

CA

magazine

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May 2010 Volume 143, No. 4

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Magazine Web producer Harriet Bruser
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Director of translation Steve Brearton
Contributors Jim Carroll, FCA
 Michael Burns, MBA, CA John Tabone, MBA
 Marcel Côté
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Business valuation Stephen Cole, CBV, FCA
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 Yves Godbout, CA-IT, CA-CISA
Publisher Cairine M. Wilson, MBA, Vice-President Member Services
Sales and marketing manager Brian Loney (416) 204-3235
 brian.loney@cica.ca
Advertising sales manager Bruce Feaver (416) 204-3254
 bruce.feaver@cica.ca
Quebec advertising representative Serge Gamache (450) 651-4257
 sergegamache@videotron.ca
Advertising representative Darcey Romeo (416) 204-3257
 darcey.romeo@cica.ca
Advertising coordinator Michael Marks (416) 204-3255
Circulation manager Annette DaRocha (416) 204-3367
CAmagazine Editorial Advisory Board
 Doug McPhie, FCA, Chair Blair Davidson, FCA
 Margaret Albanese, CA Phillip Gaunce, CA
 Nancy Cheng, FCA Michel Magnan, FCA

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

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 E-mail: camagazine@cica.ca
letters.editor@cica.ca
advertising.camagazine@cica.ca

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Diversity, more than an HR issue

The latest generation of CAs looks very different from previous ones. How is the profession adapting to this new reality?

In the past two years, more women than men have entered the CA profession. As John Tabone reports in Findings (p. 9), women now account for 36% of active members. In the 1970s only 8% of new members were women, 28% in the 1980s, and 41% in the 1990s. Today's high percentage of women is creating a gender gap with the 45 and older group, where males largely dominate. In fact, the 45-plus group is not only overwhelmingly male, but it is also dominated by white males. And that, too, is changing. The gender gap, it appears, has morphed into a diversity one.

How is the profession adapting to these new realities? By recognizing that diversity in the workplace is more than just a human resources issue. In the "Business of inclusion" (p. 20), writer John Lorinc found out that firms created various programs of inclusiveness. Deloitte created the position of chief diversity officer, KPMG a pride group, Ernst & Young has a program called Career Watch. The profession not only wants to attract the best and the brightest but also wants to retain them. In fact, the Big Four have created initiatives aimed at minorities, women, aboriginals, the disabled and the lesbian, gay, bisexual and transgender community. And there is another important aspect to such programs: to better serve the needs of global clients who are facing the same diversity issues.

The financial crisis and the recession made financing operations and growth quite a challenge in the past two years. But the worst might be behind us, and opportunities are starting to appear again, albeit at a higher cost. Rated debt, write KPMG Finance's Neil Blair and Joe Rodrigues in "Use your assets" (p. 26), has shown potential but not everyone has access to this source. Is there a readily available cure? Look at asset-based lending, they suggest.

Our Regulars section this month features articles on taxation ("An important win," p. 32), legal issues ("Welcome to your client's lawsuit," p. 35), assurance ("Cloud computing," p. 37) and standards ("Interpreting the IFRS world," p. 40).

Lost or stolen laptop computers and so-called intelligent phones are a concern for everyone on the move. When his son's laptop was stolen, Jim Carroll discovered a number of applications that are available to track them down. Read his Netwatch column ("Dude, where's my laptop?" p. 14) to find out more. We all know that knowledge has been growing exponentially for years. In Outlook ("The information revolution," p. 48), Marcel Côté writes that while our ability to access information is 10 million times greater than in the 1960s, our ability to transform it into knowledge is the same. What does that mean in today's Internet-based world?



Christian Bellavance, Editor-in-chief

upfront

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8 PEOPLE

A few years ago, CA Ken Day was trying out violins at a local music store when you might say he was discovered. The co-owner of a burgeoning Manitoba accounting firm was heard by a customer, who invited Day to audition with The Winnipeg Pops. Day is now a member of the orchestra, where he plays first violin

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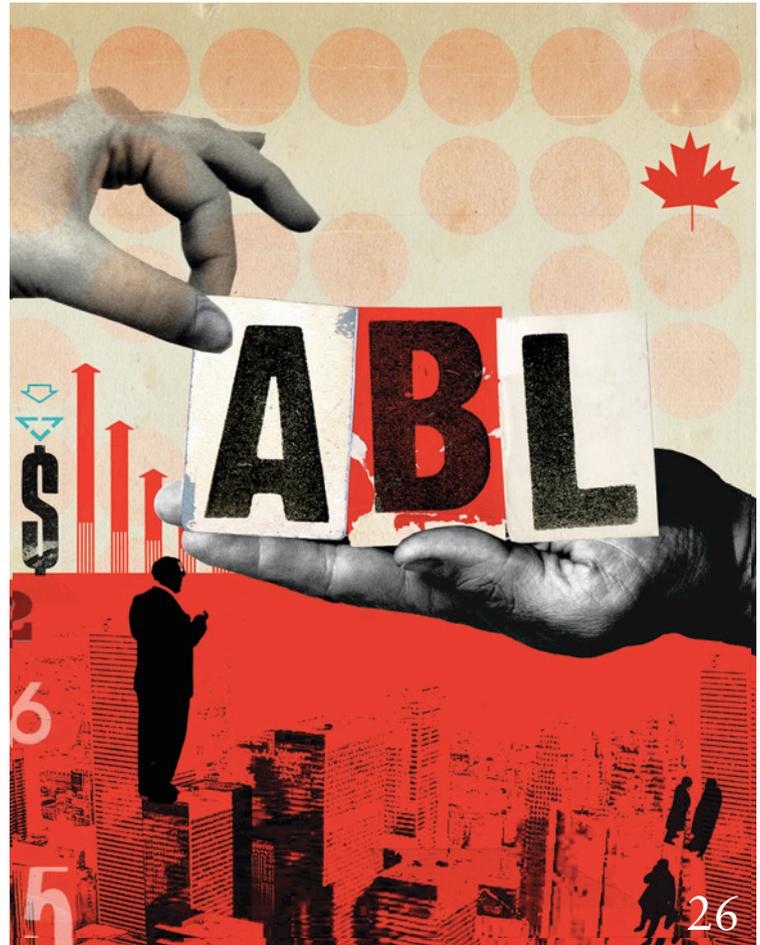
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In today's world, diversity is more than just good HR, it's good business too. How far have big and medium accounting firms gone to embrace this practice and do they need to implement more programs to attract people from diverse communities?

BY JOHN LORINC

26 Use your assets

A significant issue confronting CAs is assisting their respective organizations and/or clients in the search for capital. While a lagging economic recovery and a tight credit market still plague M&A and expansion opportunities for companies, there is a cure for these woes

BY NEIL BLAIR + JOE RODRIGUES

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KNOWING OUR LIMITS

“Limits of liability” (Legal issues, October 2009) by Jean-Olivier Lessard and Valérie de Grandpré Chapdelaine is a well-written article. I always enjoy reading topics about auditor liability in *CAMagazine*.

I have some views on the last paragraph. As auditors, we do not prepare financial statements that we audit and opine on. Our only deliverable is the auditors’ report, which is usually attached to the financial statements prepared by the management. Management should be responsible for the true and fair view (which also means in accordance with GAAP) of the financial statements. Accordingly, if there are errors in the financial statements, the primary responsibility should rest with management.

As auditors, we of course will be challenged as to whether we have performed our work in accordance with auditing standards, which require us to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. So it is important that our audit procedures comply with GAAS or Canadian auditing standards. This will be our safe harbour.

Chee Wai Loh, CA
Hong Kong

IN LIMBO

As a member of the Ordre des comptables agréés du Québec (and of the CICA) since 1972, I have paid my annual dues and have contributed to the profession through my more than 30 years of teaching at Concordia University in Montreal, as well as through my work on the UFE in the early '90s. Over the same period my family

and I have derived great benefits from my membership in the CA profession.

Today, I am in semi-retirement, having retired from public practice and university teaching, and only retain my role as one of the main shareholders of a software company operating in the global life sciences marketplace. As such, my focus has shifted to things other than accounting. Yet the CA designation is something I am proud of and something I have earned. I would like to continue to reflect it on my business cards. My intent was to be-

come a retired member of the ordre but I now find that this is not possible because my compensation package from my own company is not in conformity with one of the most unreasonable regulations I have ever encountered.

