a commodity and need not be priced as one. Micro-entity audit clients are often more than happy to pay for a service they consider to be value-added. To unlock the value of the audit, an auditor needs to ensure that his or her client views it as a service adding value to their operations.

Tips to ensure your audits add value for your client
• Communicate Talk with your client. Auditing standards have many communication requirements — a necessary part of any effective audit. Communications carried out as part of a routine can be impersonal — i.e., the standard audit report and letters of engagement and representation. A more personalized method is to talk less formally with your client about issues as they arise instead of leaving communication to the end. Auditing a micro-entity allows for immediate and timely communication, especially if the fieldwork is done on site (see tip four for more information). If the auditor is someone management is used to and feels comfortable talking to about reporting issues, the engagement becomes much more than a commodity.

• Specialize Micro-entity clients are far less likely to treat an audit as a commodity if the auditor brings specific industry expertise to the audit engagement. Obtaining more than one client in the same industry or sector makes it possible to share the industry-related knowledge gained in previous audits without much additional investment in time. Meanwhile, auditing a client in a new sector usually requires a preliminary investment. An important factor in deciding to take on a new client is whether or not the initial investment is likely to pay off over the long term. An important consideration in making that decision is the ability to specialize in a sector.

Too often micro-entity engagements get pushed to the bottom of the pile. But meeting a client’s deadlines and expectations results in a happy, and happy to pay, client

• Be efficient Management of an entity of any size will appreciate minimal disruption to the daily routine. The fieldwork of an audit of a micro-entity can often be done in a very short time, often in a day. Clients are usually grateful for an efficient audit and seldom complain if the auditor works expeditiously. The more efficient the audit, the more likely it is to be highly valued by the client.

• Do on-site fieldwork If your client has an office, do your fieldwork at his or her place of business. This gives the auditor the opportunity to talk directly to management as the audit progresses. Though management may not understand the audit methodology, it will see the work being done and can ask the auditor questions and answer the auditor’s questions throughout the engagement. In addition, the audit becomes much more than just a boilerplate audit report issued by a faceless professional.

• Use the most senior personnel available Micro-entity audits are by definition not complex. For that reason, some audit partners assign the work to inexperienced staff, sometimes differing staff every year. New and junior staff, coupled with too little on-site supervision, can result in unhappy clients who view an audit as a necessary evil. The client may then want to minimize the fees or find another auditor next year. To elevate the audit from its status as a necessary evil, assign the most senior staff available to do the fieldwork and try to maintain staff continuity year after year.

• Meet deadlines All too often micro-entity audit engagements get pushed to the bottom of the pile as tasks that seem more urgent take precedence. However, meeting a client’s deadlines and exceeding expectations typically result in a happy (and happy to pay) client.

It’s important to note that these tips are interlinked. For example, communication is fostered by senior staff performing the audit work and doing it on site, thereby turning the annual audit into a service that is appreciated for the value it adds, instead of a necessary annual inconvenience.

An audit can add value to a micro-entity and good clients are always willing to pay to add value to their operations. Once your client sees the audit this way, there are a number of strategies you can employ to unlock that value and increase your recoveries.

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The central flaw of “good governance”

Good corporate governance is a major concern of the investment world. And with the annual meeting season drawing near, we can expect the charge against bad practices to be taken up again.

Watchdog organizations such as the Canadian Coalition for Good Governance focus on the practices of listed corporations. However, corporate practices have improved significantly in the past few years. Watchdog organizations should turn their attention to institutional investors, which dominate the stock market and are likely responsible for the main governance problems within corporations. Three examples illustrate the potential for reform.

Emphasis on the short term
Institutional investors place pressure on companies by focusing on quarterly performance. (The accounting profession, with its mark-to-market rules, does nothing to improve the situation.) Listed companies know all too well they will be severely penalized by the market if they post substandard quarterly results and know they will not recover easily.

The emphasis on the short term has become a barrier to value creation. Companies have no choice but to manage for the short-term effects of their decisions, despite the fact that wealth creation is best done within the framework of a long-term perspective. Can this bias be attenuated?

One possible solution is to eliminate quarterly reporting, as in Europe, where investors are no worse off. Institutions could also be required to report to what extent their managers’ compensation depends on the quarterly performance of their investments.

Compensation and voyeurism
About a third of today’s annual shareholder circulars concern executive compensation. This ever-growing disclosure has the perverse effect of creating inflationary pressure on senior management compensation. Peer comparisons drive up salaries in the name of equity. Directors find it difficult to justify salaries that fall below the peer-group median. As a result, all companies pay at or above the market’s median, which leads to continual increases in salaries, and by extension, in global compensation. In Europe, where companies have avoided this explosion in salaries, shareholder circulars provide very little information on executive compensation. There may be a lesson there.

Meaningless governance criteria
The analysis of governance practices by the media and securities regulators bears mostly on secondary criteria that have little to do with good governance. One example is Board Games, the Globe and Mail’s annual ranking of corporate governance practices. However, there is no correlation between a company’s rank in terms of governance and shareholder returns, which is the prime objective of good governance. In fact, some criteria, such as those that limit controlling shareholder involvement, are negatively correlated with shareholder return. By focusing on criteria of no value to shareholders, the advocates of good governance do a disservice to shareholders.

A change in focus
Corporate governance has improved a great deal thanks to such reforms as separating the functions of chair of the board and CEO. However, good governance is based on numerous factors, many not easily measured. Future progress in corporate governance could come from changes in the practices of institutional investors, now the main obstacles to improved governance.

Watchdog groups should focus on the practices of institutional investors and examine their own actions, which are taken in good faith but sometimes bring about adverse effects. In short, it’s time for organizations promoting good governance to do some soul-searching of their own.

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