

Enhancing **AUDIT** quality

Can auditors prevent global financial crises?

The profession responds with its recommendations



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March 2013 Volume 146, No. 2

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CAmagazine is published 10 times a year (with combined issues in January/February and June/July) by the Canadian Institute of Chartered Accountants. Opinions expressed are not necessarily endorsed by the CICA. Copyright 2013.

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Annual subscription rates: \$28 for members; \$25 for CA students; \$47 for non-members. Single copy, \$4.75. Outside Canada: \$72 for a one-year subscription; \$6.50 for a single copy. GST of 5% applies to all domestic subscriptions. For subscription inquiries, call (416) 977-0748 or 1-800-268-3793 from 9 a.m. to 5 p.m., Monday through Friday; fax: (416) 204-3416. GST registration number R106861578. Publications Mail Agreement No. 40062437. PRINTED IN CANADA: Return undeliverable Canadian addresses to: CAMagazine, Canadian Institute of Chartered Accountants, 277 Wellington Street West, Toronto, Ontario, M5V 3H2. CAMagazine is a member of the Canadian Business Press and Magazines Canada. Submissions: CAMagazine receives from time to time unsolicited manuscripts, including letters to the Editor. All manuscripts, material and other submissions to CAMagazine become the property of CAMagazine and the Canadian Institute of Chartered Accountants, the publisher. In making submissions, contributors agree to grant and assign to the publisher all copyrights, including, but not limited to, reprints and electronic rights, and all of the contributor's rights, title and interest in and to the work. The publisher reserves the right to utilize the work or portions thereof in connection with the magazine and/or in any other manner it deems appropriate. No part of this publication can be reproduced, stored in retrieval systems or transmitted, in any form or by any means, without the prior written consent of CAMagazine.



A group effort

Could the recent global financial market collapse have been prevented, and what role can auditors play in audit quality?

When the financial markets of the western countries went into a tailspin in 2008, much effort went into seeking ways to make sure it did not happen again. Though no one blamed the audit process, people wondered if auditors could have prevented it and if the process could be improved. Proposals were put forth in the UK, the US and the EU to examine ways to enhance the quality of audits. Since Canada is not an isolated island, and initiatives around the world affect our businesses, the CICA got together with CPAB to examine ways to develop a Canadian response. The Enhancing Audit Quality initiative was the result; and a steering committee and three working groups were created to analyze the EU, US and UK proposals and make recommendations on auditor independence, the role of audit committees, and the audit reporting model.

The working groups recently put out reports that CAMagazine writer Mary Teresa Bitti examined; she also interviewed the key people involved, including CICA CEO Kevin Dancey.

Her report is our lead story, and it makes compelling reading. It is a matter that is of vital importance to auditors, regulators, managers, investors and anyone interested in the general quality of financial statements in Canada. See “Enhancing audit quality,” page 22.

Most people agree the office can be a political minefield. How do you navigate it? Do you stumble blindly across the field like a Second World War Red Army *shtrafnik* (Soviet penal battalions that sometimes marched across minefields), your heart in your mouth, praying your career does not detonate as you put a foot wrong? Or are you experienced in the art of knowing where to step, and whom to avoid? Skill in negotiating office politics can be vital to your office life. Consultant Barbara Quinn tells us how to begin to master the art form in “Managing politics,” page 36.

In another story, we profile Pierre Lessard, former president and CEO of Metro Inc., a member of the triumvirate of Canadian grocery empires. The inductee into the Order of the Canadian Business Hall of Fame took charge in 1990 when the company was a losing proposition, with revenue of only \$2.2 billion. Sales recently registered at \$12 billion and never took a negative turn while Lessard was in charge. Read all about it in Yan Barcelo’s informative and entertaining account in “Metro’s man,” page 30.

Also in this issue, Outlook columnist Marcel Côté tackles income inequality (page 60), which could lead to economic stagnation. He thinks part of the solution is tax related. As usual, he makes you see things differently.



Okey Chigbo, Editor

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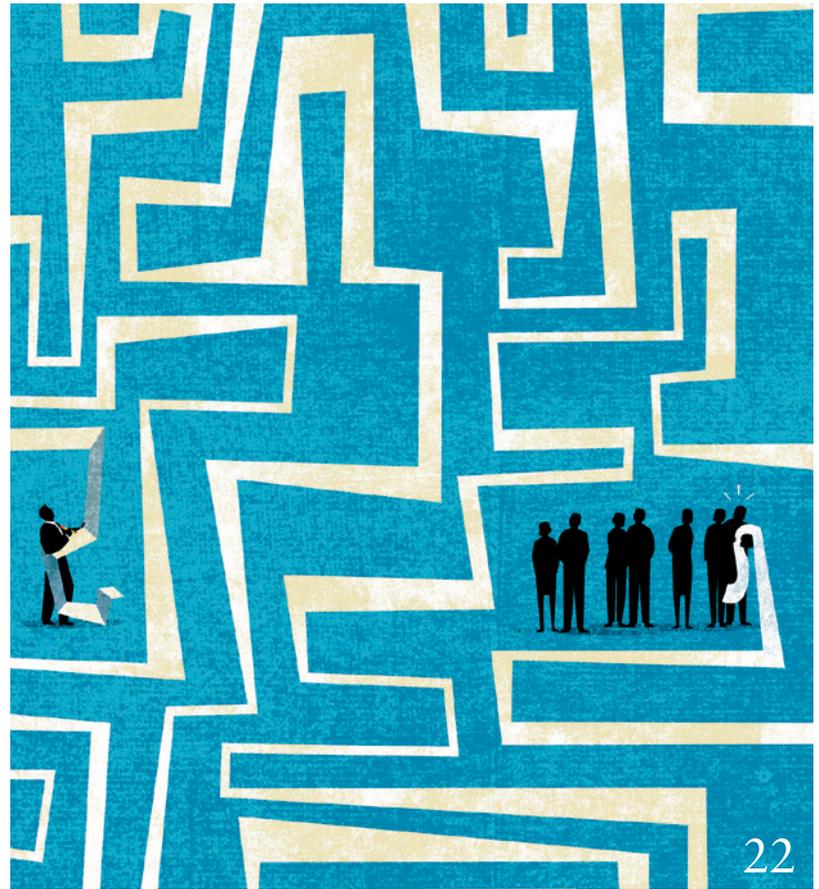
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Described as an exceptional operator and a visionary, Pierre Lessard inspired and steered Metro Inc. from debt to profit, and built it up into a national grocery empire **BY YAN BARCELO**

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Workplace politics is at play at every level. And there are strategies and skills that can help everyone navigate this delicate landscape and survive without creating a fallout **BY BARBARA QUINN**

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Change the game plan: some women wonder why they can't get ahead. Sometimes it's just a matter of behaviour modification **By Sandra Oliver**



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Mailbox

OVERLOOKED

Why is Regina overlooked in your write-ups on the profession, including in “Cities that move you” (November 2012)?

Both of Alberta’s major cities are written about, but it seems Regina is not a demographic the profession is eager to tap into. I would like a cross-country view of the 10 major cities. Saskatoon is no more representative of Saskatchewan than Calgary is of Alberta, so please give some insight into both major cities of Saskatchewan.

Anna Gardikiotis
Calgary

EDITOR’S REPLY:

The poll on which the article was based

was done online, and unfortunately we did not receive any responses from residents of Regina.

BALANCING ACT

In “Women at work” (December 2012), the question, “Have you found a good recipe for balancing work, family and other priorities?” was asked. I think the question could also have been, “Have you managed to get where you want to go in your life without sacrificing your career?”

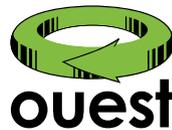
Prior to having children, I often thought about how to get where I want to go without sacrificing my life. But when children came along, I wondered how can one be a good mother without sacrificing one’s career?

I have twin seven-year-olds and because my husband has the more demanding job, I do the heavy lifting at home. I was in private practice and chose to move to a regulatory body to be more available to my family. I’ve attended countless women’s networking sessions hoping to meet a woman who has a top executive position and has ample time for her family so that I could ask how she does it. Every successful career woman has had to make choices about how she splits her time between family, work and herself. Everyone does it in her own way. So far, it hasn’t been the way that I would want. So I haven’t met a woman who has “everything” in my definition.

The question is not about sacrifice but compromise. Yes, you can get where you want to go in life, but only by design. Can I do more for my career? Of course, but that would mean compromising family time. I am happy with the balance in my life for now, but I will never stop thinking of ways to get ahead.

Name withheld

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I have been in the CA workplace since 1983. There seems to be an assumption that to thrive as a CA, women should seek senior positions with more responsibility and challenge. “Inspiring” stories are those of women who have a senior position, sit on numerous boards, are active in charities and have a husband and a couple of kids. They may see their children briefly before spending a long day and maybe evening in the office and stopping to do some charity board work before heading home.

But who raises the children? A nanny who probably doesn’t have the same culture/values as the parents? What kind of relationship would the woman and her husband have when they hardly see each other? Is this the path to success?

In 1988, after my daughter was born, I realized that a 16-week maternity leave was too short. I asked my boss if I could work part time and he agreed.



Mailbox

Since then, I have had two more children and continue to work part time. I have challenging, interesting work and no desire to have a more senior position. I cherish the memories of the times I spent with my children at the zoo, at the playground, etc.

It is impossible to have it all. If you spend the time at the office you will lose that time with your family, and once your children are grown, you will never have another opportunity to play with them. We need more role models for young women CAs who have priorities outside of work, and employers can benefit from having a motivated, hardworking and balanced CA who is employed on a part-time basis.

Name withheld

SPONSORSHIP IS KEY

Kudos for highlighting the great strides we've made in promoting the advancement of women in the accounting profession and throughout the business world (December 2012).

Despite the progress, however, there's still much to be done.

Organizations should include elements of sponsorship within their career development and performance management, but it should not be a stand-alone program. Sponsorship should be part of the culture of an organization.

While it cannot be forced, organizations can provide opportunities to cultivate sponsorship and teach sponsors and protégés how to ask for sponsorship and

why it is important.

Women — and diverse viewpoints in general — are important to an organization's success and sponsorship is a vital part of the equation to get more women into leadership positions.

I look forward to continuing to read about this topic and — hopefully — more women's success stories.

Jeannine Pereira

Inclusiveness flexibility leader

Ernst & Young

Toronto

Erratum

In "Going concern" in the December 2012 issue, Janice Baker was identified as a CA. She is an FCA. We sincerely regret the omission.



190 Reasons

Membership with the Canadian Payroll Association is essential as payroll is responsible for understanding and complying with the 190 regulatory requirements related to the \$830 billion in wages and benefits, \$260 billion in statutory remittances to the federal and provincial governments, and \$90 billion in health and retirement benefits that Canada's 1.5 million employers annually pay.

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UPFRONT

News, people, briefs, trends + tips

A fine balance

Yoga is the ultimate stress reliever for Lisa Ricci. Not only did it save her sanity throughout the busy seasons when she was a staff accountant at Ernst & Young in Toronto, it also got her through the UFE in 2009. “Taking an evening class on day two of the UFE grounded me and helped me start day three with a clean slate,” she says.

So perhaps it’s not surprising the 26-year-old Waterloo, Ont.-based entrepreneur has found a unique way to continue that symbiotic relationship between accounting and yoga. In 2012, she launched And Then Sum, an accounting consultancy for contractors working in the health and wellness industry. “Seeing how intimidated most of my yoga teachers and friends were by accounting, I wanted to make it more accessible to them,” she says.

To complete the circle, Ricci also became a yoga instructor. To qualify, she took a rigorous one-month program with 10 hours of classes and lectures six days a week, followed by a year of volunteering. She now teaches up to 15 classes a week at studios in Ontario, including Waterloo, Hamilton and Brampton.

It’s a juggling act, but Ricci finds value in blurring the lines between the different dimensions of her life. For example, her corporate background helps her sympathize with her yoga students. “I know workplace interactions can be frustrating and personal interests can become subordinated to those of others,” she says. “Having this firsthand experience helps me give cues that hit home and make them feel more at ease.” Subsequently, some students have become clients — and clients have become students. Ricci also weaves her two prominent skills into another interest: volunteering. She has taught yoga at the Salvation Army, takes part in ICAO tax clinics and, in January, offered both her yoga and accounting skills in a small Guyana village while visiting a friend.

What’s next for Ricci? She hopes to transition her consultancy to more of an educational model, having clients do as much of the work as possible to get a true understanding of their businesses. “Ideally,” she says, “I’d like to develop a workshop format that I can take across the country, and fit yoga classes in at each location too.”

Lorie Murdoch

Résumé

- 2007** joins Ernst & Young, Toronto
- 2011** begins teaching yoga
- 2011** obtains CA designation (Ont.)
- 2012** starts And Then Sum Accounting and Consultation



Fitness fusion: CA and yoga instructor Lisa Ricci combined her two passions by launching And Then Sum, a consultancy that demystifies business and accounting for other wellness workers

RUTH KAPLAN

#NUMBERS Game

Steal sector In November, reports of a Toronto Salvation Army director who allegedly stole millions of dollars in toys destined as Christmas gifts generated shock. Workplace theft is common:

3.71 Millions of dollars that Canadian businesses are estimated to lose to employee fraud annually; 36% of cases are reported to relate to employee theft.

10 Percent of small to medium-sized business bankruptcies occurring that relate to employee theft. One expert suggests theft comes down to “need, greed or opportunity.”

10.8 Millions of dollars Canadian retailers lose daily to theft, according to a 2012 report by PwC and the Retail Council of Canada. Employees steal about one-third that total.

61 Percent of companies reporting a theft or fraudulent event that say employee morale suffered as a result. One in five (20%)



further report that business relationships, reputation and value were also affected.

75 Percent of Canadian business executives reporting employee theft and embezzlement in a 2004 survey. The global average was 60%.

90 Percent of thefts in Canadian workplaces in 2009 estimated to have gone unreported. More than half (58%) of Canadians admit to stealing — most typically office supplies.

1,000 Dollars in reward money for a report of a theft and conviction at a General Motors plant in Windsor, Ont., in 1988. Steve Brearton



Working File: WHEN A COLLEAGUE GETS "YOUR" PROMOTION

THE SCENARIO

Andrew Goldsmith*, an accountant in the food-service industry, has been proving himself to his employer since landing his job four years ago. He routinely puts in long hours and steps up when teammates need help with special projects. When Daniel*, a coworker who's been with the company about two years, wants an extra set of eyes to look over his work, he always asks Goldsmith. A senior position opened up in their department a couple months ago. Both applied. Daniel got the job.

HOW IT PLAYED OUT

"I've been with the company almost twice as long as Daniel, and now he's one of the managers I report to," says Goldsmith, who thought the promotion was in the bag. "Considering I was eyeballing his work, this obviously doesn't sit well with me. I felt that I had shown time and again that I was a team player up to the task." He congratulated Daniel, and is actively looking for a new job.

THE EXPERT WEIGHS IN

"Seniority is often not the determining factor in promotions," says Monica Magnetti, a certified career coach and owner of Luna Coaching in Vancouver. "If the new position had been based on seniority, there probably would not have been any need to open it up," she says.