Because I derive an annual salary of more than \$5,000, the retired-member category is unavailable to me. However, should I decide that the compensation package from my own business will only consist of dividends, becoming a retired member would be a cinch. Why the fuss?

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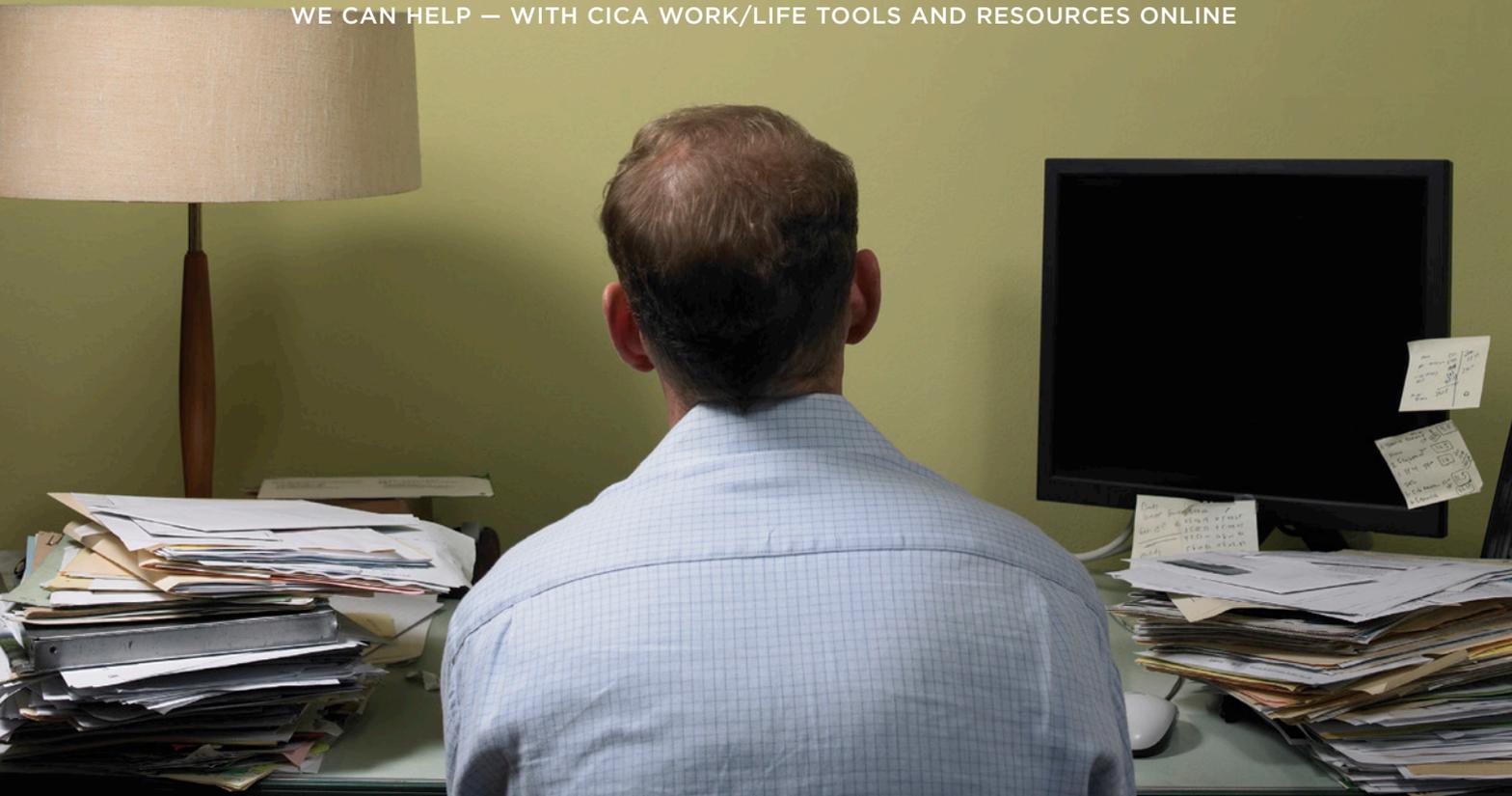
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A CA career is a challenging one, but your life goals and demands need and deserve so much of your time. How do you balance the two priorities?

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

Just go to www.cica.ca/worklife.

CA Chartered Accountants
of Canada

Work *Life*



Mailbox

Regular rather than retired category membership in the ordre requires participation in professional development courses in topics of no interest to me currently. I am more interested in life sciences-related conferences than another course on some dry accounting subject, but such conferences or courses are not considered to be qualified for the purposes of the ordre/CICA. Never mind my personal interests or situation. What matters are appearances and a twisted view of what provides protection to the public.

This situation leaves me and many like myself with few choices. We can either remain regular members and play the charade of participating in professional development courses in which we have no interest, lie on our reports on such courses or resign from the organization. And all because of a bad regulation. Just think of the lost fees and the foul taste left in the mouths of those whom the profession seems to say are no longer welcome in its membership, despite their past contributions to it.

George Lowenfeld, CA
Montreal

Reply from the Ordre des comptables agréés du Québec:

Two clarifications are necessary to help readers understand the rules that apply in Quebec regarding member categories and mandatory continuing education.

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

The ordre's two main member categories are active members and retired members. A retired member is a member who is at least 60 years of age as at March 31, 2010 and whose income from employment, from the practice of the profession or from the operation of an enterprise, within the meaning of the Civil Code of Quebec, is less than \$5,000. According to this definition, the retired-member category applies primarily to people who are truly retired, i.e., members who strictly live on their retirement income. However, being sensitive to the fact that some of our members were unable to earn sufficient income to enjoy a comfortable retirement, the board of directors authorized a supplementary income of \$5,000, an amount that is also in line with the regulation respecting professional liability insurance, which is mandatory for all ordre members. George Lowenfeld is absolutely right when he says that dividend income is not taken into account; in fact, dividend income is considered investment income for retired members.

With regards to continuing education requirements for CAs in Quebec, it is important to clearly distinguish between the requirements for members who practise public accountancy and those for other members. Ordre members who do not practise public accountancy must devote at least 120 hours per three-year reference period to continuing education activities that are directly related to the areas in which they work, with a minimum of 25 hours in each reference year. This wording leaves room for flexibility. Conversely, for members who practise public accountancy, 60 of the 120 hours must be spent on keeping current with financial reporting and generally accepted audit and review standards.

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String break



When CA Ken Day isn't running his growing business, you'll find him playing violin in The Winnipeg Pops Orchestra

Ken Day may be the co-owner of a burgeoning Manitoba accounting firm, but he still makes time to fiddle around. The 51-year-old CA plays first violin in The Winnipeg Pops, a 48-member orchestra of volunteers, comprised of strings, woodwind, brass, piano and percussion.

With a repertoire that runs the gamut from classical to Henry Mancini and Rodgers and Hammerstein, the Pops play six concerts at Christmas time and six more in the spring. "We play for personal-care homes, churches, the Assiniboine Park Conservatory, fundraising events," says Day, who practises with the Pops Thursday evenings and two to three hours a week on his own. "I know I should practise more, but it's hard with the business growing — we now have over 30 people."

Before hatching his firm, which provides accounting and advisory services to local small and medium-sized businesses, Day articulated with Price Waterhouse (1980-1984) — during which he was transferred to Bermuda for a year where he joined the Bermuda Philharmonic Orchestra. The lifelong violinist later played with various contemporary, Celtic and bluegrass bands back home. A couple of years ago, when Day was trying out a few violins at a music store where his son was working, a man curiously watched and then invited him to audition with the Pops. He got the gig.

Last year, Day got a chance to bang out Johnny Cash tunes on an electric violin in a band called Outta Cash for an annual fundraising event, Winnstock. Local financial professionals rock out to raise money for various community causes, such as the Movement Centre, which aids kids and adults with physical disabilities. Day says getting on stage in front of 800 people (his largest audience to date) was a high note in his musical career. He'd love to do that again, although the timing makes it tough — practice sessions run from mid-February right through tax season.