Goldsmith should use this situation as a learning experience, says Magnetti. "He should let go of feeling like a victim and find out what qualities his colleague has that got him the job." It's also worth bringing the subject up with his boss, she adds. "He can express his discontent with himself for not competing with the appropriate tools," she says. "This down-to-earth approach may give him what he needs to win the next promotion or land a new job." Lisa van de Geyn



Have you faced a tricky work situation? Tell us about it at: tamar.satov@cica.ca Names can be changed for anonymity

*Names have been changed

By Tamar Satov

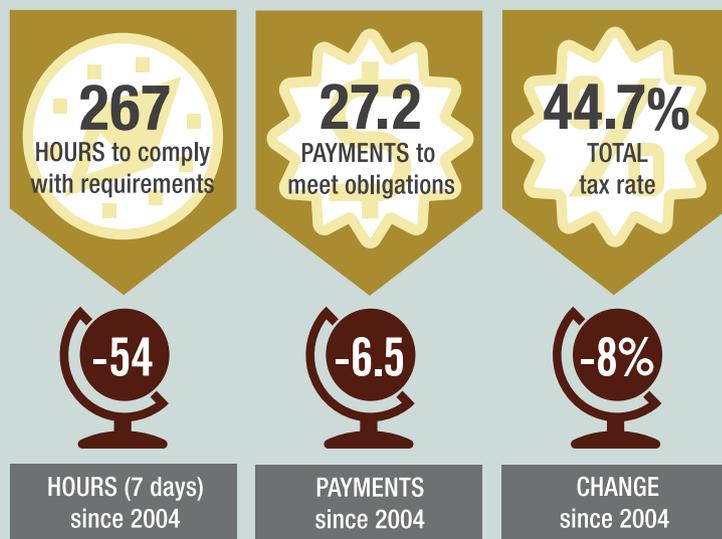


DOWNWARD TRENDS

Lower. Quicker. Fewer. A global survey of corporate taxes between 2004 and 2011 finds that on average, companies around the world are now paying less tax, spending a reduced number of hours preparing returns and making fewer payments. This is the eighth consecutive year PwC tracked tax regimes in 185 economies to rank them on ease of paying taxes. United Arab Emirates topped the list overall, while Canada ranked No. 8.

by Steve Brearton

Average tax burden for companies worldwide (2011)



Source: PwC, 2012

More vacay, please

Money may make the world go around but, in Canada, we'd prefer time off instead. In a Mercer survey of 10,400 workers in 10 markets, Canada was the only country to rank an additional week's paid vacation as the top benefit. One in five Canadians chose extra time off, compared with 18% who preferred a \$500 salary increase and 15% who wanted a \$500 employer contribution to an RRSP or TFSA. All other countries polled — Brazil, China, France, Hong Kong, Ireland, Italy, Spain, UK and US — chose extra income as the top benefit; while paid time off was a top-three benefit in six of the countries.

"Canadians value more time off and increased pay — but there are other benefits that have the potential to create more income protection," says Brian Lindenberg, senior partner at Mercer. "This puts pressure on employers to understand and communicate the value of various benefits to their employees so they can make smart choices."

\$600 BILLION AND COUNTING

Canada's national debt hit a significant milestone this past fall, according to the Canadian Taxpayers Federation. The federal debt crossed the \$600-billion mark on Nov. 24, 2012, and is now rising at a rate of \$74.6 million a day, \$3.1 million an hour, \$52,000 a minute and \$863.27 a second.

TOP GIVERS AGAIN

Manitobans are the most generous Canadians for the 14th year in a row, the Fraser Institute's 2012 Generosity Index finds. The province had the top percentage of tax filers donating to registered charities (26.2%) as well as the highest percentage of total income donated (0.92%). PEI ranked second and Saskatchewan placed third.

HIRING MISTAKES PRICEY

Nearly one in four employers say a bad hire in 2012 cost them more than US\$50,000, according to a survey by US recruiter CareerBuilder. The most common costs come from lower productivity (39%), time lost to recruit/train another worker (39%), decrease in staff morale (33%) and negative impact on clients (19%).

BAIBA BLACK / SETH



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PERSONAL ACCOUNTS

My 15 minutes of fame

Suzanne Bertrand, partner, Fuller Landau,
VoirGRAND.tv judge

“I was invited to serve as a panelist during the VoirGRAND.tv auditions. This Montreal-based

web TV show aims to spotlight Quebec businesses to help them carry out their expansion projects. I, along with two male judges, met with about 120 contestants from which we had to select five finalists. They were each given three minutes to describe their company and vision for the future. I was struck by the fact that the majority of contestants were women.

The more tapings I did, the more comfortable I felt in front of the camera. By the end of the third audition, I'd forgotten we were on the air. This experience gave me a great sense of pride, because the entrepreneurs showed incredible enthusiasm and creativity. One of them made me laugh when he took off his shirt without warning and presented his project shirtless!

When I was an accounting student, my calculator and my computer were my whole world. I now understand that regardless of our life choices, we have to be open to meeting new challenges and stepping out of our comfort zone.”

As told to Marie-Josée Boucher

QUOTABLE

Alberta vs. PEI?

“The link between economic freedom and prosperity is clear: provinces that support low taxation, limited government and flexible labour markets benefit from greater economic growth. Provinces with reduced levels of economic freedom see lower living standards for families and fewer economic opportunities”

Fred McMahon, co-author of the Fraser Institute report *Economic Freedom of North America 2012*

35 YEARS AGO THIS MONTH

Compiled by Steve Brearton

From the March 1978 edition of *CAMagazine*

How tax clinics can make you feel better

“It is Thursday, March 24, 1977, 10:30 p.m. I have just returned home from my first Ontario Institute Volunteer Tax Clinic, where I offered my skill as a chartered accountant to people who could barely afford to eat, let alone pay someone to fill out their income tax forms. It occurred to me over and over that these free tax clinics were only a drop in the bucket. I wondered how any self-respecting accountant could possibly refrain from helping these people out. A refusal to help these people seemed to me to be almost a violation of our code of ethics. If there are 10,001 accountants in Ontario, there should be 10,001 volunteers. I'm returning again next week and next year to help some more.”

First-person account by Sheldon Buchalter, CA, Mintz and Partners, Toronto



Worldwide reporting standards proposed

“Last fall a United Nations-sponsored group issued a report setting out two lists of ‘minimum items for general purpose reporting of a transnational corporation.’ [The group] felt ‘more information on the social and economic impact of transnational corporations ... should be disclosed to satisfy the growing interests of the general public, local communities and the international community.’ [The UN] has called for an international agreement ... to make mandatory the application of relevant reporting standards.”

GETTY IMAGES



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by Alan Vintar

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Going Concern



**CHARLIE BREDO, CA
FOUNDER
BOW VALLEY POWER**

COMPANY PROFILE: Bow Valley Power is an electricity retailer providing traditional and green energy to residential and business customers throughout Alberta. Established in 2010 and based in Canmore, Alta., the operation supplies power to customers in more than 120 communities in the province. Its largest client to date is the Fairmont Chateau Lake Louise.

HOT FACTOR: Alberta's power production is five times more polluting than the national average due to its dependence on coal (it holds 70% of Canada's coal reserves). With green power gaining momentum across the country, the opportunities in the West are still relatively untapped. In 2012, Bow Valley became EcoLogo certified to provide green power,

which now comprises 30% to 40% of the company's revenue. Bow Valley also puts 20% of its profit toward environmental initiatives and has partnered with local eco-minded retailers to offer incentives for new customers signing up with its service.

COOL PROJECTS: The company launched a website in December 2012 that promotes green power — and the customers who use it — through videos and testimonials. Another goal is to create a tangible green project, such as a solar-powered picnic table you can plug your phone into while you're having lunch.

IN HIS OWN WORDS: "Education is a huge part of what I do because people still don't understand how electricity works. Reducing our impact on the environment is such an obvious thing, but we're not doing enough about it. There's a tremendous amount of opportunity in Alberta and I'd like to get to the point where Bow Valley Power is a recognized name for green power." Rosalind Stefanac

ACCOUNTANTS ARE GOING SOCIAL

As are using social networking sites such as Facebook, Twitter and LinkedIn more frequently than they did two years ago, according to a CICA member survey. Seven in 10 respondents say they have visited a social networking site; nearly a third (32%) do so daily and almost half (49%) do so weekly. In comparison, only 17% of members visited social networking sites daily in 2010 and only 32% visited them weekly.

Facebook remains the most popular social media site, with 47% of respondents using it weekly and 28% daily — more than twice as many daily users as in 2010. Although LinkedIn and Twitter trail behind Facebook, their growth has been even more rapid. About a quarter (23%) use LinkedIn at least weekly and 5% use it daily, compared with only 7% who used it weekly and 1% who used it daily in 2010. As for Twitter, 12% use it at least weekly and 9% do so daily, compared with 3% weekly and 2% daily in 2010. YouTube is also widely used, with 26% of respondents using it at least weekly and 6% daily. (YouTube wasn't included on the 2010 survey.)

CA use of social media

Social media site	2012		2010		Change	
	At least weekly	At least daily	At least weekly	At least daily	At least weekly	At least daily
LinkedIn	23%	5%	7%	1%	249%	400%
Facebook	47%	28%	29%	13%	63%	115%
Twitter	12%	9%	3%	2%	244%	350%
YouTube	26%	6%				

Source: CICA, 2012

While Facebook is the most popular social media site among respondents, 83% say it is exclusively for personal use. A minority (13%) use Facebook primarily for personal reasons but also for some business purposes. The story is much different for LinkedIn and Twitter. LinkedIn is a business-oriented tool and a large majority (69%) use Twitter for reading business tweets.

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

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Establishing Canada's newest accounting body



The Chartered Professional Accountants of Canada (CPA Canada) was established on January 1, 2013, and the organization is beginning to take shape. CPA Canada will support provincial accounting bodies that have unified and those that will unify under the CPA banner. The new national organization will be responsible for providing support to legacy CAs and CMAs on behalf of CICA and CMA Canada, as well as CPAs and CGAs participating in unification.

Strategic leadership, governance and oversight for CPA Canada will be provided by a new 16-member board of directors, co-chaired by Shelley Brown, FCA, and Cassandra Dorrington, FCMA. The new board brings together a cross-section of perspectives and includes regional and public representation as well as representation of the legacy designations participating in unification.

One of the first orders of business for the CPA Canada board of directors was the approval of CPA Quebec and the Institute of Chartered Accountants of Ontario (ICAO) as Organization

CPA BOARD AND MANAGEMENT:

Left to right, back row:

Joy Thomas, FCMA, executive vice-president, CPA Canada
Gerald Mills, FCPA, FCA, Ontario
Michel Th  roux, FCPA, FCA, Quebec
Douglas Tkach, FCA, Western Region
Jonathan Levin, public director
Barb Carle-Thiesson, FCA, Western Region
Rod Wiley, FCMA, Western Region
Marcel Vienneau, public director
Kevin Dancey, FCPA, FCA, president & CEO of CPA Canada

Left to right, front row:

Dorothy Rice, FCMA, Atlantic Region
Bob Strachan, FCMA, director at large
Cassandra Dorrington, FCMA, co-chair
Shelley Brown, FCA, co-chair
Catherine Emrick, FCGA, Western Region
Stephan Robitaille, FCPA, FCGA, Quebec

Absent:

Colleen Gibb, FCPA, FCA, Ontario; Tom Conyers, FCPA, FCA, Atlantic Region; Jacques C  t  , FCPA, FCMA, Quebec

How IT professionals can improve profitability and competitiveness

Faced with increasing uncertainty, businesses today need to develop a greater level of agility to enable them to adapt to changes in the business environment. New technologies can play an important role in this area; however, sometimes businesses focus on controlling IT costs but overlook the value of leveraging technology to help improve the performance of the enterprise as a whole.

Revenue growth, profitability and competitiveness are greatly enhanced when IT strategies and the overall strategies of the business are in close alignment.

At this year's Canadian Conference on IT Audit, Governance and Security, co-presented by CICA in Toronto

on March 26 and 27, IT professionals will have an opportunity to discuss how new and emerging technologies can be deployed to help improve business performance.

The conference features sessions on maximizing the benefits of the cloud, BYOD (bring your own device), NFC (near field communication), business managed technology, and multivendor IT support, while mitigating the risks they pose. Other sessions include how to harvest good intelligence from big data, insights into dealing with cyber threats, and social engineering attacks on social networks.

For more information and to register, visit www.cpd.cica.ca/ITAudit.

Members of CPA Canada. "Their participation as members firmly establishes CPA Canada as a strong national accounting body," said Brown. "The entry of CPA Quebec and ICAO along with their members means that CPA Canada already represents more than 70,000 members."

The board also appointed Kevin Dancey, FCPA, FCA, as president and CEO of CPA Canada. Joy Thomas, FCMA, assumes the role of executive vice-president of CPA Canada. Both Dancey and Thomas are also leaders of CICA and CMA Canada respectively.

The board has set itself an ambitious agenda for the months ahead. "The development of the Canadian CPA certification program is one of the board's top priorities," said Dorrington. "We will draw on the best of the existing programs to create the certification program needed to produce Canada's pre-eminent professional accountants. We want to make sure that it will be in place for delivery in parts of Canada by fall 2013 and that the first CPA exams will be offered in the fall of 2015."

Other important priorities for the board include the development and implementation of the CPA branding strategy and the transition of the operations and employees of both CICA and CMA Canada to the new national organization.

Currently, accounting bodies representing more than 80% of Canada's professional accountants are engaged in unification activities or have already merged under the CPA, including all CA bodies, all CMA bodies and CGA bodies in Que-

bec, Alberta, Newfoundland and Labrador, New Brunswick and Saskatchewan. The timing for use of the CPA designation will vary among the provinces as the profession is provincially regulated.

For timely, complete information about CPA Canada and the unification process, visit www.CPACanada.ca.

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Opening Worlds

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News from the profession

A SUMMARY OF CURRENT CICA PROJECTS AND INITIATIVES

Fast-track your search for standards implementation resources

Navigating through CICA's vast range of online support for applying accounting and auditing standards just became a lot easier.

"CICA.ca offers hundreds of excellent resources to help members apply new financial reporting and audit and assurance standards," says Karen McCardle, a principal in the guidance and support group.

"The challenge has been trying to find the resources you need — when you need them. We want to make that process easier."

Part of the challenge has been the breadth and depth of the resources, which cover the full range of standards — financial reporting (IFRS, accounting standards for private enterprises, pension plans, not-for-profit organizations and public-sector entities) as well as audit and assurance.

To make it easier for users to find the information they need, the Applying the Standards section of the CICA website has been reorganized to make movement through the section more intuitive. Resources are organized first by assurance or accounting framework, such as IFRS, and then by types of activity, such as preparing financial statements.

Latest resources

The site is kept fresh with regular additions of new and timely resources. Some of the latest additions include:

- 2013 Financial Reporting in Canada under IFRSs — a comprehensive resource that explains IFRS requirements, discusses applications issues and analyzes presentation and disclosure requirements;
- IFRS webinars in archive:
 - Implementing IFRS 13, Fair Value Measurement
 - Implementing IFRS 10, Consolidated Financial Statements
 - Implementing IFRS 11, Joint Arrangements
- Practitioner's Pulse webinars — a quick summary of key developments affecting members in practice, including standards application.

"CICA is focused on helping members, particularly those working in small to medium-sized firms and organizations, cope with the substantial changes to financial reporting and assurance standards," says McCardle. "The work we've done to restructure the navigation to the standards-related section of the website will help people more easily find the resources they are looking for."

Paul Cherry appointed to the Order of Canada

His Excellency the Right Honourable David Johnston, Governor General of Canada, has announced the appointment of Paul Cherry as an Officer of the Order of Canada "for his commitment to improving financial reporting, notably through his leadership in developing international accounting standards."

Established in 1967, the Order of Canada is one of our country's highest civilian honours, awarded to recognize a lifetime of outstanding achievement, dedication to community and service to the nation.

Since 2009, Paul Cherry has served as chairman of the IFRS Advisory Council of the International Accounting Standards Board. He is past chairman of the Accounting Standards Board of the Canadian Institute



Paul G. Cherry, OC, FCPA, FCA

of Chartered Accountants, a position he held from 2001 to 2009. He received his CA designation in Ontario in 1974 and became a Fellow with the Ontario Institute of Chartered Accountants in 1991. In addition, he became a Fellow with the Institute of Chartered Accountants of New Brunswick in 2000. Cherry has served as chief accountant of the Ontario Securities Exchange Commission, senior technical partner of PricewaterhouseCoopers in Toronto and director of national accounting and auditing services of Coopers & Lybrand.

He also served as a Canadian representative on the International Accounting Standards Committee and chaired its Standing Interpretations Committee from 1997-2001.

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RECENTLY ISSUED PRONOUNCEMENTS

CICA Handbook – Accounting	Date issued†
Part I	
Amendments Regarding Investment Entities	January 2013
CICA Handbook – Assurance	
Section 7150, Auditor’s Consent to the Use of a Report of the Auditor in an Offering Document	January 2013
CICA Public Sector Accounting Handbook	
Amendments to Section PS 3450, Financial Instruments	February 2013

RECENTLY ISSUED DOCUMENTS FOR COMMENT (to March 31, 2013)

Accounting	Comment deadline
ED 2013 Improvements to Accounting Standards for Private Enterprises	June 1, 2013
EDI Acquisition of an Interest in a Joint Operation	April 23, 2013
EDI Clarification of Acceptable Methods of Depreciation and Amortization	April 2, 2013
EDI Classification and Measurement: Limited Amendments to IFRS 9	March 28, 2013
EDI Equity Method: Share of Other Net Asset Changes	March 22, 2013
EDI Recoverable Amount Disclosures for Non-Financial Assets	March 19, 2013
EDI Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture	April 23, 2013
Public Sector	
ED Amendments to the Introduction	May 3, 2013
ED First-time Adoption by Government Organizations: Transitional Provisions	February 22, 2013
SOP Restructurings	17 May, 2013

WATCH FOR

Amended Standards	Amendments to IFRS 9 Regarding Hedge Accounting
Documents for Comment	Financial Reporting by Not-for-Profit Organizations (Joint Accounting/Public Sector SOP) Leases (AcSB EDI) Rate-Regulated Activities (AcSB EDI)

Legend

ED – Exposure Draft

EDI – ED based on IFRS/ISA

SOP – Statement of Principles

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

News from the profession

A SUMMARY OF CURRENT CICA PROJECTS AND INITIATIVES

Peter H. Wood receives 2012 Bill Swirsky innovation award



The Bill Swirsky Innovation Leadership Award recognizes members or volunteers whose innovations have resulted in outcomes that have advanced the CA profession, accounting and/or financial reporting nationally and/or internationally. The 2012 award was recently presented by CICA and CaseWare to Peter H. Wood, FCPA, FCA.

Peter Wood earned his CA designation in 1973 at Clarkson Gordon (now Ernst & Young) and became a tax partner in 1981. During the mid-1980s, he launched Canada's first tax bulletin board service, Canadian Tax Online, which provided Canadian accountants and lawyers with regular updates on tax legislation, case law and Revenue Canada rulings. He was a founding member of CICA's Commodity Tax Committee and Commodity Tax Symposium (now in its 32nd year) and developed and taught numerous sales tax courses and workshops. In 1991, when the GST was introduced, his book, *The Complete Guide to the GST* (published by CICA), became a Canadian bestseller. Now in its 20th edition, the guide remains the bible for GST practitioners in Canada.

Wood led a team of business, tax and programming professionals to form Ernst & Young Electronic Publishing Services Inc. (EYEP) in 1990. The team developed desktop applications to provide electronic reference materials to the accounting and legal community through CICA — first on diskette, then CDs and DVDs. In 1995, it launched Canada's first email- and Internet-based tax news service, TaxCast.

As is the case with many visionaries, Wood was often ahead of his time. In February 1995, he launched a website to provide Ernst & Young's analysis of Canada's federal budget. This

was the first website for Ernst & Young worldwide. Moreover, it was the first for the Big Six firms in Canada. His keen interest in tablets and e-readers even back in the '90s foreshadowed one of his last projects before retiring from Ernst & Young in 2009 — the launch of Canada's first Income Tax Act ebook for tablets and smartphones.

As a tax partner with Ernst & Young LLP (1981–2009) and president and CEO of EYEP (1990–2009), Wood practised different tax specialties, wrote and edited a number of tax publications and was responsible for knowledge management and technology for the firm's Canadian tax practice. In addition to serving as a technology consultant to Canada Revenue Agency's electronic commerce committees and the Organization for Economic Co-operation and Development, he also served as a tax policy consultant to the Department of Finance.

Wood was presented with the 2012 Bill Swirsky Innovation Leadership Award at a leadership group dinner in February.

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Could auditors have prevented the failures of the 2008 financial collapse? A CICA/CPAB initiative analyzes proposals for an improved process

BY MARY TERESA BITTI

Enhancing **AUDIT** quality

DOES A CORPORATE FAILURE AUTOMATICALLY MEAN THERE was an audit failure? This is the underlying question linking the proposals for enhancing audit quality coming from policy-makers, standard-setters and regulators in the EU, the UK and the US — the regions hardest hit by the global financial market collapse of 2008. Even though no one has directly blamed the auditors or the audit process for creating the crisis, many were left wondering what role they played and whether they could have prevented it. Were the auditors sufficiently independent, objective and skeptical?

illustration by MICHAEL AUSTIN



“We have to be sure Canada’s reputation on this front is of such a high quality that we are not disadvantaged when it comes to attracting foreign investment or when it comes to credibility”

According to the proposals being floated, not so much.

It was a message James Doty, chair of the US-based Public Company Accounting Oversight Board (PCAOB) drove home to Canadian thought leaders who came together for the Audit Quality Symposium organized by its counterpart, the Canadian Public Accountability Board (CPAB), back in December 2011. “If the story, if the numbers, are too good to be true, the auditors are supposed to call it,” Doty said. While he did go on to say that for the most part, auditors do protect investors, he also stated there is considerable room for improvement.

The same day, CICA and CPAB set the wheels in motion to arrive at a Canadian perspective and response and launched the Enhancing Audit Quality (EAQ) initiative. In short order, an arm’s-length steering committee and three independent working groups were created to analyze the proposals and address the big-ticket issues of auditor independence, the role of audit committees and the audit reporting model. At this point, the working groups — handpicked to reflect all the stakeholder groups that will be impacted should any of the international proposals be adopted — have released discussion papers for comment. A final comprehensive report will soon be released that will provide relevant input to Canadian standard-setters, regulators and policy-makers and will give Canada a voice in the global discussions.

But were regulators, managers, investors and standard-setters here in Canada worried about audit quality before international proposals were floated a couple of years ago? Yes and no, says Kevin Dancy, CICA president and CEO. “Canada came out of the financial crisis fairly well, certainly relative to other countries around the world, but Canada is not an island within the global financial community. We operate in global capital markets and the auditing profession is a global profession. We are not immune to changes going on in the US, the UK and Europe. So that is why you do not see these proposals originating in Canada. However, having said this, focusing on ways to enhance audit quality is always on our agenda.”

The decision on the part of the CICA and the CPAB to collaborate and emerge with a uniquely Canadian perspective was strategic and designed to pack more punch. “Canada represents 4% of global capital markets. Is anybody going to care what Canada says? We thought by working in conjunction with the CPAB we’ll have recommendations and output that has a lot of credibility as opposed to just the regulator or professional body doing it,” says Dancy.

Brian Hunt, CEO of CPAB, has already circulated the audit reporting and independence discussion papers to the International Forum for Independent Audit Regulators and the European Commission. “We have 350 to 400 US Securities and Exchange Commission dual registrants. We have Canadian companies doing business and raising financing in Europe,” says Hunt. “The

bottom line is whatever initiatives are put in place in the US, the UK or the EU will impact us here. Then the question is going to be, should we be adopting something similar? If we don’t, you’re not going to have the consistency that exists today. The initiatives have the potential to create confusion. That’s not good for the market.”

And that, at least in theory, is the point of the proposals: to help rebuild trust in the financial reporting system, in corporate leadership and in the stock markets globally. “Even though Canada has a mature environment for governance, audit quality, rules about audit committee activity, inspection of auditors, etc., there is no room for complacency,” says Peter W. Mills, a corporate director on Cadillac Fairview’s board, chair of the EAQ’s Auditor Independence Working Group and a member of the Independence Task Force updating the Canadian rules on auditor independence. “We have to be sure Canada’s reputation on this front is of such a high quality that we are not disadvantaged when it comes to attracting foreign investment or when it comes to credibility. That said, we cannot assume that measures that may be appropriate in other places are appropriate here.”

The three working groups were charged with assessing whether the international proposals will in fact improve audit quality and if the cost of the solutions will be worth the effort and expense. David Brown, a Canadian securities lawyer and former chair of the Ontario Securities Commission, serves as chair of the EAQ steering committee overseeing the Canadian working groups. “Committees have been focused on cost versus value and ensuring we are not putting a cost on the system that has negligible benefit. A lot of what we are calling for is enhanced communication from the auditors to audit committees and the public, not that they have to do more or different work. The cost would be incremental.” The same is not necessarily true of some of the EU proposals framed as auditor independence initiatives that are actually focused on audit concentration issues. “There is recognition that part of the EU objective is not so much audit quality as they are worried about concentration in the profession,” says Brown. There are so few audit firms that multinational companies can choose from.

Dancy points to a proposal from the UK that is gaining traction as an example of such an initiative and outlines the corresponding ripple effect in Canada. In this case, the proposal seeks to institute mandatory retendering of audit firms after 10 years on a comply-or-explain basis for the largest 350 public companies. “If a large UK-based multinational has operations here in Canada, then there would be retendering here as well,” he says. “That has implications for the audit firm doing the work, those asked to bid, including audit firms providing nonaudit services, and the company in having to go through that process. That’s just one proposal and it’s not as draconian as the European Com-



mission's proposal of mandatory firm rotation or the proposal to institute audit-only firms, which would entail a complete restructuring of audit firms around the world."

Auditor independence

Internationally there are a half-dozen initiatives focused on independence largely aimed at addressing the threat of familiarity when audit partners and firms become too cosy and therefore accepting of management.

In August 2011, PCAOB issued a concept paper looking at mandatory audit-firm rotation but did not specify a time frame. In November 2011 the European Commission recommended mandatory firm rotation after six years when only one firm is involved, and nine years in the case of joint audits. It also suggested a move to audit-only firms and further restrictions and limitations on firms providing nonaudit services to the companies they audit. As noted above, in April 2012, the UK's Financial Reporting Council issued proposals that would require mandatory tendering of audits for FTSE 350 companies on a comply-or-explain basis after 10 years. Talk of joint audits was also making the rounds in Europe when the working group started making its assessments.

In its discussion paper, the Auditor Independence Working Group lists a variety of measures that have taken place in Canada over the past decade that have advanced Canadian management, auditors and audit committees on the audit governance continuum and that in many ways have already addressed the issue of independence. Some of these measures include: the establishment of the CPAB to inspect audit firms; the creation of the Auditing and Assurance Standards Oversight Council and auditor-independence standards; and a set of independence rules for audit-committee members. Mills points to safeguards such as defined limits on individual partners participating in an audit and the specified cooling-off periods once the maximum terms have been reached as examples. What's more, he says, the average tenure of a president or CFO in major public companies in the US, for example, is seven or fewer years, which in itself mitigates the risk of the same auditors dealing with the same executive managers over a long period.

"There is no doubt the EU in particular is being quite active in terms of initiating proposals for change. In our report, we were not inclined to adopt the EU proposals around mandatory audit-firm rotation and note that the UK, for example, is initiating a retendering proposal, which appears to be a politically motivated

response to blunt the more aggressive initiative the EU is proposing," says Mills. "When PCAOB discussed rotation it did not specify a term. So at a minimum there is a lot more work to do there."

While it rejected all the international proposals, the working group did agree with CPAB's suggestion of mandatory comprehensive audit-firm review, which it offered as an alternative to both mandatory tendering and auditor rotation.

"Ultimately you want the best and most efficient audit the auditor can conduct at a reasonable price. If you have auditors coming in to audit a large organization, it takes them two to three years to get familiar with the organization. You can't then flip them out every three to five years. It doesn't make any sense. You don't have the efficiencies or the thorough review of an audit that is necessary," says Patrick Crowley, executive vice-president and CFO of OMERS and a member of the Auditor Independence Working Group. "Completing a comprehensive review of the auditor and their work on a periodic basis would provide enormous value for the organizations but also for the auditor and the investor who relies on the financial statements."

"This isn't just about independence," Crowley says. "It's about the perception of independence and a comprehensive auditor review creates a level of transparency because the intent is to assess the quality of the audit, the relationship with the auditor and includes input from regulators who have reviewed the audit working papers on the account. The results would be disclosed in the annual report so everyone understands what happened. If, for example, there is a change in auditors, the reason is publicly identified. That eliminates the need for mandatory rotation, which could hide a lot of the concerns companies have. There would be more work for audit committees and some incremental costs, but it would not have the financial impact a mandatory auditor rotation or a joint auditor would have."

A comprehensive review also leaves room for judgment rather than prescription and leaves management in charge of the statements, the audit committee responsible for the audit and it leaves the auditor to complete its role, says Mills. "The roles of the three stakeholders are reinforced and the audit committee can do as deep a dive as is necessary annually or every five years."

The only other change the working group would like to see is in the area of nonaudit services. In Canada, it is still possible for an audit firm to provide personal tax services for executives in a client company who might have some influence over the financial statements. "On its face, it's questionable and it is prohibited in the US," says Mills. "In my experience as a corporate director in Canada, the market has already gone there. Even though the rules permit it, I don't believe it's as widespread as it was 20 years ago. Still, we'd like to see better alignment with the US."

At this point, the international initiatives are still a moving target, but there has been considerable pushback on both sides of the Atlantic to mandatory rotation, the proposal that would have the greatest impact on the ground in Canada.

In Europe, the call for a six-year mandatory rotation has been opposed and an alternative proposal of 25 years put forward. In the US, PCAOB has heard from 700 individuals and organizations and more than 90% of respondents do not support mandatory firm rotation. As well, the European parliament has nixed the call for joint audits and audit-only firms.

“Should these recommendations be applied to all public companies or should they be scaled back for smaller companies?”

The role of audit committees

Arguably the initiatives have shifted the question from, Where were the directors? to Where were the audit committees? In September 2012, the Financial Reporting Council in London issued recommendations making the case for enhanced disclosure by the audit committee. This is a departure from the IAASB and other jurisdictions, including Canada, which favour enhanced disclosure by the auditor.

With its recommendation of a mandatory comprehensive auditor review, the Auditor Independence Working Group has in effect handed the torch to the Audit Committee Working Group to assist audit committees to be more proactive. Tom O'Neill, chair of BCE Inc. and chair of the Audit Committee Working Group, says one of the first questions he put to fellow committee members was, Why should an audit committee worry about audit quality? “Having put that monkey on the table, as a group we didn't debate the independence group's recommendation. We accepted it and worked from there.”

The group agreed it is best practice that audit committees do an annual review of auditors, while acknowledging the rigour may be different depending on the audit committee, the industry and the complexity and size of the company. It also believes that a more in-depth review every five years that builds on the annual review is a step in the right direction.

A challenge around implementing comprehensive reviews is how to scale the process for smaller companies — the drivers of the Canadian economy. “There are about 6,000 public companies in Canada, including mutual funds. Some 2,000 of those companies have a market cap of less than \$10 million, which is very small,” says O'Neill. “Should these recommendations be applied to all public companies or should they be scaled back for smaller companies? Intellectually our group would say it should apply to all but this may be more an aspirational solution than it is a practical one. The fact is, mandatory comprehensive review will not fundamentally change the role or the communication between audit committees, auditors and management in major listed companies because they are already doing it. We are just codifying best practices of large-cap companies. That's why we are sensitive to small-cap companies — they will be the ones most affected.”

According to Brown, a new concern of the working groups is the regulation proposed in late December 2012 by the Canadian Securities Administrators (National Instrument 51-103 Ongoing Governance and Disclosure Requirements for Venture Issuers). In effect, if the new legislation were to be adopted, it would reduce the responsibilities of audit committees for venture issuers when the EAQ working groups are recommending the responsibilities of the audit committee be increased. Stay tuned.

The working group would also like more collaboration with the CPAB and says that to do a proper job, audit committees need the results of audit reviews conducted by the CPAB — an idea that the CPAB and some of the major corporate players and chairs

of audit committees have already been considering. When CPAB was first established in 2002, there was a fear that if it started disclosing results of audits from major firms the whole process would become more inward looking and firms would be on the defensive, making it difficult to get information. “What they are finding is that other jurisdictions are moving in the direction that perhaps we should be going,” says Brown. “The UK has gone the furthest on this front. The audit oversight body there publishes public audit reports on the reviews they've done on the nine major firms of the UK. They don't disclose actual information about the audit files they've reviewed, only the fact they did review audit files. That seems to be working.”