Angela Pirisi

Résumé

- 1983** obtains CA designation (Man.)
- 1983** joins Bermuda Philharmonic Orchestra
- 1998** obtains certified financial planner designation
- 2004** opens OnBusiness, Winnipeg
- 2008** joins The Winnipeg Pops Orchestra

Fool me twice, shame on me

The fraudsters behind a phony investor protection website must think the victims of Ponzi schemer Bernard Madoff are an easy mark.

The bogus International Securities Investor Protection Corp. (www.i-sipc.com) is soliciting Madoff victims to submit claims with personal information, which could result in identity theft. The phony group claims to have collaborated with Interpol to recover US\$1.3 billion in Madoff money from a hideout in Malaysia, and its website includes a supposed testimonial from a Madoff victim who is reported as having received funds from the organization.

The fake website deliberately copies the design and artwork of the real Securities Investor Protection Corp. site (www.sipc.com), a US organization that maintains a special reserve fund mandated by Congress to protect the customers of insolvent brokerage firms.

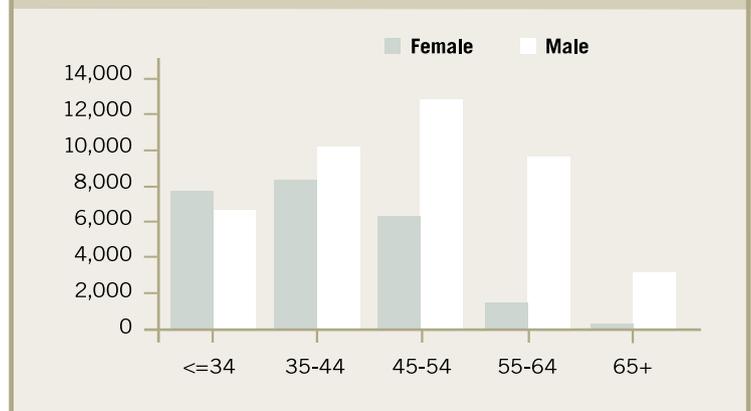
NEW FEMALE CAs OUTPACE MALES

The number of women entering the CA profession has edged out the number of men for the past two years. While this gender ratio might not seem unexpected, it marks a significant change in a profession that attracted a much larger percentage of men in the not-so-distant past.

What might be more surprising is that women accounted for only 41% of CAs entering the profession during the 1990s, 28% in the 1980s and 8% in the 1970s. When looking at the demographics of the profession by age and gender, virtually all CAs 55 or older are male, and men comprise a strong majority of CAs 45 or older. Today, women still only account for 36% of active members overall but that is changing quickly.

So what does this mean for the profession? Various CICA surveys have found that needs and priorities of female CAs differ from those of their male counterparts in many ways. For example, women are more likely to rate work-life balance as a priority. Employers wanting the best and brightest CAs will need to adapt their work environments to ensure they are meeting

Male and female CAs by age category



these evolving needs. To ensure it continues to meet member needs, the CICA has set up the Women's Leadership Advisory Council. The committee will act as a catalyst for change to promote a work environment that provides for the retention, promotion and advancement of women to positions of leadership without bias, unintended or otherwise, based on gender.

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



ASK AN EXPERT

HOW CAN I START OFF MY NEW JOB ON THE RIGHT FOOT?

Beginning a new job can be both exciting and stressful, particularly for those who have been out of work for some time. New hires can make a smoother transition by learning as much as possible about the firm's culture before their first day. Networking actively with current or former employees and asking questions during the interview about the work environment, dress code and other policies are effective ways to gather this information. Here are a few more tips:

Refresh your skills. Determine which software applications and other tools you will be using. To prime yourself for upcoming projects, consider taking courses on any computer programs you have not used in a while or that are unfamiliar to you.

Get back in the swing. Adjust your daily schedule a week before your start date so you're comfortable with the routine by your first day.

Make the rounds. Once you've started the job, immediately introduce yourself to those you will be working with. To break the ice, invite colleagues to join you for lunch or coffee.

Watch and learn. Pay attention to how others act in the workplace. Many unwritten rules, such as how and when people communicate, can only be learned through observation.

Play it cool. While it takes time to gain trust in a new environment, try to project confidence in everything you do. If you believe in yourself, others will, too.

Robert Hosking is executive director of international staffing firm OfficeTeam (www.officeteam.com)

#NUMBERS Game

3 Years after the Zambian central-bank accounts had been audited that Frederick Chiluba became president of the insolvent nation. “The coffers are empty, the people poor, the misery endless,” Chiluba said in 1991.

4.8 Billions of US dollars in a 1998 International Monetary Fund bailout package to Russia that “have vanished, and now no one will find them.” The money was tagged to prop up the Russian ruble after the country defaulted on debt obligations.

30 Percentage of Icelandic workers who said they would seek employment abroad following a 2008 economic collapse.

40 Millions of US dollars Nicaraguan President Violeta Chamorro asks the US for in 1990 to pay government bills.

Default lines This winter, Greece told fellow European Union members it needed help paying its bills. It joins a long list of recent bailed out nation states



“My country is bankrupt,” Chamorro wrote to George H.W. Bush. “I’m writing to you to see if there is any possibility of ... a temporary deposit at our central bank or some other relief measure.”

167 Years after freed American slaves colonized Liberia that their government initiated a 1989 campaign for residents to pay off a US\$183-million defaulted loan to the US. Billboards proclaim “For Dignity and Respect, Let’s Pay the U.S.A.”

23,800 Barrels of oil per day Ecuador is hoping to secure by developing the Panacocha oilfield. In February, the cash-strapped country announced it would use its social security fund to pay for the undertaking in lieu of traditional financing.

Steve Brearton

Going Concern



**JAY FORBES, FCA
PRESIDENT & CEO,
TERANET INC.**

COMPANY PROFILE: In 1991, Toronto-based Teranet developed one of the world’s

first electronic land registration systems out of Ontario’s complex paper-based system to speed up validations of property ownership and reduce real estate fraud. Originally a public-private partnership with the Ontario government, the company was later privatized and acquired by Borealis Infrastructure in 2008. Teranet offers e-services, including title searches, transaction and risk management, to real estate professionals and lawyers. The company employs more than 600 staff in Toronto and London, Ont., conducts 1.75 million registrations each year for more than 250 municipalities, and generates \$250 million in revenue annually.

HOT FACTOR: Teranet has received a stream of business awards. In 2009, Teranet won gold in the Best Web GIS

(geographic information system) category awarded by the Urban and Regional Information Systems Association. It ranked sixth in the 2008 Canada’s Top 1000 Companies compiled by *Report on Business* magazine. It was in the top 25 of the 2007 Branham 300 Canada’s Best Technology Companies rankings, and was included in the 2007 Top IPO Issues compiled by *Financial Post Magazine’s* FP500.

COOL PROJECTS: Over the next 36 months, Teranet will work toward introducing its electronic land registration system and complementary e-services to other provinces in Canada and British Commonwealth countries. The company also wants to introduce its GeoWarehouse product, which combines mapping, text information and digital imagery about land parcels, in other provincial markets in the future.

IN HIS OWN WORDS: “Teranet is a great company with a rich history of proven capabilities. My goal is to preserve its successful track record and to grow this great technology we created in Ontario.”
Rosie Lombardi

Canadian tax system in top 15%

Canada ranks 28th in the world for its ease of paying taxes, according to a report by the World Bank Group and PricewaterhouseCoopers.

The report, *Paying Taxes 2010*, measures how easy it is to pay taxes in 183 countries by assessing the administrative burden for companies to comply with tax regulations and also by calculating a company's total tax liability as a percentage of pretax profits. Specifically, the study used three indicators: the total tax rate (the cost of all taxes borne by the company); the time it takes to comply with the major types of taxes and the number of tax payments. Canada placed 103 for total tax rate, 30 for time to comply and 21 for number of payments needed, for an overall ranking of 28 — the same score as last year. The study found that 45 economies made it easier to pay taxes this year, almost 25% more than in the previous year.

Where is it easy to pay taxes – and where not?

Easiest	Rank	Most difficult	Rank
Maldives	1	Jamaica	174
Qatar	2	Mauritania	175
Hong Kong	3	Gambia	176
United Arab Emirates	4	Bolivia	177
Singapore	5	Uzbekistan	178
Ireland	6	Central African Republic	179
Saudi Arabia	7	Republic of the Congo	180
Oman	8	Ukraine	181
New Zealand	9	Venezuela	182
Kiribati	10	Belarus	183

Note: Rankings are the average of the economy's rankings on the number of payments, time and total tax rate.

Source: *Paying Taxes 2010*



Divided stance on romance

Got a case of spring fever? If you're contemplating an office romance, keep in mind that attitudes about workplace relationships vary depending on age and gender, according to a survey by work-life service provider Workplace Options.

Half (51%) of workers aged 18 to 29 polled see a workplace romance as having positive effects, such as achieving a higher status at work, and just 38% would keep news of such a relationship private. Older workers disagree, with 79% arguing there are no positive effects, and up to 66% wouldn't tell a soul about it.

Men and women are also divided. Two-thirds of women think offices should ban public displays of affection, while 53% of men say it should be allowed. Men are also more willing to enter a relationship with a co-worker (34%), supervisor (18%) or subordinate (21%) than women (27%, 13% and 15%, respectively).

CALL FOR CAPS

A new tax on bankers' bonuses in the UK is popular with the British public, a *Financial Times/Harris Poll* finds. But the majority want the government to do even more: 74% would cap bankers' salaries, and at least half support salary caps for other high-earning occupations, including corporate executives, lawyers, civil servants and private doctors.

TAX REFUND REALITY

The days of using tax refunds for a vacation or big-screen TV may be over. According to a survey of more than 1,000 US taxpayers for online tax-prep service CompleteTax, a mere 3% of those expecting a refund plan to spend the windfall on nonessentials. Most expect to save their refund (41%) or use it to pay down debt (41%).

BONUS OR BUST

Despite lean budgets, most financial executives say cash is the best way to reward staff. About one-third (34%) of Canadian CFOs interviewed for an Accountemps survey cited bonuses as the most effective way to acknowledge a job well done. Another 28%, however, said they do not reward employees after major projects.

CSR is well worth the investment

Canadian employers believe the return on investment in socially and environmentally responsible practices justifies the expenditure, according to the 2010 Best Employers in Canada study. Their instincts seem to be correct: there is a strong link between employee engagement and employee views of their employers' records on corporate social responsibility (CSR).

"The findings demonstrate that organizations with high employee engagement have a higher degree of readiness to focus on CSR as a strategy to improve overall organizational performance and better meet the needs of employees and external stakeholders," says Neil Crawford, Hewitt's leader of the Best Employers in Canada study.

Hewitt Associates, which conducts the Best Employers in Canada and Best Small & Medium Employers in Canada study each year, partnered with Canadian Business for Social Responsibility (CBSR) to understand the relationships between CSR perceptions, engagement and other work environment factors. Opinions from more than 100,000 employees and 2,000 leaders at 230-plus workplaces were gathered for this first large-scale quantitative Canadian study on the subject.

At organizations with high engagement, 86% of employees agreed or strongly agreed that they worked for a socially and environmentally responsible employer. That figure was only 60% at those with low engagement.

Some common CSR initiatives implemented by Canadian employers include fundraising for and sponsorships of community organizations, recycling and business travel reduction through video- or tele-conferencing.

"Not only do the results establish the strong connection between CSR and employee engagement, but we've learned that declining employee perceptions of CSR within an organization can be a significant threat to engagement for more than a third of organizations," says Barb Steele, CBSR director of membership. "Combined initiatives to sustain both employee engagement and support CSR transformation will likely yield a better return on investment than individual noncoordinated efforts."

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

Robyn Hall is the communications manager for Canadian Business for Social Responsibility

The health and productivity advantage

Most organizations understand, at least intuitively, that a healthy workforce contributes to bottom-line results. However, identifying which health and productivity programs will generate the greatest returns is a challenge for many. To better understand the links between employee well-being, productivity and business success, Towers Watson recently analyzed workforce and financial data from 352 organizations with at least 1,000 employees.

Using a diagnostic survey to assess health program effectiveness, workforce effectiveness and business performance, the study revealed that organizations with high-performing health and productivity programs experience superior human capital and financial outcomes.

These organizations achieved 11% higher revenue per employee, experienced lower health cost trends, saw 1.8 fewer days' absence per employee, earned 28% higher shareholder returns, lost fewer days due to disabilities and had lower levels of turnover relative to their peers.

Organizations with highly effective health and productivity programs were also more likely to receive stronger scores in the areas of total rewards, organizational leader-

ship and effective communication. They also have a strong commitment from senior managers.

Overall, the research shows that leading organizations understand the links between employee health and business effectiveness. Despite the recession, organizations with highly effective health and productivity programs are 50% more likely than low-effectiveness organizations to add or enhance their workplace programs, or to plan to do so this year.

Ultimately, by applying financial and human capital metrics to evaluate which programs generate the greatest returns, high-performing organizations are achieving a health and productivity advantage — including stronger balance sheets, lower benefits costs and lower turnover.

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

Wendy Poirier is Towers Watson's health and group benefits leader for Canada

Joseph Ricciuti is a senior consultant in Towers Watson's health and welfare business

SEAMLESS

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Netwatch

BY JIM CARROLL

YOUR GUIDE TO BUSINESS & ACCOUNTING ON THE INTERNET

Dude, where's my laptop?

My eldest son just got a Mac for use in high school. Last year his Windows laptop was stolen and so he learned his lesson — he never lets the machine out of sight. He also has a Kensington laptop lock for extra protection. Yet, what if it did disappear? Would we be able to figure out where it is? Most likely yes, because of the release of PC/Mac location software.

The iPhone is a pioneer in providing a GPS-based location status should the phone become lost or stolen. Simply go to the MobileMe website for the iPhone linked to your account, click on Find my Phone and in a matter of minutes you'll have a map featuring your iPhone location plus or minus 20 or 30 feet. You then have the option of displaying a message or sound on the phone, locking it with a four-digit pass code or remotely wiping all its data. You must subscribe to Apple MobileMe (which has a monthly fee) to use the service.

Intrigued by the concept, I began to wonder if there are similar capabilities for the proliferating number of Mac laptops in our home. I found several options.

Vanderbilt University Web enabled recovery (VUWER) is a free location tool for Macs. Setting it up involves creating a special G-mail account used by the tracking software, and a Google site that defines the status of the laptop and how often it should report in. VUWER gives me a status update every six hours; it runs quietly in the background, checking the Google site to make sure everything is OK. But if the laptop is stolen, I can zip into Google and change the status. At that point, three cool things happen: VUWER takes a picture using the built-in iSight camera of whoever is using the computer; it takes a screen shot of what the user was doing and, most important, provides information on the computer's location based on the current Internet connection. I can remotely instruct the system to send me this information every minute, thus building up a complex source of data that can be provided to the police.

Another piece of software, Orbicule, is similar but comes with a fee. Once installed, the program stays running in the background, checking in with a status server at Orbicule on a regular basis. But if you report the laptop stolen, Orbicule

will start to track the machine using Skyhook Wireless technology, which should locate the Mac within a 10- to 20-metre range, and send pictures from the built-in camera.

Should that not provide enough information to locate the thief, the software will get the Mac to simulate a screen failure, rendering the computer unusable. Hopefully, the thief will take it to a shop to be repaired, at which point the message changes to indicate it's stolen; contact details are provided, as is notification that a small reward is available. Does the system work? On the Orbicule blog you can read some wonderful stories about real-life laptop recoveries.

There's a wide variety of similar tools for Windows XP and Windows 7; some are free and others come with a fee (such as Computrace LoJack). The evidentiary information might be less complete, though, for the many PC laptops that do not have a built-in webcam.

There are similar programs for GPS-equipped BlackBerrys, such as Where's My Phone Pro. This application goes one step further, in that it will have the BlackBerry automatically call you once it is reported stolen. Maybe you can have a conversation with the thief (or a kind soul who found your lost phone) in order to have it returned.

All in all, it's a worthwhile project to take on, regardless of the device you are trying to protect.

Jim Carroll, FCA, is a well-known speaker, author and columnist. Reach him at jcarroll@jimcarroll.com or log on to his website at www.jimcarroll.com

LOST AND FOUND

VUWER <http://stumpy.vuse.vanderbilt.edu/VUWER.htm>

Orbicule Undercover www.orbicule.com

Computrace LoJack for Laptops
www.absolute.com/products/lojackforlaptops

BlackBerry Where's My Phone
<http://appworld.blackberry.com/webstore/content/4672>

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Creating value for our members CICA sets its agenda for 2010

Members of the CA profession will benefit from a number of important initiatives that the CICA is undertaking in the coming year. These include providing continued support to members as the transition to the new Canadian reporting standards moves towards its final stages; ensuring that the CA qualification process is attractive to all candidates, including students, individuals seeking midcareer changes and internationally trained accountants; and developing national practice areas within the CICA's organizational structure, to name a few.