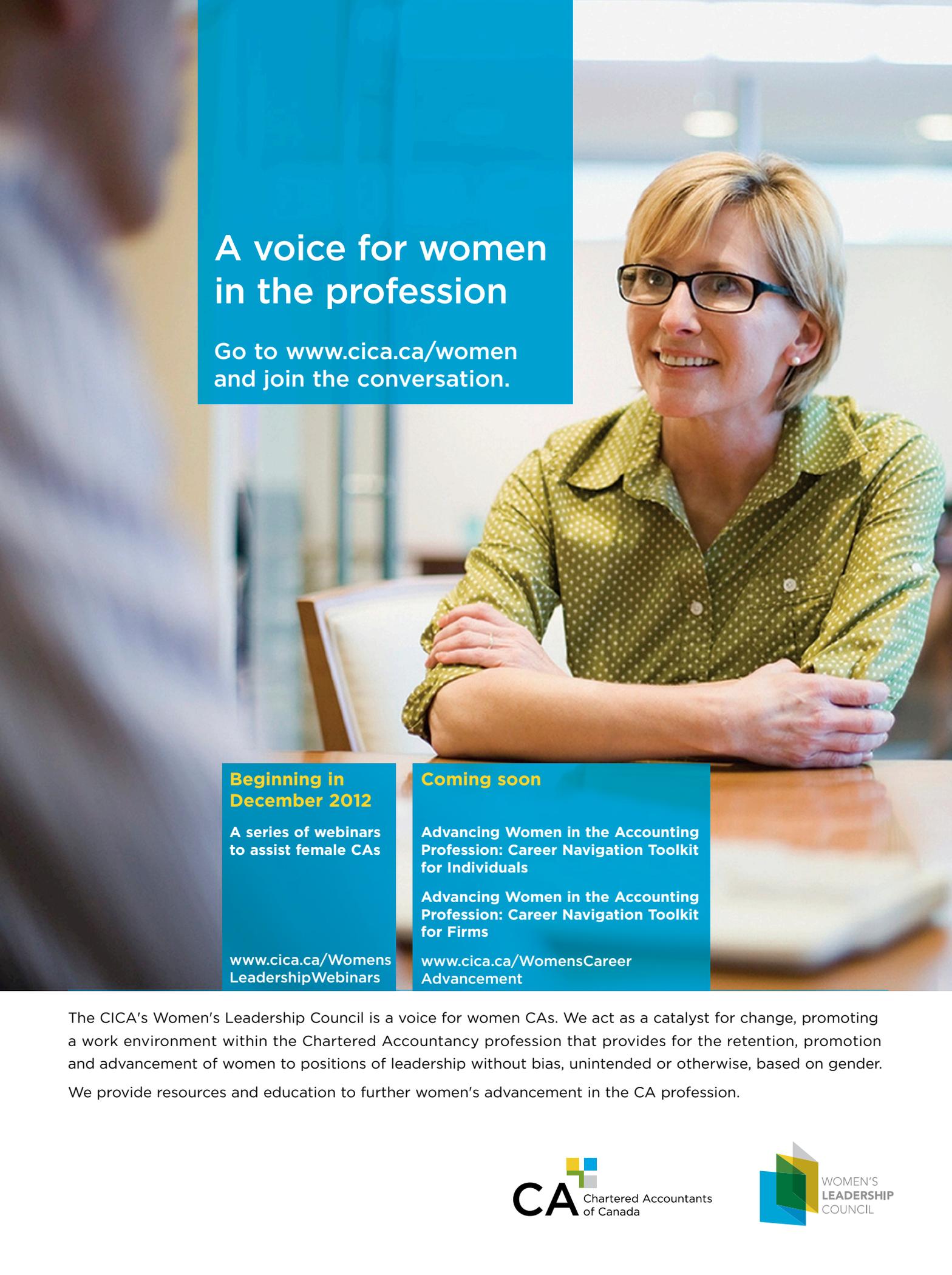
CPAB is looking at how to best assist audit committees here in evaluating audit quality. “We'd like to see the audit committees focus more on audit quality, to take the CPAB findings where we criticized audit firms for lack of professional skepticism, for example, and raise that criticism with auditors,” says Hunt. “It would certainly give direction to auditors about what they need to get done.”

Audit reporting

Even though Canada did not experience the same fallout and problems other countries have as a result of the financial crisis and the Canadian Auditing and Assurance Board adopted International Standards on Auditing in 2010, there is an expectation gap in the Canadian marketplace between what some stakeholders, investors, analysts and perhaps even corporate preparers expect of the audit and what they are actually getting. The EAQ initiative was a good opportunity to address that gap, says Mark Davies, chair of the Audit Reporting Working Group and chair of the Auditing and Assurance Standards Board. “We approached the international initiatives in terms of assessing whether users of the financial statements have the information from the auditors they need in order to evaluate the business, and to make sure they understand not just what the auditor did but what they didn't do,” he says. “When you look at those two pieces, is that expanding the role of the auditor in terms of reporting? In some cases the answer is yes. In many cases, it's merely clarifying what they are already doing to try and manage this information and expectation gap.”

The international proposals that affect reporting fall into three buckets: auditor commentary; going concern; and other information. Particularly in the auditor commentary proposals, auditors are being asked to provide a level of depth and insight they have not provided in the past.

More specifically, the first aspect of the auditor commentary proposals is to direct the reader of the financial statements to those areas that are perceived to be of greatest importance or risk using emphasis of matter paragraphs. Davies likens it to a road-map. The other aspect of auditor commentary is explaining the context of how the audit was performed and providing further



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“Why doesn’t the auditor say what kept him awake at night, what he concentrated on, the fights with management?”

details around what the auditor did in terms of procedures and assessment of risk.

But there is a bigger problem with the proposals, says Sir David Tweedie, president of the Institute of Chartered Accountants of Scotland and former chair of the international and UK accounting standards boards, who spearheaded the overhaul of global accounting standards. Simply put, they don’t go far enough. “In my personal opinion, the audit report is seriously flawed,” he says. “Having been an audit partner at one of the Big Four I knew there were some excellent audits but you wouldn’t know that from the outside because you haven’t seen what happened behind the scenes. You know soon enough when there is a bad one because it’s splattered all over the financial pages. But the good ones disappear without a trace. That’s part of the problem. Companies and investors see the audit as just a commodity. Why doesn’t the auditor say what kept him awake at night, what he concentrated on, the big judgments, the fights with management? That is what the investor needs but doesn’t get. What I’m saying to the firms is this is an opportunity — don’t fight it. Auditors are on the firing line because people aren’t sure what job they did. Present the facts, what happened, and there is your transparency and corporate governance.”

The working group supports the inclusion of an emphasis of matter paragraph or roadmap of financial statements. A similar provision has proven popular with investors in France, where it is required. The working group is less convinced of the value to readers of providing insights into the auditor’s work. The question is, will knowing more about the auditor’s specific approach and procedure enhance the decision-making process of the users of the financial statement? The working group didn’t think so. As well, there are implementation concerns: how do you pair this up with management perspectives and which issues are worth pointing out?

“Going concern” is perhaps the proposal that could have the most significant impact on auditors’ reports. It was also one the committee rejected. According to Davies, European regulators seem to be concerned with the need for auditors to comment on the viability of businesses going forward. This is not necessarily the view of the Auditor Reporting Working Group. What’s more, it’s not ultimately what the proposals do, says Davies. “There are two ways of preparing statements: on a going concern basis or on a liquidation basis if the company is being liquidated, which is rare. What is being proposed in the UK and Europe is that the auditor state in the audit opinion that the statements are being prepared on a going concern basis. This is not an indication of the viability of the company going forward. All it says is that you are not using the liquidation basis of accounting.”

Another piece in the going concern proposals touches on material uncertainty and calls on auditors to state not only when there is a material uncertainty related to going concern but also when there is no such uncertainty. “This provides no useful

information and we are worried about the risk of misinterpretation by the user,” says Jean Bédard, professor, School of Accounting and chair in corporate governance at Laval University, member of the Auditing and Assurance Standards Oversight Council and member of the Audit Reporting Working Group.

Cindy Fornelli, executive director of the Center for Audit Quality in Washington, DC, feels going concern opinions wouldn’t have prevented the financial crisis. “The financial crisis wasn’t about financial reporting scandals or frauds. It was about companies taking extreme risk. Some people have asked why auditors didn’t give going concern opinions to some of these organizations that crumbled. But when you look at Lehman Brothers and Bear Stearns, these were companies that were too highly leveraged and went bankrupt virtually overnight when people started calling in their loans. The system isn’t set up to deal with the reputational failure that happened.”

Denis Desautels, chair of the Laurentian Bank and audit committee chair of both Bombardier and Groupe Jean Coutu, believes some of the proposals would in fact widen the expectation gap. “The auditor cannot ever be close enough to the business to understand the risks it is facing as well as senior management does. Asking him to be a judge over and above the representations made by management is asking a lot.”

It’s also an example of blurring the roles, he says. “Wearing my audit committee hat, another proposal that I felt blurred the roles was one around the auditors expanding their report to comment on the work of the audit committee. In terms of the hierarchy, the audit committee is above the auditor, not the other way around. How would that work?”

Transparency of the auditor process is another big focus area. To that end, the working group supports proposals to include descriptions of auditor responsibilities and it is exploring proposals aimed at expanding the information on which an auditor can provide assurance beyond the financial statement.

“If we are going to go down that path, work needs to be done to address how to go about providing that assurance, what is the framework we would use, what’s the information we need to provide assurance over,” says Davies. “Could you provide assurance over management discussion and analysis? Potentially you could. Is there demand for that? Is there value in that? I wouldn’t want to make that investment until we understood if users would view it as valuable and companies would be willing to compensate the auditor for it.”

In an opinion piece titled “Why didn’t the auditor dog bark in 2008?” that ran in the *Financial Post* in October 2012, Brown shared the same concerns over cost versus benefit of the international proposals more broadly in the Canadian marketplace. “We need to be sure there will be corresponding benefit and that the solutions will work for Canada,” he wrote. The jury is still out.

Mary Teresa Bitti is a freelance writer based in Oakville, Ont.

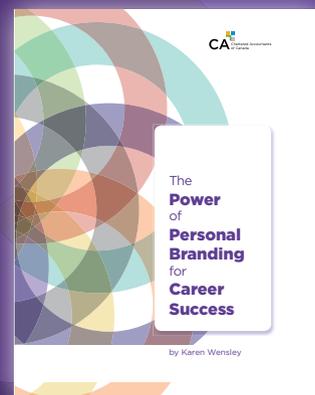
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When Pierre Lessard took on a Quebec grocer ripe with debt, it was a big risk. But he proved his mettle by turning it into a national empire

By Yan Barcelo

Metro's MAN

Pierre Lessard likes bird hunting. But friends say he has a recurrent fault. He shoots the birds when they are too high in the sky and he often misses.

But aiming too high is not a fault Lessard exhibited in his long-standing career. As president and chief operating officer of Quebec-based grocer Provigo, then as president and CEO of Metro Inc., he aimed for the stars. And he reached them. That's why in early 2012, Lessard was inducted into the Order of the Canadian Business Hall of Fame and was conferred an honorary doctorate degree by the Université Laval.

His most telling accomplishment is at the helm of Metro, where he took charge as president and CEO in 1990. At that time, the company's revenue was \$2.2 billion and it was hemorrhaging money. Thereafter, he relentlessly pushed sales upward to bring Metro into the triumvirate of the Canadian grocery empires, alongside Loblaw and Sobeys. As of September 2012, sales reached \$12 billion, profit was \$470 million and the employee count was 65,000.

Lessard's secret formula: "You can have the best strategies in the world, but the first goal is customer satisfaction"

photography by CHRISTIAN FLEURY/KLIXPIX





In the 18 years under his stewardship, not once did sales take a negative turn. In 1990 Metro shares traded at 75¢ and today they trade at about \$58.

And Lessard's performance at Provigo was just as impressive, although he shares the credit with Antoine Turmel, the visionary who started the business. When Lessard was appointed president and chief operating officer in 1976, at the age of 34, Provigo's sales were \$500 million. Nine years later he left a company with sales of more than \$4 billion. Profits multiplied tenfold, to \$40 million from \$4 million, and the share price stood at a healthy \$24 compared with \$2.

How much of this is to Lessard's credit and how much to

Turmel's is anyone's guess, but according to Michel Côté, a retired BMO Nesbitt Burns executive who helped Lessard structure acquisitions over the years, "it is certain that a lot must be laid at Pierre's feet. He had a vision of food distribution that he systematically put in place."

This highlights one of the two fundamental qualities that propelled Lessard through his career. "Pierre is an exceptional operator, but most of all, he's a visionary," says Paul Gobeil, a friend and collaborator since 1967 when they met at Provigo precursor Denault Ltée, where Gobeil was an external auditor. "He sees well in advance the road that leads to success and how things can evolve to get him there."

“Pierre has his own style. He’s not a flamboyant man, but to lead a company it’s not necessary to be flamboyant like Steve Jobs. Pierre is a down-to-earth guy, and don’t forget that he has the training of an accountant and an MBA”

Côté shares this view. “Those who have imagination don’t always have their feet well grounded,” he says. “But Pierre combines vision, imagination and operational capacity. He’s one of the best I’ve seen.”

The man who occupies Metro’s executive chairman suite on Sherbrooke Street in Montreal is reserved, some might say guarded, and the fact that it took more than four months to get an interview with him is an indication of his discretion and reluctance to speak to the media.

“Pierre has his own style,” says Gobeil. “He’s not a flamboyant man, but to lead a company, it’s not necessary to be flamboyant like Steve Jobs. Pierre is a down-to-earth guy, and don’t forget that he has the training of an accountant and an MBA.”

BYOBB and other Harvard mores

Pierre Lessard was born in 1942 when the tide was turning in the Second World War, the second youngest son of an upper-middle-class family in the very provincial, conservative and religious Quebec City. His early schooling at a Jesuit college may have contributed to building his character and intellectual discipline. And by the time he was to enter university in 1961, the winds of change were blowing across the province, ushering in the heady days of the Quiet Revolution, as the transformation of Quebec in those years is referred to.

The vanguard of Quebec society wanted to take control of its economic destiny. Jean Lesage was elected premier in 1960. The education, social and health systems were taken out of the hands of the clergy and handed to state technocrats. The nationalization of electricity by Hydro-Québec would go into high gear and institutions such as the Caisse de dépôt et placement du Québec and the Société générale de financement were set up, laying the groundwork of what was to become Quebec Inc.

He didn’t know it yet, but Lessard was going to be one of the golden boys of this great change. In the Catholic environment of Quebec, going into business was not considered — Catholic. But Lessard had probably inherited a taste for business from his father who had been general manager of an important fisheries company before becoming a deputy minister in the Lesage administration. Furthermore, the period’s zeitgeist now favoured a business orientation. But the doors to admission were few. In fact there were only two: accounting or business management. Lessard chose accounting.

That training is evident in everything Lessard has done. First, there is a reserve, a certain blandness often ascribed to accountants; but there is also the unmistakable feel for numbers and hard data. “It has given me a lot of rigour and precision in my approach to decisions,” says Lessard. “Some say it’s a fault, but

you try to seize all the elements in play. When you do make your decision, it’s based on the hard facts.”

It’s a trait Côté witnessed time and again. “He’s an outstanding finance guy. He has a constant preoccupation, when he undertakes a project or a transaction, to have a clear understanding of the impact it will have on the balance sheet.”

But Lessard’s influential training ground was the Harvard School of Business, where he landed in 1965 with his brother and about 18 other Canadians. Harvard then was the Mecca of business schools, its prestige and status overwhelming. His brother, Michel, paints a vivid picture of that experience. Harvard had pioneered the famous case-study approach. “There was no formal teaching, only suggested reference reading lists. We were 90 students in a class and each was judged on the value of his interventions and his contribution to furthering the exchange.”

So having a command of the language and eloquence when 89 others are trying to do better than you was of the essence. The Lessards’ Quebec City upbringing was not propitious to becoming a Shakespearean orator. But Pierre Lessard, who had weaker language skills than his brother, nevertheless held his own.

Another telling story about those Harvard years was that parties at the school had a certain reputation and were of the BYOBB variety. Michel Lessard translates: “bring your own booze and bread.” Of course, the two brothers knew how to have a good time, but “boozing” and “broading” were not their fare. In fact, through the “work hard, play hard” culture of Harvard, Lessard managed to marry a girl he had known since adolescence, André Dupuis, who at the time was working on a master’s degree in political science at Boston University. They have been life companions, sharing the past 46 years.

Harvard is also where Lessard learned other lessons: work, work a little harder and then work a little more. “You learn to be efficient only when you have too much to do,” says Michel Lessard. That lesson transpired through Lessard’s whole career. “He’s a massively heavy worker, with a silent, patient and unfailing determination,” says Éric La Flèche, who succeeded Lessard as president and CEO of Metro. “And he never panics. He focuses on essentials and he can be as tough as nails when the time comes to make decisions.”

Learning all about tomatoes

When he came back carrying the Harvard aura, Lessard could have landed just about any job he wanted in any corporation. But his entrepreneurial streak took charge. He joined Denault in 1967, a small food distributor with sales of \$35 million.

What drew him in was Antoine Turmel, the company founder. “He had a clear plan and a vision, and that was to regroup dis-



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Aiming for the stars

So, yes, you do need to know how to sell tomatoes. And for Lessard the opportunity to prove it presented itself in 1990 when Metro (then Metro-Richelieu Inc.) was searching for a CEO and he got the job.

“With sales of \$2.2 billion, Metro had an outstanding debt of \$200 million with only \$100 million of equity,” he recalls. “It had been losing money for the two previous years.”

After only one month in office, the banks knocked at his door, wanting to call in \$100 million worth of loans, claiming the company was not respecting the covenants. It would have killed Metro.

But Lessard showed what he was made of. Within four weeks he produced a new budget — in itself quite a feat — that projected cuts of \$15 million and a return to profitability within a year. The banks bought it and by 1992 profits were there: \$18 million. Success always seems obvious after the fact. “We were taking a pretty big chance,” says Gobeil, who joined Lessard at Metro. “Had we sunk into bankruptcy, people would have thought we were two nitwits. If we succeeded, we were just doing our job. But we knew we could turn the situation around.” They turned it around so well that in 1992 Metro bought 48 Steinberg stores for \$100 million.

While Metro’s upward trajectory never slacked after, it was not always a fun ride. For example, the purchase of Provigo by Loblaw in 1998 sent shock waves across the Quebec business establishment. Again, the Caisse gave precedence to an outside company rather than offering to broker a deal with Metro. Now, not only was Loblaw the 600-pound gorilla in the rest of Canada, but in one swoop it was dominant in the Quebec market. “We felt threatened by Loblaw,” says Lessard.

Luckily, he was already looking into expanding the company outside Quebec, notably with the acquisition of 40 Loeb stores in Ontario the following year, 1999. And in 2005, the acquisition he had been preparing and planning for seven years materialized: he purchased A&P from its US parent company for \$1.7 billion, doubling the size of Metro in one decisive move, adding 250 stores and making his company the second-largest food retailer in Ontario.

Côté remembers how Lessard’s management style shone in such episodes, especially the A&P acquisition. “I saw him with his team and I admired his way of dealing with them. He made sure they were really with him. He made every obstacle stand out, detailed every consequence of his move. And when the team showed signs of hesitation, he just turned around and highlighted every advantage.”

And that’s the key to Lessard’s management philosophy: inspire your team

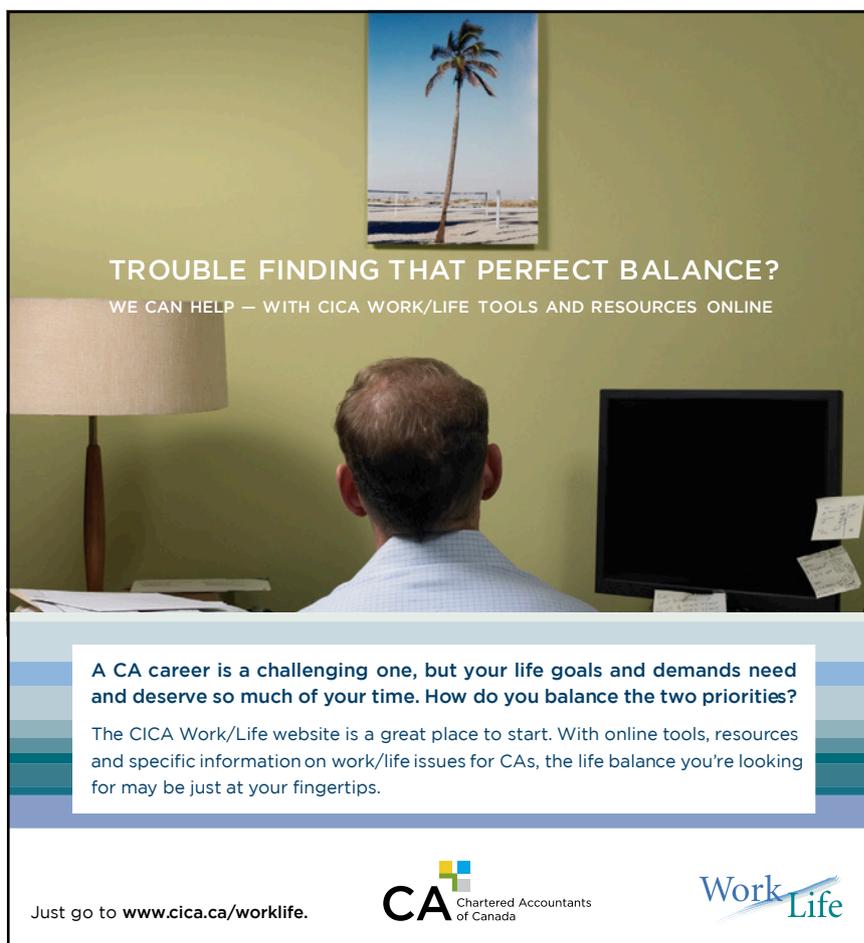
to success. How? “With objectives that are realistic, but ambitious,” he says. But it’s a circular proposition: you inspire for success, but knowing success is the key to inspiring your people. Knowing how to play the two sides of that coin is the art of management at which Lessard has become a master.

Practising that art has allowed him, first, to build a provincial kingdom from the modest beginnings of Denault, and then to create a national empire from the difficult beginnings of Metro. Now a new challenge arises, international in nature: the invasion of US giants Walmart, Costco and Target.

Metro’s response until now has been, first, to build on the close relationship it has with its customers. Clients increasingly want local products, closer to home and its network of franchisees and corporate stores gives it ready access to those. The other key rests in segmenting markets and entering specialty niches. The acquisition of a majority position in Adonis Markets, a major provider of Middle Eastern and Mediterranean foods, is a recent move in that direction. “Today, you need to segment almost down to the level of the individual consumer and present him with a local offer,” insists Lessard.

Carrying out those strategies to keep Metro ahead of the pack is now the responsibility of La Flèche, who will succeed if he remembers the key characteristic he assigns to the master: “Underpromise, overdeliver.”

Yan Barcelo is a Montreal-area journalist



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Work Life

Wherever you go, there it is: politics at work.
Ever wonder how to get rid of it? Well, you can't.
But you can learn how to play the game without losing

By Barbara Quinn

Managing politics

THE VICE-PRESIDENT OF HUMAN RESOURCES WAS SITTING AT A FINE

restaurant with her Canadian colleagues, enjoying a relaxed evening with the visiting host, a senior executive of the large clothing company they all worked for. The wine flowed, the rack of lamb was juicy and amidst the tinkling of silverware against china that served as the background to the light-hearted banter came the question she will never forget.

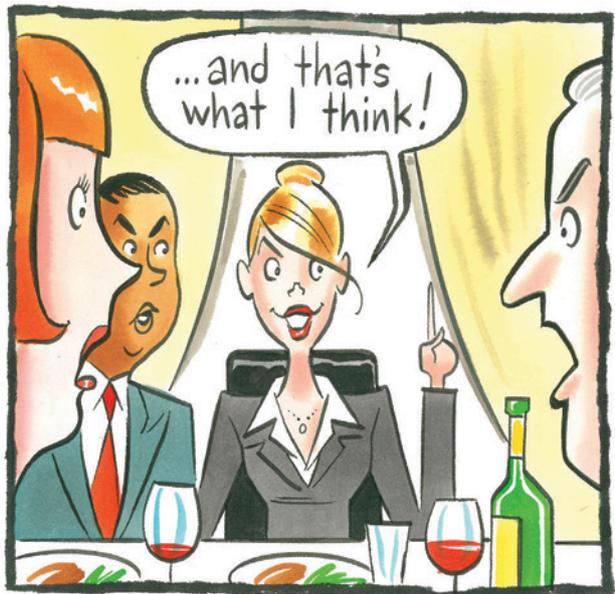
“Tell me honestly: what do you think?”

The hosting CEO had just told her the company was trying to change its culture and was now interested in hearing her feedback. A relative newbie to the organization, she naively waded in with her observations about

factory piecework and how perhaps it was incompatible with the company's values. Like someone hitting the pause button, the table went deadly silent. All eyes turned to stare at the woman who had just poked at one of the core sacred cows of the company's culture — at what was supposed to be a friendly social gathering. Fortunately, her straightforward answer wasn't career limiting; in fact, she went on to lead a team that explored options to piecework. But the incident provided a valuable lesson: think carefully before taking on issues that are political with a capital P.

Most people have found themselves on the

illustration by MAURICE VELLEKOOP



wrong side of politics at one time or another in their careers. Whether you like the idea or not, politics matter; the higher up the ladder you move, the more you need to master the art form, as power concentrates at the top of the hierarchy. Launi Skinner, CEO of First West Credit Union in Langley, BC, and former president of US stores, Starbucks Coffee Corp., acknowledges that learning how to nurture relationships with powerful people accelerated her career. “The more people know you, the more they are loyal to you,” she says. “But I have also learned that the respect of my peers is as important as that of my boss.”

Many human resources consultants wish others would learn this lesson. How often have you seen an executive’s power evaporate the moment his or her sponsor leaves the building? People have actually been known to make bets on how long a former golden girl or boy will last once his or her halo protector has gone. One manager said, “Today is the happiest day of my

entire career” when a colleague had been terminated, someone who apparently had spent years condescending to the employees and coworkers, “the little peers.” Although power is largely derived by association, if you lack the appropriate skills and reputation, it will eventually catch up to you. One of the primary lessons in managing politics is to earn credibility in your own right and not rely solely on the good graces of the boss.

Without credibility, you will appear insincere, and everyone sees through a phony. One human resources consultant found endless amusement watching the antics of an ambitious executive while she was facilitating his team at a three-day offsite planning session. Every time the boss uttered a word, the keener made sure to show his admiration by murmuring “brilliant idea” or some other flattering insight. At lunch three days running, he managed to jockey into position right beside the boss — no easy feat, considering the dining-room table sat 14. One day,

“You have to learn to play politics well enough but still feel good about your values.” That means having the courage to take a stand, even if it means disagreeing with your boss

he had to bob and weave in the doorway of the dining room as the boss kept sitting down then changing his mind.

This ambitious executive is the type of person who gives politics a bad name. He demonstrated how not to play politics, when in fact you can be incredibly political but still have integrity.

As Skinner points out, “You have to learn to play politics well enough but still feel good about your values.” That means having the courage to take a stand when a decision is in direct opposition to your principles, even if it means disagreeing with your boss. “I once found myself on the opposite side of a decision that did not sit well with me,” Skinner says. “[It was] not an ethical issue, but it was profoundly important to me. In the end, I had to part ways with the organization because I had to stand up for my values.”

Some people think they can avoid office politics by keeping their heads down and just doing their job, but you do this at your own peril, says Courtney Pratt, chairman of human resources consultants Knightsbridge Human Capital Solutions in Toronto. You may not like politics but it’s a reality. It’s best to understand how power works and find mutual solutions rather than go head-on into a win-or-lose battle. “Sometimes you will decide to fight the power structure,” says Pratt, “knowing that if you lose, you will either have to live with it or leave the organization.”

No wonder politics is not for the faint of heart. Even a simple change of boss can turn the wheel of fortune. Consider the once-promising executive who had shot up quickly, then lost it when he failed to land the top marketing job. He watched one of his peers emerge as his new boss. The executive began to pout during meetings, openly criticize and find fault with anything his boss said and slowly lost his well-earned credibility. His company gave him an ultimatum: fix his attitude or enjoy a career elsewhere. To his credit, he had the guts to open himself to tough feedback. By listening and changing his ways, he was able to restore the luster of his reputation.

Being open to outside opinions is key to maintaining and even increasing your power. “We need to be willing to regularly invite feedback from straight shooters who will give us an honest opinion, even if it’s painful,” says Mario Paron, regional managing partner, region east at KPMG in Hamilton and former chief human resources officer at the firm. People who feel blindsided by politics are those who don’t invite this kind of feedback; it takes a strong sense of self-awareness and the ability to shrink one’s ego. Those afraid to ask for feedback are often afraid of losing power when in fact they gain power by taking charge. One human resources mentor said, “If you want power, just take it. Don’t wait for anyone else to give it to you.” Taking power means taking charge of your destiny, not waiting for events to unfold around you.

Start by seeking advice from trusted colleagues outside your organization to get some perspective on whether you can turn the politics around and how you might do that. Before consulting anyone inside your organization, including the HR department or your boss, be clear on your intent: do you want to stay and give it a go or do you feel it is time to move on? If you want to stay, it’s time for a heart-to-heart talk with your boss to enlist his or her support in helping you regain your power and influence. While it may feel risky, it is actually the most positive thing you can do. Why? Because people will admire and respect you for it.

However, if staying does not seem worthwhile, there is another option: negotiating a severance package. Whenever politics have gotten so bad that an employee feels miserable toward his or her boss or employer, the feeling is often mutual. There may be openness on the boss’ or company’s part to work out a deal. If you decide a package is your best bet, invest an hour with a lawyer; he or she can help determine your options and the best strategies for proceeding with the negotiation. Remember to act as a consummate professional with your parting employer: be respectful and neutral, with no visible axe to grind. Your reputation is worth it.

Despite our best efforts, most of us will admit to improving our political skills after a bracing development experience in humility — there is nothing like it for a lasting lesson in the give and take of power. The key to successfully managing politics is realizing that we cannot always control what happens, but we can control how we choose to handle the politics.

Barbara Quinn is a writer and consultant with 22cpartners in Toronto

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Planning tools for special situations: Part II

Special needs present challenges to advisers and also an opportunity to offer value and comfort to their clients

In Part I some of the questions you need to ask clients in order to fully understand their special-needs situation were outlined. Provincial support using the Ontario Disability Support Program and inheritances and the use of trusts were examined. Part II looks at the tax planning tools you should be aware of when advising in special-needs situations.

Disability tax credit

The credit for mental or physical impairment, the disability tax credit (DTC), is a nonrefundable personal tax credit that, in 2012, is worth approximately \$1,700 of combined federal and provincial tax savings (although this amount varies by province). If the DTC is for a child under 18 there may be additional disability supplements, based on family income, that become available because of DTC eligibility. Any unused DTC can be transferred to a parent or a supporting relative. For example, if a client supports a parent who is eligible for but not able to use

the DTC, your client may claim the credit.

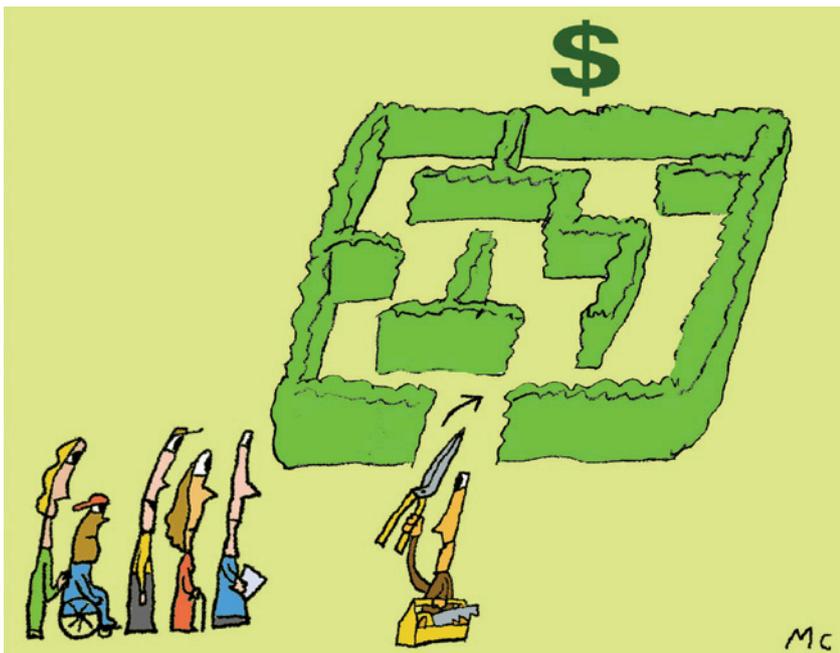
To be eligible for the DTC, an individual must have an impairment in physical or mental functions that is expected to last 12 months or more, and even with the use of aids or medication, the impairment must be severe enough to affect at least one activity of daily living, including hearing, speaking, walking, feeding, dressing, elimination and logical mental functions. Mental infirmity, learning disabilities and situations including cumulative impairments seem to present the most challenge for DTC eligibility.