The CICA will continue to provide an extensive program to support members and the larger business community in the changeover to new reporting standards. In addition to hosting an enhanced national conference on international financial reporting standards (IFRS) in November, the CICA and the provincial institutes/ordre will be offering conferences, courses and webinars throughout the next 12 months. CICA's dedicated website, Canadian Standards in Transition (www.cica.ca/transition), continues to grow and now includes podcasts, e-briefs, guides, sample financial statements and other practical implementation tools, all focused on helping CAs and their clients make the transition to new reporting

standards in accounting and auditing. A special section of the website also provides resources specifically designed for small and medium-sized companies and firms. It is well known that CAs face more rigorous requirements for training, examination and practical experience than any other accounting designation in Canada; however, until recently, virtually all Canadian CAs were trained in professional practice in audit and assurance by the accounting firms. Now, thanks to the profession's recently launched practical experience program, it is possible for approved corporations, not-for-profits and government departments and agencies to act as CA Training Offices under strict criteria. Accounting firms can also now train candidates in nonassurance practice areas. As this program continues to expand, it is expected to yield positive results for the profession's future by increasing the number of CA students to meet a growing demand for qualified CAs.

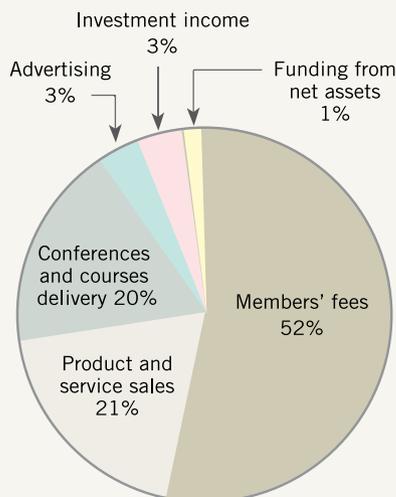
Another important education initiative for the coming year is the provision of a wide choice of courses and conferences to contribute to the continuing professional development of all CAs and to their clients' or organization's success.

Recently, the CICA announced the creation of 11 national practice areas within its structure to better serve members. This change will provide greater focus on key areas of importance to the profession such as audit and assurance, sustainability, tax, SME/SMP and reporting and capital markets. It is intended that by defining national practice areas the CA profession will be better positioned to respond to current developments and evolving trends and to deliver the information and capability our members will need in the future.

Enhancing and protecting the reputation of the CA profession continues to be a critical role of the CICA. Maintaining the CA profession's reputation as the gold standard with key stakeholders such as Canadian business leaders, governments, regulators and internationally influential groups contributes substantially to the value and pride that come with having the right to use the CA designation. CICA, along with the provincial institutes/ordre, will continue to communicate frequently with all stakeholders about the CA brand and our profession's role in promoting public interest. This year we are planning a new series of ads in our Decisions Matter advertising campaign, and we will continue to reinforce the value of CAs and the CA brand through proactive media, government and stakeholder communications.

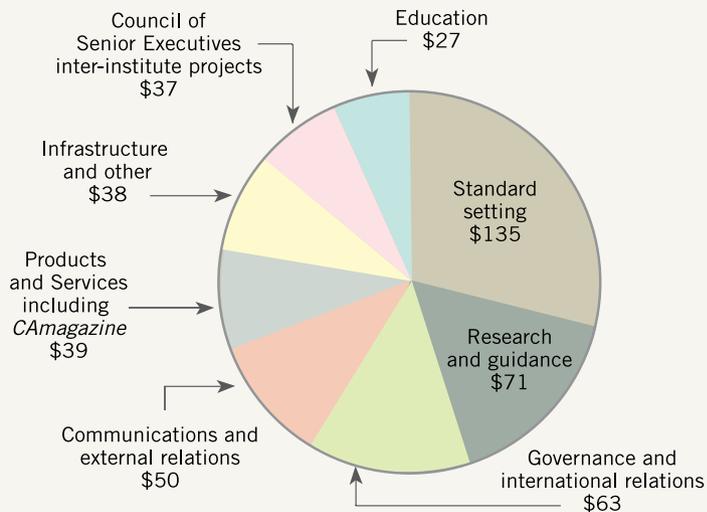
Publications and tools that support CAs in their work

CICA sources of funding for 2010-2011 plan



Net expenditures funded by CICA fee of \$460 per member¹

(Total 2010-2011 planned expenditures of \$56.6 million minus other sources of funding of \$26.9 million = \$29.7 million)



1	\$ millions	
Total planned expenditures	56.6	
Less other sources of funding:		
Conferences and courses delivery	11.5	
Product and service sales	12.0	
Funding from net assets	0.3	
Advertising	1.7	
Investment income	1.4	26.9
Net expenditures funded by members	29.7	

with clients and employers are another very important benefit offered by the CICA. In addition to the publication of *CAmagazine* and the *Report on Industry* and *CA Practice Advantage* newsletters, we develop valuable practitioner support such as Trust Services,

the resources members need to excel in their profession. We would like to hear your views on how we could enhance the member value we deliver. Your feedback will help guide us in future planning. Please contact us at executive.office@cica.ca.

PrimePlus and CICA's Privacy resources to help expand the professional services members can offer their clients. Resources such as *CA Source*, *Director Source* and *Career Vision* e-newsletter are designed to help CAs manage their careers. In addition to further expanding our extremely popular webinar programs, upcoming initiatives include establishing practical resources to help members achieve work/life balance; providing online communities of interest to enable members to network with peers and discuss key issues facing them; and developing a new toolkit for small practitioners and their business owner clients on cash management, issuing a completely revised version of the *Professional Engagement Manual*.

The CICA will also be expanding its international participation on behalf of the CA profession. Service on boards and committees of world organizations such as the Global Accounting Alliance and the International Federation of Accountants and participation in the financial support of their operation help ensure that Canada's CA profession maintains a strong influence among global accounting bodies.

The CICA is working hard to provide

Notice to Members — 2010-2011 CICA Member Fee

THE CICA BOARD OF DIRECTORS has set the 2010-2011 CICA member fee at \$460 — the same as last year's level. The last fee adjustment was made in April 2009. This funding will contribute to important initiatives including:

- Supporting members and the wider business community as the transition to the new Canadian reporting standards moves towards its final stages.
- Developing national practice areas within the CICA to better serve members' needs in focus areas such as reporting and capital market, tax, SME/SMP, financial literacy and sustainability.

- Supporting the national branding campaign to promote and enhance the market perception of the CA designation.
- Continuing to review the CA qualification process to ensure that it is attractive to qualified business and nonbusiness students, individuals seeking midcareer changes and internationally trained accountants.
- Providing guidance and resource materials for members in critical areas such as financial reporting, risk and sustainability; and the financial reporting aspects associated with climate change.
- Enhancing our international relationships.

Standards digest

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

RECENTLY ISSUED PRONOUNCEMENTS

CICA Handbook – Accounting	Date issued†
Amendments to Preface to the CICA Handbook – Accounting	April 2010
International Financial Reporting Standards (Part I)	January and April 2010
Amendments to Accounting Standards for Private Enterprises (Part II)	April 2010
Accounting Standards for Pension Plans (Part IV)	April 2010
EIC Abstracts	
Amendments to a number of Abstracts as a result of issuing Business Combinations, Section 1582	February 1, 2010
CICA Public Sector Accounting Handbook	
Amendments Resulting from the Adoption of IFRSs in Canada	June 2010
Liability for Contaminated Sites, Section PS 3260	June 2010
Tax Revenue, Section PS 3510	February 2010

RECENTLY ISSUED DOCUMENTS FOR COMMENT (to April 30, 2010)

Accounting	Comment deadline
ED Accounting Standards for Not-for-Profit Organizations	July 15, 2010
EDI Conceptual Framework: Reporting Entity	July 16, 2010
EDI Discontinued Operations	May 31, 2010
EDI Financial Instruments: Amortized Cost and Impairment	June 15, 2010
EDI Liabilities – Improving IAS 37	May 19, 2010
ED Pension Plans (Proposed amendment to Scope)	April 30, 2010
EDI Presentation of Items of Other Comprehensive Income	July 30, 2010
ED Termination Benefits (Proposed amendments to IAS 19)	May 31, 2010
Auditing	
ITC AASB 2010-2013 Strategic Plan	July 31, 2010
ED Dating of the Practitioner’s Report for Review and Other Assurance Engagements	May 15, 2010
ED Reporting on Controls at a Service Organization	May 6, 2010
Public Sector	
ED Financial Reporting by Government Not-for-Profit Organizations	July 15, 2010
ED First-time Adoption of Public Sector Accounting Standards by Government Organizations	April 16, 2010
rED Government Transfers	September 1, 2010
ITC PSAB 2010-2013 Strategic Plan	June 14, 2010

Legend

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

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

Canadian standards in transition — overview

Changing standards

In response to the evolving business environment, Canadian standard-setters are implementing a broad range of changes to accounting and auditing standards.