Entitlement for the DTC is determined by the Benefit Programs Directorate of the Canada Revenue Agency (CRA), however, the directorate neither processes the tax credit nor advises the assessing department that someone has become eligible. In many cases the determination may be retroactive. The taxpayer relief measures allow for retroactive DTC claims to a maximum of 10 years to claim the prior credits. A taxpayer will have to file T1 adjustment requests for the relevant years.

If an individual is not in agreement with the CRA's conclusion regarding eligibility for the DTC, normal methods of recourse such as filing a notice of objection or appealing to the Tax Court of Canada are available, even if there is no amount of tax in dispute. For example, where an individual requires eligibility for DTC in order to open or maintain a registered disability savings plan (RDSP) but there is no assessment of tax, the individual can appeal the DTC eligibility determination. This is a relatively new development. For DTC applications made after June 26, 2011, determinations can be requested back to 2010 and the regular objection deadlines apply. In cases where the DTC application was made prior to June 27, 2011, an appeal relating to any of the 2008 through 2011 taxation years must be made within 180 days of the issuance of the determination.

Other benefits that arise from DTC eligibility include:

- eligibility for RDSPs;



- extended contribution period for RESP of 35 years and an extension of the duration of the plan to 40 years;
- the ability to use a preferred beneficiary election;
- the child disability benefit;
- possible additional DTC amount for a child under the age of 18;
- tax-free disability related employment benefits;
- enhanced tuition credit and education amounts;
- use of RRSP funds to purchase a home under the home buyers' plan (HBP), even if it is not your first home;
- you can withdraw RRSP funds under the HBP to fund the purchase of a home for a related person who is eligible for the DTC;
- an additional \$500 is eligible for the fitness and/or arts credits as long as you paid at least \$100 for the eligible program;
- an enhanced childcare expense limit of \$10,000;
- the ability to claim a child as a dependant, even if he or she is over 18;
- the working income tax benefit disability supplement; and
- selected additional medical expenses.

Other tax planning tools

A thorough understanding of what expenses are eligible for the medical expense tax credit (METC) is also helpful. Most expenses do not require DTC eligibility but other strict criteria may apply. Some medical expenses eligible for METC include:

- expenses to travel out of town, province or country for medical treatment;
- special schooling;
- tutoring where required due to a mental infirmity or learning disability;
- expenses relating to renovations or alterations to a home;
- expenses relating to the construction of the principal place of residence;
- expenses relating to alterations to driveways; and
- cost of marijuana for patients authorized to possess marijuana for medical purposes.

A nonrefundable caregiver tax credit is available to provide tax relief to individuals who reside with and provide in-home care for a parent or grandparent 65 years old or older, or an infirm relative. In the latter case, the care-recipient must be dependent on the individual because of mental or physical infirmity. The caregiver tax credit for 2012 is worth about \$880. For 2012 and later taxation years, an individual who is providing care to an infirm dependent relative may also be entitled to claim a family caregiver tax credit worth approximately \$300. Both credits are reduced based on the dependant's income.

Health and welfare trusts

Another tax-planning tool that should be considered is a health and welfare trust (HWT). Employers can create this trust to help

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fund employees' medical expenses. Although the Employee Life and Health Trust rules in the Income Tax Act seem to restrict the ability to use HWT the CRA has, informally, stated it has no current plans to withdraw or modify its administrative allowance of HWT as described in Interpretation Bulletin 85R2.

Administratively, the CRA allows a deduction to the employer for contributions made to a HWT (and no employment benefit to the employee) if certain administrative conditions are met. If the conditions are not met, the HWT may become an employee benefit plan or create a shareholder benefit. Employers may want their HWT administered by an arm's-length trustee company. These companies charge administration fees but add an element of independence that is important. Examples of eligible medical expenses that can be paid by these plans are:

- portion of expenses not covered by the employee's medical plan;
- medical equipment;
- vehicle modifications;
- driveway widening;
- home construction or renovation costs;
- special schooling;
- tutoring;
- out of country (or province) medical costs;
- physiotherapy; and
- massage therapy.

Even with administration fees, an owner-manager could save more than \$5,000 on \$25,000 of medical expenses through the use of an HWT instead of earning a salary and claiming a medical expense tax credit.

Stable housing

Clients are often concerned about providing a safe place for their loved ones to live. Where a mental infirmity is severe, the family member may not have the ability to advocate for him- or herself or make appropriate decisions. To ensure accommodation for a family member with a physical or mental infirmity, some clients may be able to donate the residual interest in a home to a charity on the condition that the family member is provided with the right to live in the house for life. The CRA is of the view that for purposes of the donation tax credit the eligible amount of the gift is reduced by the value of the advantage received by the family member. A valuation of the residual interest in the house must be obtained. The CRA's view is that it is the charity's responsibility to determine the value of the residual interest, and if such amount cannot be reasonably ascertained, no charitable tax deduction or credit will be allowed. The matter of how the annual expenses will be funded must also be addressed.

Other tools to consider include: RDSPs; RESPs; the rollover of a deceased parent's or grandparent's RRSPs, RRIFs or registered pension plan (RPP) to a child's or grandchild's RRSP or life annuity if the child or grandchild was financially dependent on the parent or grandparent because of a physical or mental infirmity; the rollover of RRSPs, RRIFs or RPP to an RDSP for a child or grandchild who was financially dependent on the deceased because of a physical or mental infirmity; and a 2012 federal budget proposal will permit the rollover of RESP investment income to an RDSP after 2013 where the RESP beneficiary is eligible for the DTC.

Also consider the possible rollover of RRSP or RRIF proceeds to a lifetime benefit trust. An LBT is defined in the Income Tax Act and is similar to a Henson Trust. The proposals are still draft but are intended to allow a taxpayer to leave his or her RRSP or RRIF for the benefit of a mentally infirm dependant (the sole beneficiary of the trust). The provisions do not apply to a physically challenged dependant unless there is also a mental infirmity. The LBT must use the RRSP or RRIF proceeds to purchase a "qualifying trust annuity" under which the LBT is the annuitant. Any amounts paid out of the LBT to the beneficiary will be taxable to the beneficiary, and any remaining amount at the time of the beneficiary's death will be taxable in the year of his or her death. After the death of the beneficiary, the remaining amount could be available to other named beneficiaries in the LBT.

As of July 1, 2011, proceeds from an RRSP, RRIF or RPP can be rolled into an RDSP (for deaths occurring after March 3, 2010). As many provinces exclude RDSPs from the eligibility test for provincial supports, maximizing RDSP contributions (the cumulative limit is \$200,000) can be effective, even though the government won't pay the Canada Disability Savings Grant on these transfers.

Where an individual has federally regulated locked-in funds, they may be able to make withdrawals of up to 50% of the yearly maximum pensionable earnings (\$25,050 in 2012) for certain medical and disability-related expenditures for any person, even if the person is unrelated. The withdrawal is taxable to the planholder. Where the locked-in funds are regulated provincially, it will be necessary to refer to the appropriate provincial legislation to determine if these withdrawals are allowed.

Other ideas that come to mind in special-needs planning situations include income splitting with a low-income parent (watch for any effect on OAS and GIS entitlements); funding a tax-free savings account for a dependent person 18 or older or an infirm spouse; and purchasing life insurance on the caregiver in order to ensure funds are available after the caregiver passes away.

Ask the difficult questions

While special-needs situations present challenges to advisers, they are also an opportunity to provide value and comfort to clients. Be bold and ask clients the necessary personal questions: what type of support the special-needs family member requires now and in the future, who can provide it, who the guardian should be, how much financial support is required annually, whether provincial support programs are important, whether siblings want to (or should) be involved in caregiving, whether institutional care may be necessary. You get the picture.

Listen to the answers and involve other professionals. Consider government programs, Henson and inheritance trusts, rollovers, insurance, etc. The plan should be clearly documented and, where appropriate, discussed with other family members. Finally, all the planning should be reflected in an updated estate plan, new wills and powers of attorney.

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Tougher than you think

There are many inherent barriers to making good judgments, but they can be overcome with some effort and proper safeguards



GARY CLEMENT

Professional skepticism is a cornerstone of audit quality. It defines the quality of each audit judgment and, to a significant extent, is the essence of the audit. The connection between skepticism and professional judgment is complex, which research across many professional disciplines is proving. The relationship needs to be better understood to improve our audits.

Skepticism is a questioning attitude; exercising professional judgment is a process required in forming an opinion of value. Having a skeptical attitude is essential for auditors when analyzing evidence, looking for inconsistencies in data and considering explanations from management. That attitude shapes the actions required in form-

ing a professional judgment. And auditors need to make every judgment count on every audit they undertake.

There is a significant body of research that shows our brains are prone to make cognitive judgment errors in a variety of circumstances. Our lightning-fast intuition can lead us to dangerously incorrect assumptions of which we can be completely unaware. Research also claims that serious cognitive errors are a part of our human DNA, hard-wired into our physical being. Our brain, it turns out, naturally works against skepticism, and for some very good evolutionary reasons. As we can't be reprogrammed, the best we can hope for is awareness. This is an issue that affects more than just the auditing profession. As such, it is instructive to look at other disciplines to obtain insight into how these barriers affect making good judgments.

Unconscious cognitive errors: barriers to making good judgments

Over the years, cognitive psychologists have identified many inherent barriers to making good judgments. These barriers are especially relevant to professionals — that includes auditors — making difficult judgments under stressful situations. Our intuitive thinking processes can unconsciously dull or even eliminate our professional attitude of skepticism in certain circumstances. If an issue does not activate an auditor's skepticism button, then it won't be the focus of professional judgment.

While these barriers can be overcome, to do so requires being conscious of our natural traits to act in certain ways and the need to apply effort to get past them.

To help compensate for these natural traits, it is helpful to know of at least three barriers to making good judgments that are likely to be very relevant to professional auditors, regardless of their position in a firm or area of specialization.

Overconfidence bias

Research shows that people are more confident in their ability to make good judgments than they should be. We make snap judgments based on past experience, which is not helpful during an audit when this experience is not relevant to the decision at hand.

For example, many auditors think they have a good feel for selecting sample sizes and interpreting the results of their tests (*Thinking Fast and Slow*, Daniel Kahneman). Many highly educated professionals in other fields with training in statistics think the same way. Research demonstrates that most people are lousy intuitive statisticians; we just don't naturally process information this way.

Instead, we are prone to jumping to conclusions regardless whether the size of the sample is statistically valid or not. This natural bias can be disastrous for an auditor relying on a statistically unsound sample. The natural reaction for an auditor is to be overconfident in accepting results based on prior experience, and this may be a dead wrong conclusion as significant variations from the norm are not uncommon in a much-too-small sample drawn at random from a population.

Another example of the overconfidence bias: upon seeing a set of facts, immediately reaching a conclusion based on prior experience — especially if it was recent. We naturally discount statistically remote outliers, gravitating to what we know was correct in the past. In fact, the remote outlier might be evidence of a serious and new problem. This failing is compounded by tight deadlines, tired professionals and a need to move on to the next crisis. Sound familiar?

A natural tendency to overconfidence can lead to seriously flawed judgments in any audit. But deciding to test larger samples and more fully explore anomalies comes with a cost — more time. This increase can be especially burdensome in a very small audit.

Starting points affect your judgments

Research shows that our judgment regarding the reasonability of an estimate is heavily influenced by the initial estimate provided (often referred to as an anchor by cognitive psychologists).

In one experiment, two groups of real estate agents asked to quote a reasonable buying price were shown different asking prices; one higher than the actual price and one lower. When asked about influences, both groups said the asking price was not a factor in their estimation. The agents shown the higher price recommended a buying price significantly higher than the agents who were shown a lower amount.

In another experiment, judges were asked to recommend a sentence for a petty crime after rolling a die that was rigged to show either a three or a nine, an event they knew in advance had nothing to do with their task. On average, judges who rolled a nine suggested a sentence of eight months; those rolling a three averaged a sentence of five months (*Thinking Fast and Slow*).

Replace an initial management inventory obsolescence estimate (the anchor) for the asking price of a house and you begin to see the possible impact on auditors evaluating management judgments. Research conducted with experienced auditors shows

Research shows experienced auditors have a natural tendency to start from management's anchor instead of judging an appropriate range from the underlying facts

they have a natural tendency to start from management's anchor instead of stepping back and judging an appropriate range from the underlying facts. This can lead to serious judgment errors ("Analytical Procedure Results as Substantive Evidence," W.R. Kinney, Jr. and C.M. Haynes).

Our brains are highly susceptible to suggestion. While this statement might seem obvious, it comes as a shock that experienced professionals are as susceptible to suggestion as everyone else. Overcoming the power of suggestion takes concentrated effort. It requires a process to force the professional to step back and question something that intuitively seems acceptable.

Judgment bias resulting from availability of information

Our most recent memories also disproportionately affect our initial judgments. This can work two ways: current events or experiences can blow a small risk out of proportion and cause us to overreact, while a likely risk we have no recent memory of can be inappropriately discounted. Either way, our judgment will be biased based on recent memories. This can lead to judgment errors in audits in several ways.

For example, numerous studies show that recent events reported in the media can have a disproportionately large impact on our judgments (*Thinking Fast and Slow*). Earthquakes and other natural disasters frequently result in immediate increases in insurance prices, even though there is no evidence that the likelihood of a future loss has increased. Man-made environmental

disasters also frequently result in significant and costly public policy actions that, in many cases, may be disproportionate to the risks involved.

On the audit front, risks associated with a new financial instrument may go undetected by an auditor and management team because of a lack of experience with the new product. This was a contributing factor to the surprise of Canada's sudden asset-backed commercial paper market collapse in 2007. However, recent events such as problems in some sovereign debt markets may make auditors overreact to conditions in unrelated markets. Our natural judgment process is highly affected by readily available memories. It takes conscious effort to overcome this natural tendency.

Overcoming inherent cognitive bias

Unconscious cognitive errors are very real human traits. Usually we are not conscious of their effect on our day-to-day judgments. While these traits can result in efficient and reasonably accurate choices for most of our routine decisions, our unconscious bias is the enemy of skepticism in complex situations. Basing conclu-

sions on insufficient evidence, an inappropriate starting point, and recent memories can get professionals into serious trouble.

Judgment bias can be overcome, but not without effort. Implementation of safeguards in every audit will help guard against inherent bias. Many of the larger accounting firms have developed strategies to heighten professional skepticism and help overcome judgment bias. These strategies are expensive to develop and to maintain. However, it is just as critical for smaller firms — and especially sole practitioners — performing engagements to adopt processes to overcome inherent judgment bias and heighten skepticism. These processes must be appropriate for small audit teams in order to be effective.

Up next month: processes for making good judgments in micro-entity audits.

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Endangered species

Universal life policies have gone the way of the dodo bird in many countries. Is this the case for Canada and should we care? If so, why?

A financial product will never evoke the emotions of the nearly extinct cuddly giant panda or cute African penguin, but estate planning advisers are beginning to fear that universal life (UL) policies will eventually go the way of the dodo bird.

Until very recently, UL was the new kid on the block, and it wasn't supposed to meet its demise so soon.

Life insurance policies can be traced to ancient Rome, while modern life insurance originated in 17th century England. UL is merely decades old and at its inception was hailed as a major step forward in transparency and flexibility from its predecessor, whole life. As its "unbundled" sister, UL has offered permanent coverage at lower premiums — in plain English, if there is no need for the death benefit or cash values to grow over time, the premiums can be much less costly.

However, a confluence of events over the past decade has punished insurance companies offering UL to the point where some have pulled their products. The remain-

ing providers tacitly acknowledge that not only are they getting an insufficient return on capital, in many instances they are losing money on new policies sold.

The main culprit is our low interest-rate environment. UL's level cost of insurance is predicated on the assumption that a new policyholder (say a 40-year-old male nonsmoker) would pay \$1,000 a month (\$12,000 a year) for \$2.5 million of permanent coverage. Rather than taking out a term policy that will expire after 10 or 20 years (which would be cheaper initially), this forward-looking man decides to add an asset to his financial balance sheet rather than an expense on his personal income statement.

So actuaries based the pricing on the insurance company receiving premiums for 40 or 45 years (approximately \$500,000) and being on the hook eventually for \$2.5 million. (This is a simplified example given the fact that some policies will lapse, etc.)

As life expectancy and mortality continue to improve — and each generation's 40-year-olds have been living longer than expected — the insurance companies have had double wins in that they have been collecting more



years of premiums and have delayed the eventual payouts. In our inflationary world, paying out \$1 five or 10 years later than expected in relatively much cheaper dollars has been a net positive to the bottom line of insurance companies.

However, overwhelming this win has been anemically low interest rates. For an insurance company to turn a profit, \$500,000 of collected premiums must be invested prudently to ensure that at least \$2.5 million is available to be paid out to beneficiaries at the time of the policyholder's passing.

When long-term government interest rates were 6% or more, this was possible. As fans of the rule of 72 are aware, a 6% rate of return will mean that money doubles in 12 years, and \$1 turns into \$4 in 24 years. However at 3%, it takes the full 24 years for \$1 to turn into \$2, and a full 48 years for that \$1 to turn into \$4. Remembering that the \$500,000 is collected over the next 40 or 45 years, insurance companies do not have the ability to invest the collected premiums at a high enough rate of return to earn a profit on the policy.

Of course, low interest rates could suddenly increase and save insurance companies, but each passing year they remain low is another year of compounding at the higher rate that is forgone.

So, if insurance companies have priced these products too low — which they have — why don't they simply increase prices to a profitable level? Over the past few years they have done so, but competitive pressures have meant they did not raise them when they should have, nor have they raised them to the appropriate level for our lower interest-rate environment. Recall that over 48 years, \$1 at 6% turns into \$16, while at 3%, \$1 turns into \$4. So in rough numbers, the 40-year-old perhaps should be paying much more than \$1,000 a month — UL purchasers of the past few years have locked in very attractive guaranteed long-term rates of return for their beneficiaries.

A second factor is the reserve requirements regulators (such as OFSI) ensure that insurance companies put aside in recognition of these long-term liabilities. As interest rates fall, capital that insurance companies put aside grows. Compared to capital "lite" products such as term insurance, whole life, segregated funds and mutual funds, sales of UL products have made achieving return on investment targets increasingly challenging.

As most insurance companies are now public-stock companies as opposed to mutual companies (through the process of demutualization, much of which took place in the '90s), another related factor is that stock analysts prefer predictable stable earnings. With the move to IFRS and mark-to-market required pricing (which assumes our current low interest rates continue for the infinite future), small interest-rate movements can cause great paper gains or losses. In a declining interest-rate environment over the past few years, these have been losses, which many insurance company CEOs are growing weary of explaining to shareholders.

Ironically, in some ways the mutual form of company ownership, which companies enthusiastically moved away from,

may have been an improved form of corporate ownership for the long-term nature of these products.

In the past, large mutual insurance companies successfully ignored the short-term noises in equity markets. While critics derided their inefficiencies, often viewing them as slow moving and unreceptive to policyholder concerns, the pendulum has perhaps now swung too far the other way, with shareholders asking on a quarterly basis why the companies are not producing a regular and acceptable return on capital. The reality is that while a well-run insurance company should produce an acceptable profit when measured over a multidecade span, even the best-run company will struggle to show a consistent and regular return on investment in the economic times we are currently experiencing. What we are seeing today is that shareholders investing in these businesses are unable to understand or unwilling to match their investing time horizon with the lifespan of the products.

These changes are happening globally. Standard Life was the first to offer individual insurance policies in 1833. However, at the end of 2011, it stopped selling individual policies, preferring to focus on its suite of asset-management and group products.

At the same time, Sun Life decided to leave the US individual

Standard Life was the first to offer individual insurance policies in 1833. At the end of 2011 it stopped, preferring to focus on asset-management and group products

insurance market for many of the reasons outlined above, including an unfavourable return on capital for the foreseeable future.

Today in Australia, there are no UL policies sold with level cost of insurance. So, if this indeed is the future for Canada, should we care? And if so, why?

For starters, choice for clients and their advisers is never a bad thing. The need for significant liquidity upon death has certainly not abated — whether for family income needs, US estate-tax needs, beneficiary needs or corporate shareholder requirements.

Many consumers would be hard pressed without checking to know exactly what type of policy they own. Hopefully, they know if it is permanent or temporary (term), but the nuances of whole life versus universal life, or whether it is level cost of insurance or yearly renewable term, are likely not at top of mind. However, if they worked with a good adviser when they implemented the policy, they probably benefited from the choice of available and competitive products in the marketplace.

The trend is that many of these factors may be disappearing, and just like the dodo bird, they may not be truly appreciated and missed until they are suddenly gone.

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Soft lobs, deadly sting

Testifying in court as an expert witness can be intimidating, but it can also be exhilarating — just don't stray beyond your expertise

It was the type of cunning question by a defence lawyer I had been warned about. A seemingly innocent inquiry in a very intense setting: a murder trial in Ontario Superior Court in 2011.

The case was shocking and high profile. Glen Davis, who was described in media reports as a millionaire wild-life philanthropist, had been gunned down in an underground parking lot in Toronto in May 2007.

His godson, Marshall Ross, who was a distant cousin, had commissioned the 66-year-old victim's killing. By all accounts, Davis, who was more than 20 years older than Ross, had treated his godson with incredible kindness.

"Between 2004 and 2007, Mr. Davis lent close to \$3 mil-

lion from his sizeable fortune ... to help the younger man finance a home-renovation business in Toronto," reported the *National Post*. "Mr. Davis also frequently gave Ross business advice and never questioned Ross's decisions. In return, court heard this week, Ross, 41, lied repeatedly to Mr. Davis, cooked up falsified spreadsheets, invented addresses of buildings in which he pretended to be investing and, when he realized he could not repay Mr. Davis, arranged to have him killed."

According to the Crown, Ross had conspired to enact the murder with three men: Ivgeny (Eugene) Vorobiov, charged with first-degree murder for having shot Davis twice on May 18, 2007; Dmitri Kossyrine, charged with first-degree murder for having engineered the shooting; and Jesse Smith, who had worked on construction sites



SARA TYSON

with the accused and pleaded guilty to accessory after the fact. (Smith was initially charged with first-degree murder but pleaded guilty in November 2010)

All three men were connected to Ross and each other through the construction and home-renovation industry, in which they worked.

That connection was the reason for the cunning question.

Ross had pleaded guilty about a month before my appearance in court, as had Smith, the year prior; but not Vorobiov or Kossyrine. They proclaimed their innocence.

I was testifying as a forensic accountant about the financial evidence presented in court that seemed to link the accused in a conspiracy. Basically, my role was to help the court follow the money. A critical issue was the allegation, by Smith, that his friend and employer, Kossyrine, had initially offered him \$100,000 to kill Davis. Smith declined. Some time later, the Crown alleged, Vorobiov was also offered a substantial amount of money to do the same, and he accepted.

Defence counsel, it seemed to me, wanted to introduce doubt in the jury's mind as to whether any large amount of money that might have passed between the two accused was actually for a contract hit. Early in his cross-examination he asked me if I would agree that there's a large cash component in the construction industry. In other words, the money could have been under-the-counter payment for legitimate work.

It was presented as almost a rhetorical question, the way you'd ask a Canadian if it was likely more difficult to drive on icy streets than bare ones. His question, however, was a slippery slope I knew I couldn't go down under any circumstances.

"I couldn't say," I replied, or words to that affect. "I have no expertise in the construction industry."

Counsel, a shrewd interviewer, didn't give up. He basically asked the question again, adding that I could answer "just between the two of us."

That was true as long as I could block out that there was also a judge and jury and it was asked in open court.

I again declined to speculate on something outside my expertise, a critical tactic I'd been taught years ago by wise and experienced senior forensic accountants. "The first thing they'll try to do is get you out of your box, to start you speculating on matters for which you have no expertise," one of my mentors had said. "Once they do that, you're screwed."

In the end Vorobiov was convicted of first-degree murder but the jury was deadlocked on whether Kossyrine was also guilty. A retrial was scheduled for the fall of 2012.

I was pleased with how I delivered my evidence on the stand, primarily because I stuck to what I knew and didn't embellish any testimony or wander outside of what I was qualified to comment on. I also said a quiet thank-you to colleagues who years ago had explained how to conduct myself in court.

It's not easy being grilled on the witness stand. I doubt there are many accountants who wouldn't find the experience nerve-

racking. Most defence lawyers are clever and have far greater experience in a courtroom than a typical expert witness. It's uncommon for an accountant to be called to testify in a civil matter, for example, as so many are resolved outside court. Criminal cases often require expert testimony, but how many criminal trials does the average accountant deal with during a career?

Nonetheless, having to testify in court does occur; in my career, I've been called to the stand seven times. During those experiences I have learned a few things, in addition to my strong caveat that you should never stray from your expertise.

A critical point involves the first few questions. Most lawyers like to start with gentle, easy questions, usually concerning the expert's background and qualifications. These might seem benign and nonthreatening, but they can have a deadly sting.

Some years ago a senior forensic accountant was testifying in a complex dispute. The plaintiff, who claimed his two partners had colluded to defraud their business of several million dollars over a seven-year period, had retained him.

During cross-examination, opposing counsel began by lobbing a series of soft questions at the expert, done in a way that encouraged the man, who held himself in high regard, to almost

"The first thing they'll try to do is get you out of your box, to start you speculating on matters for which you have no expertise. Once they do that, you're screwed"

brag about his qualifications. At one point the expert spoke about his adherence to the highest professional and ethical standards.

"What do you think of senior forensic accountants who do little actual work on a file and then claim to have been actively involved in all stages?" counsel asked.

It was a question the expert had not anticipated. It was also one that struck a sensitive nerve. The expert had been overloaded when he accepted the file and delegated most of the work to his juniors. True to his personality, however, he took credit for their efforts and gave the impression he had done the bulk of the work.

Caught off guard by counsel's insightful probe, the expert stammered out an unconvincing reply. By the time counsel finished with him, the expert's credibility was in tatters. More seriously, the plaintiff's case was weakened and a subsequent settlement came in at a fraction of what the expert's client had anticipated.

Lesson learned: prior to testifying, check if there are areas where you are vulnerable. If so, inform counsel (or the Crown if it's a criminal matter) and know how to answer those questions.

In addition, understand there are no easy moments in a cross-examination. Don't assume that a few seemingly soft probes have no real importance other than a sort of pro forma beginning. Every question matters; as do all answers. An expert witness must be alert and on guard at all times during testimony, no matter how innocuous a question might seem.

Staying composed is not always easy. But it's a standard to

aim for. It's especially difficult when a lawyer engages in high theatrics in an attempt to rattle you.

A classic example involved senior forensic accountant Tedd Avey (then with Kroll Lindquist Avey, now at Deloitte) during a fraud trial in Kingston, Jamaica, involving the collapse of several interrelated financial institutions. As reported in this magazine ("Chaos in the Caribbean," November 2006) in 2003 the lead defence counsel in a civil action launched by the Jamaican government had unsuccessfully challenged Avey's qualifications as an expert witness and had thrown a hissy fit when Avey drank water while in the witness box.

"It was a really hot day and there was no air conditioning in the low-ceilinged courtroom — it was so bad I almost fainted — so I took a sip from a bottle of water I'd taken up with me," Avey says. "There was an absolute hush in the courtroom. I didn't know that in a Jamaican court you have to ask for permission to drink water. Well [counsel] got up and he's got these black robes on and they look like huge wings when he's flapping them around, and he's very agitated and can't believe my lack of respect for the court."

Fortunately, the presiding justice felt no deliberate offence had occurred. But counsel's grandstanding gave Avey notice that he might be in for a bumpy ride during his testimony.

If on the receiving end of an egregious and unanticipated attack such as Avey endured or simply a question for which you don't know the answer, I believe there's only one intelligent tactic: tell the truth. And do so in a calm, clear manner.

Even if the question is embarrassing, something you should have known the answer to, it only gets worse if you deny the reality being aimed at you. The best response is to explain why you didn't know the answer, no matter the reason, and offer to provide the information to the court at the earliest possible time. It's likely not going to be pleasant going forward as counsel will probably use your lack of knowledge to challenge what else you don't know. If that occurs, it's critical not to become so unnerved you lose your ability to explain that you're confident in the rest of your testimony.

One area many experts fear being asked about is their fees. In *Cross-Examination: The Comprehensive Guide for Experts* by Steven Babitsky and James Mangraviti Jr., the authors, both US trial attorneys, address this head on. "Experts should know how much they are paid [or have billed for]," they say. "Often experts honestly don't know ... because someone else handles their billing," they told *Report On Fraud* in 2003. "Although this may very well be true, few jurors are likely to believe it."

They warn against falling for the old trick question: how much are you being paid for your testimony here today? This is an example of why it's so important to listen to every word in a question. The truthful, and artful, answer they suggest is: "I am not being paid for my testimony. I am being paid for my time at a rate of. ..."

Other trick wording, they say, is embedded in the following

seemingly benign question: did you evaluate both sides of the case?

Do not respond too quickly with what you assume is a reasonable response: "Yes I did."

That answer, they warn, could be followed by this: "What facts or data did you consider that were inconsistent with your opinion?"

The authors prefer this answer: "I reviewed all the documents and reports that were provided, conducted tests, analyzed all the data and formed the opinion I have expressed."

Needless to say, an expert should not be an advocate, under any circumstances. It is human nature to favour the side that's paying your bills and with whom you may have formed an intellectual or personal connection during the preparation of your evidence. But advocacy can be disastrous to your career and to your client's case.

Last September, an Ontario Superior Court Justice was scathingly critical of a well-known Toronto forensic accountant who had been hired as an expert witness on one side of a major shareholder dispute.

The judge said the expert's report contained "exaggerated,

An expert should not be an advocate. It is human nature to favour the side that's paying your bills. ... But advocacy can be disastrous to your career and to your client's case

inflammatory and pejorative comments," as reported in the *Globe and Mail*, and that he had "no confidence in [the evidence's] reliability."

The judge further stated that the expert exceeded "the bounds of his expertise [and] was wrong to inject opinions on corporate governance into the reports he filed with the court." The judge also said the forensic accountant's assertions were "frequently based on suspicion and innuendo" or were "pure speculation."

As a result, the judge tossed out the case, which put a stop to a potential \$220-million class-action lawsuit by former shareholders. The decision is likely going to be appealed.

Although testifying in court can be an intimidating experience, it can also be exhilarating if it goes well. I will always remember one of Glen Davis' best friends thanking me for my contribution to the case after I left the stand.

And I was even more satisfied when, in mid-November 2012, a Toronto jury found Kossyrine guilty of first-degree murder in his retrial. During my expert-witness testimony I had again stuck to the facts. I didn't express any opinion or emotions about the case. But after I heard the verdict, I was pleased that my evidence might have contributed in a small way to a measure of justice for a kind man who seemed to have caused no one any harm.