International financial reporting standards

The Accounting Standard Board's (AcSB) five-year strategy for the adoption of international financial reporting standards (IFRS) is now measured in months. Publicly accountable enterprises and government business enterprises change over to IFRSs on January 1, 2011. International standards are optional for some other organizations.

Free resources are available on the CICA's IFRS website — www.cica.ca/IFRS.

- Introduction to IFRS — Implications for Canadian Business. This three-hour primer course provides the ABCs of IFRS, aimed at people in the early learning stages
- Get to the Point. A two-part presentation designed to help small and mid-sized companies prepare for the changeover
- Sample financial statements and MD&A disclosures, plus a range of practical planning and implementation resources

Accounting standards for private enterprises

Private enterprises have the option to adopt IFRS or new made-in-Canada accounting standards developed to meet the specific needs of financial statement users. Notable differences from current Canadian GAAP include simplification of recognition, measurement and presentation in areas identified as being overly complex, particularly for financial instruments. The simplified accounting requires less use of fair values and significantly reduces disclosure requirements.

Background information along with education and training opportunities are available at www.cica.ca/PE.

NFPOs, public sector, pension plans

You can have your say on proposed changes to accounting standards for Canada's more than 160,000 not-for-profit or-

ganizations (NFPOs). Under new proposals out for comment, the 4400 series of standards and presentation model would continue to be used by private sector and government NFPOs, but the two sectors would use different reporting frameworks. The AcSB issued an exposure draft for private sector NFPOs and the Public Sector Accounting Board issued an exposure draft for government NFPOs. Feedback is requested by July 15, 2010. For more information visit www.cica.ca/NFP.

Public sector standards recently amended the introduction to their handbook, which directs different government enterprises and organizations to the most appropriate standards to follow. Read more at www.cica.ca/PS.

Along with other publicly accountable enterprises, pension plans must adopt new standards in January 2011. Canadian pension plans will follow recently issued accounting standards for pension plans (Part IV of the *CICA Handbook — Accounting*).

Canadian auditing standards

International standards on auditing were adopted as Canadian auditing standards (CASs), effective for audit of all financial statements for periods ending on or after December 14, 2010. A new quality control standard for firms (CSQC1) went into effect December 15, 2009, which applies to all firms performing assurance engagements.

For help in preparing for the new standards, check out the CICA's Guide to the New CASs in Canada, a reference that highlights areas of similarity and differences between CASs and existing Canadian standards as set out in *CICA Handbook — Assurance*. To find other education and implementation tools visit www.cica.ca/CAS.

Resources

Chartered Accountants of Canada provide a broad range of standards change materials. Subscribe to the e-newsletter, In the Loop — Standards in Transition, for regular updates. Visit www.cica.ca/TRANSITION.

Call for entries for corporate reporting awards

Do you take pride in your annual report? Are you looking to raise the bar even further? The Chartered Accountants of Canada's Corporate Reporting Awards is an opportunity to see how your report stacks up against those of other organizations that share your commitment to excellence. You are two simple steps away from entering in this year's program.

"This is a chance for companies to join Canada's business elite and show investors they have what it takes in all areas of corporate reporting," says Kevin Dancy, FCA, CICA president and CEO. "Companies that enter the Corporate Reporting Awards

are showing their leadership and confidence to investors."

Both public-sector and private-sector companies will be eligible to enter. For the first time, a category for provincial Crown corporations has been added. These join federal Crowns and TSX issuers and venture issuers listed on the TSX as of March 31, 2010.

Entrants receive written feedback from our panel of expert judges providing insights into best practices and ways to improve in all areas of corporate reporting.

Visit www.cica.ca/cra and find out the two simple steps required to enter.

Standards digest

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In today's world, embracing diversity is good HR, but it's good for business too. How far have accounting firms advanced in this practice?

by John Lorinc

THE business of INCLUSION

LAST YEAR, ROBERT DAVIS, A PARTNER IN KPMG'S TRANSFER PRICING

group found himself meeting a prospective client — a large Chinese manufacturer setting up a Canadian operation. While much was at stake with the proposed investment, a hurdle stood in the way. “There were significant language barriers,” he recalls.

As it happened, a KPMG associate in the Toronto office spoke

Illustration by BRAD YEO





Mandarin and Davis assigned her to the team handling the account. The client was “ecstatic,” Davis says, pointing out that this CA’s involvement extended far beyond translation because of the complex transfer pricing aspects of the deal. “In the absence of that [skill set],” he says, “we would have struggled to get this project to completion.”

Such stories are increasingly common in a profession that caters to a global business community. And this one had a happy ending. Indeed, experiences such as the one Davis recounts explains why the accounting industry wants to broaden its base.

But the widely recognized need for diversity exposes a stubborn paradox. Accounting firms have no difficulty signing up young women or candidates from a wide range of ethnic backgrounds when they recruit. But by the time these newcomers reached their early 30s, when they reached the manager level, they started to leave, with the result that the partner strata of the profession remains non-diverse.

When Deloitte’s Jane Allen took on the role of chief diversity officer in 2008, she quickly noticed this dynamic and embarked on a campaign to counter it. One of the keys to leveling the playing field, she felt, was to ensure that everyone who wanted to move up had the opportunity to be coached in what she describes as the unwritten rules for getting ahead. But she and her colleagues were also adamant that any such change needs goals and a means of measuring progress. “Where do we want to be five years from now?” she says.

So Deloitte began tracking such programs to see if they were making a difference. Last year, the company also decided to publish an annual diversity report, with the first edition released in October. According to the document, 17% of Deloitte’s leadership positions were held by women in 2009, up from 13% the previous year. But there was an even more impressive change

attributable to the firm’s diversity plan: in 2009, the percentage of women or visible minorities who made partner was 38.5%, a 10.5% increase from the previous year.

Promoting inclusion has been on the radar of North America’s accounting profession for decades, going back to the late 1960s when Ralph Kent, head of the American Institute for Certified Public Accountants (AICPA), declared in a landmark speech that the industry must embrace integration “in fact as well as in ideal.”

In September 1999, the *Journal of Accountancy* published a wake-up call showing that while there had been some progress, African-Americans, Hispanics and Native Americans remained at a significant disadvantage, with a tiny fraction of those hired becoming partners in nonminority-owned firms. Overall, African-Americans accounted for less than 1% of all CPAs, making airline pilots and navigators the only groups less diverse than accountants. The *Journal* concluded that the obstacles to advancement include discrimination, income disparity and lack of familiarity with the profession. Another US study of visible minority women in the profession also identified the lack of role models, negative stereotypes and a dearth of opportunities to establish connections within firms.

While AICPA maintains statistics on the makeup of the profession, there has been virtually no such academic scrutiny of the Canadian accounting sector. Anecdotally, in Canada’s largest urban centres, there has been a proliferation of sole practitioners or small partnerships made up of visible minorities or immigrants who have secured their certification. The composition of midsized partnerships in smaller or midsized cities, however, reveals much less of Canada’s changing ethnic makeup. As for the large firms, the Big Four have diversity programs targeting minorities, women, aboriginals, the disabled and the lesbian,

Accountants and First Nations

ABORIGINALS REMAIN among the most marginalized groups in Canadian society, despite the fact that a growing number live in or near large urban centres. At KPMG, there are a handful of aboriginal accounting professionals, but they represent only 0.77% of the firm’s Canadian workforce.

About two years ago, former prime minister Paul Martin launched the Martin Aboriginal Education Initiative (MAEI), with the goal of improving opportunities for First Nations communities and residents. One of its projects is a joint venture with the CICA, local school boards and four major accounting firms — KPMG, E&Y, BDO Dunwoody and Grant Thornton — to provide mentoring support to aboriginal youth with an interest in pursuing a career in the profession.

Gary Beveridge, a veteran tax partner with KPMG’s Hamilton office, volunteered to participate because he’d been working with clients such as the Aboriginal Music Awards

and the Six Nations Grand River First Nation, where he had come to know previous chiefs.

Working with the local school board in Brantford, Ont., the MAEI coordinator selected high school students with an aptitude for numbers and commerce and Beveridge recruited members of the local office to participate. Each member of the KPMG team is paired up with a student in a mentoring relationship designed to encourage them to stay in school, provide advice on course selection and pursue higher education. They also bring the students into the KPMG offices to show them what an accounting workplace is like. “We want them to be CAs,” says Beveridge. “Most of the students show that motivation.”

Someday, MAEI supporters hope, the graduates of this program may turn out to be the controllers, CFOs and founders of future companies.

JL



A diverse workforce is not just about more enlightened HR, it's also good for business. In a country dependant on immigrants and exports, some feel workplace

diversity in the profession has become one of the keys to winning new clients

gay, bisexual and transgender (LGBT) community. Yet only one has a visible minority partner serving on the top leadership council, which remains dominated by white males.

At the same time, everyone interviewed for this feature agrees that a diverse workforce is not just about more enlightened HR departments, but is also good for business. Many public-sector clients now have diversity expectations built into their request for proposals as a result of employment equity legislation that extends to contractors. But well beyond the realm of government gigs a growing number of corporate clients function in a global market, where firms deal with a wide range of languages and cultural norms. Indeed, in a country dependant on immigrants and exports, some feel workplace diversity in the profession has become one of the keys to winning new clients.

Four years ago, a PricewaterhouseCoopers BC managing partner approached Peter Guo, a Chinese Canadian who is a partner in PwC's advisory services group, about launching a pilot project to develop a regional strategy for making a more formalized plan to address diversity and inclusion by using existing policies. As Guo explains, the BC operation gets a lot of out-of-province or out-of-country transfers because of Vancouver's quality of life. For recruiters, he explains, those transfers posed some basic questions. "Do we really understand the communities we're drawing from? And what are we doing to bolster our human capital?"

Guo put together a regional strategy with three pillars: developing a business case for promoting diversity among both its campus recruits and experienced hires; establishing employee resource groups for various diversity groups; and raising awareness with education and partnership initiatives.

He also wanted to collect data on the composition of the workforce, based on additional questions about diversity on employee surveys and through interviews. The magic sauce, says Guo, turned out to be a buddy system: the associates and managers who succeeded could turn to a mentor or coach who could provide a road map to success. "The strength of the firm is built around these mentoring connections."

For many accounting professionals who have turned their attention to addressing the diversity deficit at the top ranks,

most agree that one of the major challenges is finding ways to allow women and visible minorities to benefit from the same mentoring that is available to white males.

Allen points out that part of the problem is that in most workplaces, people gravitate to those with similar backgrounds and experiences. In practical terms, this dynamic means that some younger, female or visible-minority professionals will not be asked out for lunch by more senior people, or their names won't be put forward for interesting or challenging assignments. The trick to bringing along outsiders, Allen says, is to first acknowledge and then break down this unconscious bias.

Different firms have adopted different techniques for addressing the issue.

Some firms have adopted a hard-nosed approach and set clear targets, based on the well-established accounting industry maxim that what doesn't get measured doesn't get done. Two years ago, KPMG Canada decided to boost the proportion of women and visible minorities at the partner level by 10% over five years, moving from the current level of 18% to 28%. "It's not about quotas or special treatment," says national director of diversity Michael Bach, who started the firm's Pride group for gays and lesbians in 2005. Rather, he says, it's about taking a more broad-minded approach to professional development.

For example, Ernst & Young, one of the leaders in diversity management, established a program called Career Watch, which was designed specifically to identify and encourage the careers of women and visible minorities. The eight-person executive committee meets twice a year to discuss the progress of 48 hand-picked senior managers, all of whom are considered talented but haven't yet made partner. Each member, says Karen Wensley, an E&Y partner and member of the committee who was most recently national HR leader, takes on six mentees, and at those biannual sessions they make sure their mentees are progressing and getting the right experiences. "We leave the meeting with an action plan," says Wensley.

She recalls working with an Asian-Canadian CA who, though very talented, told her he didn't see a lot of partner role models in the firm, nor opportunities for promotion to the partner level. Wensley worked with the young man, offering encour-

Canada's earliest approach to diversity was to avoid acknowledging differences. Over the past decade, the thinking has evolved to recognizing differences and leveraging them to the company's and the individual's competitive advantage

agement, tactical advice and examples of other Asians who have done well at E&Y. When she first met him, he thought he would eventually leave the firm, but now, she says, "I can really see him gaining that self-confidence."

E&Y Canada's inclusiveness leader Jeannine Pereira says the six-year-old program is delivering results in terms of the makeup of the partners. "We have made good progress. The gender/visible minority makeup has changed in the partnership makeup across Canada," says Pereira, whose parents are immigrants of Goan descent who left Uganda and settled in Montreal. She adds that the company has a talent-management program that brings forth a variety of talent into its leadership.

Other firms have turned to hearts-and-minds campaigns to bolster the acceptance of groups that tend to be on the margins. "It goes beyond compliance and takes diversity to the next stage, which is being an even more inclusive organization," says PwC's senior manager, diversity and inclusion Richard Pinnock, an MBA whose background is Caribbean and German and who joined the firm in 2009 with a long track record in marketing and diversity management.

As part of PwC's diversity strategy, introduced as a pilot project in 2008 and fully rolled out in 2009, a series of half-day seminars were launched across the country as part of a national diversity training program. To date, 1,500 PwC employees (the sessions are mandatory for the approximately 2,500 employees at manager level and higher) have participated in 75 sessions made up of two modules in local cities across Canada, but Pinnock is quick to point out that they do not only follow the traditional mode of a speaker with a projector and a Power-Point presentation.

Rather, the seminars involve role-playing, using scenarios

that may come up in a cosmopolitan business environment. In one example, Pinnock says, participants are taken through a scenario in which a senior manager who doesn't consume alcohol for religious reasons is invited to a client holiday party. These kinds of sessions allow PwC accountants to experience a virtual situation and share solutions they may well put into practice back in the real-world setting of their offices.

For its part, E&Y seeks to go the next step by encouraging mentors to look for opportunities to soak up some of the culture of the groups represented within their firms. By way of example, Pereira says that this past year, she attended Pride Week events with her mentee, something she hadn't done in the past. "The point is to get out of your comfort zone and learn something different," she says.

What is clear, however, is that diversity training and improved mentoring must be accompanied by structures and practices to allow accounting professionals from diverse communities to share experiences and establish links with senior people with similar backgrounds.

The big four firms have established or are creating affinity groups (a.k.a. diversity circles or employee resource groups) — networks made up of associates and partners with a common focus. Some are for women with families, while others were established by LGBT accountants or employees of Chinese, Caribbean/African or South Asian background.

Deloitte, for example, set up a program two years ago called Step Up. Its focus is to provide senior managers aspiring to be partner with specific coaching in how to network and market, both inside and outside the organization.

The Pride network Bach set up encompasses members in almost a dozen KPMG offices across Canada; internal surveys

have shown that about 5% of the firm's employees are gays or lesbians. Deloitte's gay and lesbian community has also established an LGBT leadership council, which the company recognized so those professionals didn't have to leave their identities at the door when they came to work. "It made it okay in the firm to use the words 'gay' and 'lesbian' in meetings and not have people feel shocked," says Allen.

Yet in some cases, the establishment of such networks is not a risk-free exercise. When an LGBT group was established in PwC's BC operation, Guo says, the organiz-

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ers had to use a light touch when sending out invitations to participate. “The point wasn’t to out people,” he says. A Chinese inclusion circle was established last summer, and South Asian one will be launched this spring/early summer.