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

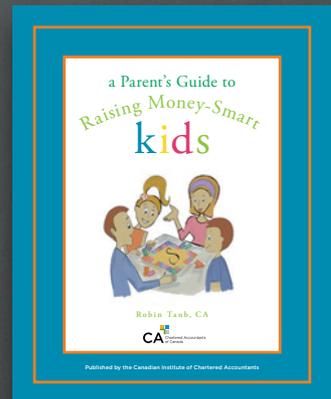
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Change the game plan

Some women wonder why they aren't getting ahead in their careers. Sometimes it's just a matter of behaviour modification

In 2010-2011, 34.5% of Canadian MBA graduates were female. This sounds impressive until you look at the post-MBA stats. According to a global survey of MBA grads, women lag behind men in job level and salary — earning \$4,600 less — in their first positions and don't catch up. Another survey, the Catalyst Survey of MBA grads from 1996 to 2007, revealed that 31% of women received promotions, compared with 36% of men. Women in senior positions were more than three times (19% for women, 6% for men) as likely to have lost their jobs to downsizing or closure.

But with subtle changes in their behaviour women can succeed. Take Melanie, a hard-working accountant, who despite her strong technical skills, educational background and years of job experience was unable to move past her role as a manager into more senior positions.

When she joined her firm, career progression seemed attainable. But recently, Melanie was again overlooked for a promotion she felt qualified for and deserving of. To gain an outside perspective on her strengths and develop a strategy for promotion, she sought the help of a coach.

The coach conducted a thorough assessment, interviewed people who reported to Melanie, interviewed her peers and superiors, and gathered extensive qualitative data on her strengths and gaps. Melanie was an industrious team player. Many reported that she was often the last to leave the office, she got along well with everyone and picked up the slack when others fell short. She was courteous and respectful and rarely allowed the pressures of her personal life to interfere with her work. However, some of her behaviour was sabotaging her efforts to garner positive recognition and advancement.

Certainly, many navigate the corporate world well and rise to the top of their field. Still, many like Melanie struggle, and find their desires of advancement are thwarted. And for those, there are a few common themes.

Command attention

In meetings, Melanie sat near the back, listened intently but said little. She repeatedly said such things as, "I'm sorry to interject, but do you think this is the right course of action?" The lack of confidence in her contribution and her position in the room diminished Melanie's presence.

Apologizing and couching a statement as a question sends the wrong message. Apologizing when one is in the wrong speaks of strength, but doing so for no reason projects weakness. Melanie was encouraged to state her views and ideas clearly and boldly.

She was advised to sit up front and position herself beside a practiced leader. In the next meeting, she observed others, especially women she admired, and took note of how they conducted themselves, including their body language. Then Melanie moved to the centre of the room, beside a senior female colleague. With hands on the table and her body slightly forward, Melanie appeared engaged and interested. When she spoke, she



SUSANNA DENTI

contributed without apology, using confident language that properly reflected her expertise.

Manage your career

Melanie had not clearly communicated her desire to move to the next level to her performance manager, or anyone in the office. She was uncomfortable promoting her accomplishments, hoping her hard work and the quality of her work would be noticed.

“Many women in the workplace have ambitious professional objectives, but are hesitant to share them with others or slow to highlight their successes,” says one coach. “It is important that all individuals learn to ask for what they want.”

Melanie and her coach drew up a plan that articulated her career objectives, strengths and development focuses. The plan delineated the business case behind her push for promotion (projects she had successfully managed, individuals she had mentored, her average chargeability, work she had brought to the firm, etc.). And as intimidating as it seemed, Melanie set up a time to meet with her performance manager to review the plan.

In addition to setting career objectives, Melanie was encouraged to be active and proactive in managing the trajectory of those goals. She needed to align herself with people who would support her efforts, to ensure others were aware of what she was working on and to request and receive valuable feedback. She needed to speak out, particularly when it would benefit the business.

A relationship map listing people who might be important to her success and the level of her relationship with them (A, excellent; B, fair; C, nonexistent or needs improvement) was developed. The goal was to move all to the A level.

Take risks

Melanie had excellent ideas about how to improve the firm’s processes but was hesitant to share them. Rarely did she contribute her opinion forcefully for fear of being wrong. Fear of failure keeps many women from challenging authority or attempting tasks they are unfamiliar with.

Women have lots to learn from their male counterparts. “Risk aversion can be debilitating when it comes to winning at business,” says the coach. “But by recognizing this behaviour and challenging themselves to step out and take a risk, many more women find they are capable of new tasks.”

Melanie often accepted projects no one else was prepared to take on, including finishing projects that were the responsibility of her superior. By repeatedly taking on substandard assignments, Melanie would not get the projects she really wanted to work on, or if she did, she wouldn’t have the time to do them well.

You’re worth it

Many women sabotage their chances for recognition and promotion by underplaying the importance of compensation. Without realizing it, they are sending the wrong message to superiors. Not asking for more money or benefits undermines their value.

Similarly, women often undersell their value by not asking for a senior mentor. Rather than settle for a mentor one level up, women should reach higher — two or three levels higher. Melanie was told to think of an individual in the firm who possessed the qualities and skills she admired and approach him or her. When she asked one individual to be a mentor, he was delighted and honoured. Over time, with a structured mentorship relationship, his guidance and connections, she was better able to navigate the politics and culture of the organization. And, she gained an ally and resource broker who got her onto an important committee with national exposure.

Partners in the firm began to notice Melanie and she was identified as a high-potential employee. Melanie was recently promoted. She now has a realistic view of her worth; she changed her game plan and reaped the rewards. So did her firm.

Sandra Oliver is an executive coach and owner of IMPACT, a global coaching firm. She is also *CAMagazine*’s technical editor for people management (sandra@impactconsultinginc.com)

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HOW THEY DO IT IN...



SWITZERLAND

Imagine taking a shower and turning around to see a camera staring back at you. As you scream and blindly reach for a towel, blinking in vain to keep the shampoo out of your eyes, the camera takes pictures. You are exposed for all to see, for who knows what purpose. Scary.

That is what it must feel like for those who have had private information taken and misused. Although most of us probably wouldn't shower with our passwords tattooed on our bodies, the feeling of vulnerability is the same, whether as a consumer whose information, stored with a company, was stolen after that company's network had been hacked — remember The TJX Cos., Inc. (parent of T.J. Maxx and other retail outlets) data breach announced in 2007 — or as the company whose system has been compromised. Such privacy invasions are happening worldwide and many jurisdictions are getting aggressive in their efforts to stop them — including Switzerland.

According to a 2012 report by the Swiss Reporting and Analysis

Centre for Information Assurance (MELANI), an organization involved in IT and Internet security, of the 885 cyber attacks investigated globally, in which client user names, passwords or credit-card information were stolen, 75% were committed against small and medium-sized enterprises (SMEs). The study reasons that SMEs are not as familiar as larger companies with the intricacies of IT security, leaving them more vulnerable to attack. While this explanation is debatable, the finding that SMEs are disproportionately targeted has caused the public and private sectors to step up the fight against these threats.

To this end, Switzerland's Federal Council announced a strategy to counter cyber attacks. The plan, which takes into account proposals made in parliament to enact stronger measures against cyber risks, would allow businesses and authorities to work together more closely. Additionally, the strategy aims to identify cyber threats early, improve the strength of critical infrastructures, and effectively reduce IT crimes.

A special federal IT steering committee, together with MELANI, is carrying out this strategy and preparing progress reports. Implementation is expected to take place by the end of 2017.

Yvette Trancoso

Where are they now? ALEXA LOO



An A+ for perseverance

Two-time Olympian and chartered accountant Alexa Loo calls herself a "Type-A" personality. But given her accomplishments, Canada's former No. 1-ranked female giant slalom snowboard racer appears to be more a Type A+ than an average Type A.

Since *CAmagazine* last caught up with Loo in December 2000, the 40-year-old from Richmond, BC, has racked up real-life accolades. She took home a bronze medal at the 2006 World Cup in Italy and a silver at the 2010 World Cup in Austria. She also made two impressive Olympic showings: the first at the Turin Winter Games in 2006, where she placed 20th, and again at the Vancouver Winter Games in 2010, where she placed 12th.

For Loo, who has been snowboarding competitively since 1995, becoming an Olympian takes time. "It takes 10 years to make an athlete," she says.

It may take 10 years to make a politician, too. In 2011, Loo ran for a seat on Richmond's city council — while eight-and-a-half months pregnant. "I got nearly 12,000 votes," she says. She lost the race by only 900.

But one loss isn't enough to discourage an athlete of Loo's calibre. "I'm very passionate about making the world around me a better place and helping people," she says.

Her personal life has also been something like a race to the finish line. In 2010, after a "whirlwind" courtship, she married husband Ari Goosen.

Pregnant for a second time, Loo is not a mat-leave kind of person. In fact, she's in the midst of launching an executive coaching business, which she sees as the natural evolution of both her athletic and professional lives. "In my public practice I wasn't able to use all of the skills and talents I'd developed as an Olympian."

Her accounting background taught her a valuable lesson about the power of making practical changes and processes — and it's one she's applying to her new endeavour. "You change something in the process and you can drastically affect your outcome at the end of the day."

Flannery Dean



In my glove compartment

by Robert Colapinto



TRENT HENRY, FCA

As he motors to and from work each day, the Ernst & Young Canada chairman and CEO has a clown nose near at hand. But there's no clowning around when it comes to his career. Henry has been committed to the firm since he joined in 1989, after graduating from the University of Prince Edward Island's bachelor of business administration program. An impressive trajectory followed: a partner by 1998, he became the head of E&Y's international tax practice in 2004 and managing partner (Canadian tax) in 2008 before accepting the nod as CEO in 2010. In 2009, he was named a fellow of the Institute of Chartered Accountants of Ontario. As he cruises home to pick up his sons for hockey practice, let's see what he's got in his glove compartment and centre-console that help keep him grounded and on course.

MP3 PLAYER

"I try to fit in short runs when I can, and listening to music [on my iPod] helps me stay motivated. My current playlist includes songs from Fun, Maroon 5 and Of Monsters and Men."

TABLET

"Because I don't like lugging around heavy things when I travel, my iPad is a replacement for carrying a laptop computer."

SMARTPHONE CHARGER

"I meet regularly with key clients and prospective clients, so I'm on the road a lot. Keeping my smartphone charged helps me keep on top of calls and emails from clients and staff when I'm not in the office."

PEI MAP

"I grew up, went to school and started my career in Prince Edward Island, and still visit often. PEI positioned me well for success in each of the roles I've held. The map reminds me of home; it's something I have always kept in the car. It's also easy to grab when [I] fly back home — I always know where it is."



REFEREE WHISTLE

"I have two boys and I coach their hockey teams. I love spending time practising at the rink with them and their teammates and friends. I'm always amazed to watch them grow and learn — on the ice and off."

CLOWN NOSE

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Outlook

BY MARCEL CÔTÉ

WHERE ECONOMICS AND POLITICS MEET

Inequality and growth

In the past 25 years, income inequality has increased significantly worldwide. In Canada, the wealthiest 1% now receives 10.6% of the national income, which is more than the combined income of 40% of the less fortunate. This large piece of pie has grown 50% since the 1980s when it was only 7%. Income inequality is even more marked in the US, where the 1% pockets nearly 18% of the national income, twice as much as 25 years ago.

The last time such an income gap between the upper and the middle classes was observed was in the 1920s, just before the Great Depression. Many organizations not considered left wing, from the Conference Board of Canada to the Organization for Economic Cooperation and Development, are troubled by this situation. A number of studies have shown that too much income inequality can impact economic growth. Joseph Stiglitz, 2001 winner of the Nobel Memorial Prize in Economic Sciences, recently published a book, *The Price of Inequality*. In it he argues that economic growth will stagnate until we deal with the problem of inequality.

Moreover, income inequality, and particularly the creation of a super-rich class, undermines the legitimacy of our political system. A properly functioning society is characterized by respect for the established order. This is difficult to maintain when the top 1% of the population earns more than the poorest 40% combined, as is currently the case.

Numerous reasons are advanced to explain why the fortunes of the wealthy have grown recently. The phenomenon is not well understood. Globalization is said to put unskilled workers at a disadvantage. However, in Canada, the growth of inequality has not been significant at the bottom end of the scale and the number of “poor” has not increased over the period. Moreover, globalization has had little impact in European countries such as France and Germany, where the 1% slice of the pie is half that of Anglo-Saxon nations such as Canada, the US and the UK.

The tax reforms under former US president Ronald Reagan and Britain’s ex-prime minister Margaret Thatcher are also being singled out, and most likely, with more legitimacy. The significant drop in maximum marginal tax rates and the proliferation of tax shelters and havens have hugely benefited high-earning taxpayers. Likewise, the compensation increases awarded to business executives, particularly in the financial sector, and the staggering salaries paid to top athletes and pop stars, have also contributed to inequality at the top end of the income scale.

It is not easy to correct a situation when its underlying causes are not well understood. But the extent of the problem must first be acknowledged. It is obvious, when watching the heated US debates over taxing the wealthy, that

Joseph Stiglitz argues that economic growth will stagnate until we deal with the problem of inequality

we are nowhere near reaching a consensus on the issue.

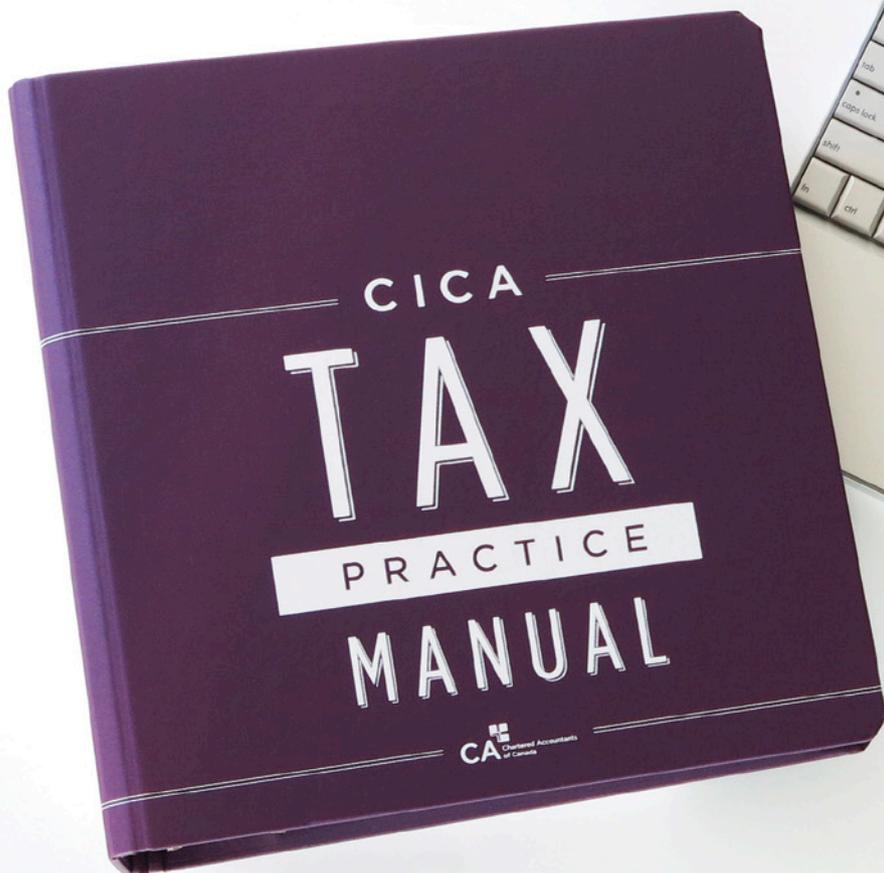
Part of the solution is tax related. However, that does not mean we should return to the extremely high income tax rates of the ‘60s, when marginal rates reached 60% to 70%. This would strongly encourage tax evasion. A better solution could be to set a minimum effective rate, such as 30%, for all income, whatever the source, above a certain threshold. A measure like that would affect half the wealthiest taxpayers who now pay relatively little tax as a percentage of their income; it probably would have a minimal effect on how they handle their finances.

Another avenue would be to eliminate the most blatant tax shelters, such as the carried interest, which is taxed at capital gain rates and allows investment fund managers to cut their effective tax rate in half.

I am not a tax expert, so I do not have the expertise to analyze this issue. But it does need to be examined, especially if the gap continues to widen. Not only does the legitimacy of our tax system depend on it, so does our economic growth.

Marcel Côté is strategic adviser, KPMG SECOR, Montreal

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