PwC provides the groups with a budget out of the recognition that it’s not just about mutual support, says Pinnock. When an employee resource group is being formed, it must develop a charter and a plan to forge links outside the firm that may lead to new business opportunities and talented recruits. “We’re empowering our groups with an actual budget and encourage them to be strategic with executing their annual business plan, which is aligned with the firm’s goals and objectives,” he says. “It’s not something that’s nice to do. There’s actually a business case.”

Those with a track record in this field know that the acid test of inclusiveness policies is the degree to which they are knitted into a firm’s day-to-day business operations. Pereira explains that E&Y Canada’s earliest approach to diversity was to avoid acknowledging differences. But over the past decade, the thinking has evolved to not only recognizing differences but leveraging them to the company’s — and the individual’s — competitive advantage.

She points out that not everyone in a large firm has the same kind of access to high-profile clients and files. Recognizing this reality, the company has focused on creating client teams with a broad cross section of backgrounds. But, she adds, “It’s not just about, ‘OK, do you have an Asian female? Tick box.’ That’s not the purpose.” Rather, Pereira says, the goal is to create teams with competencies geared to the clients. “Diversity to us is a strategy. It’s the thing we’re using as a weapon to achieve market growth.” She says that this is a two-fold strategy: E&Y is focusing on the client-team mix and being fair in opportunities to its accountants.

As an additional incentive, E&Y accountants are also evaluated on inclusiveness as part of the performance-management process. “Everyone owns it,” Pereira says.

Bach points out that there is mounting evidence from organizational behaviour experts about the importance of diversity of thought in work teams. When everyone working on one file brings roughly the same set of experiences to a set of problems, they will likely come up with similar solutions instead of challenging one another.

But there is an even broader dynamic driving this whole evolution, which is that most companies and organizations are experiencing similar changes in their workforces. Over the next few decades, that process will only accelerate in Canada because the combination of an aging population and declining birth rate means that by 2030, immigrants will account for all new growth in the labour force.

“Ultimately,” says Pinnock, “it comes down to becoming better equipped to meet the needs of our clients who are going through the same transformation toward becoming more inclusive.”

John Lorinc is a freelance writer based in Toronto





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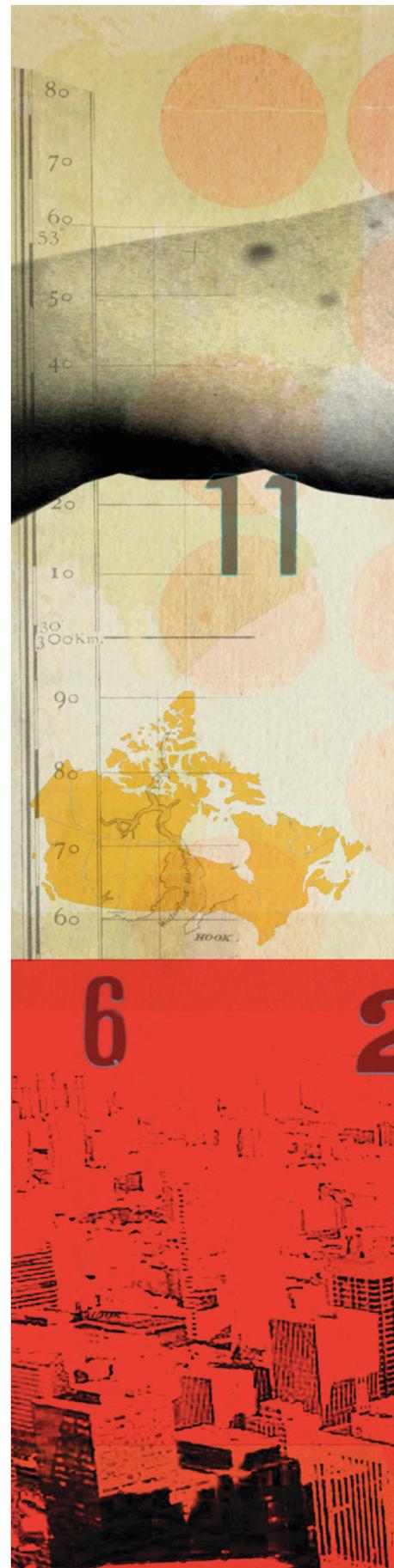
A lagging economic recovery and tight credit markets continue to plague expansion opportunities, but there is a cure

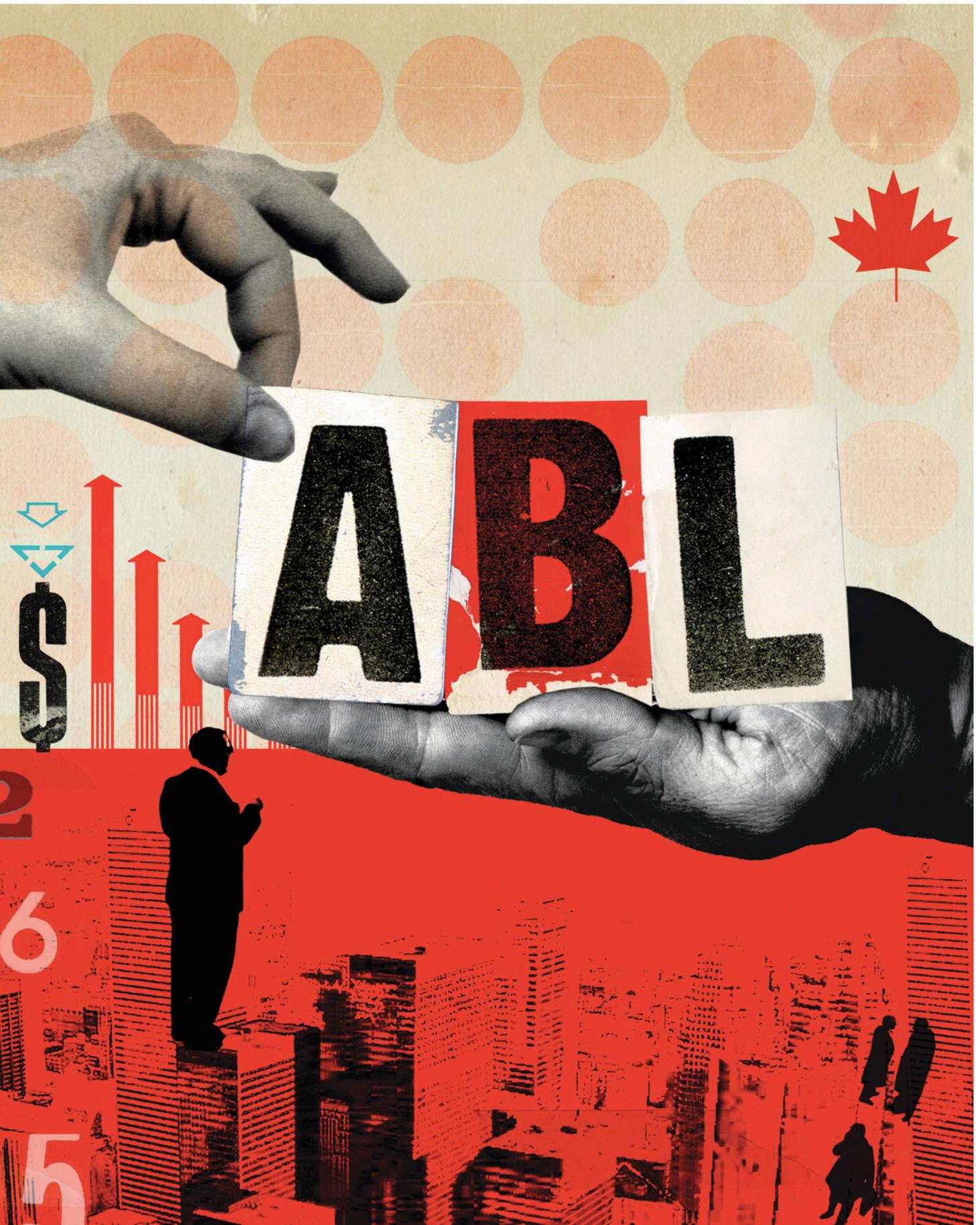
By Neil Blair + Joe Rodrigues

Use your A\$SETS

With the first four months of a new decade behind us, politicians and central bankers are conservatively optimistic that 2010 will see a global economic recovery. On February 19, 2010, Ben Bernanke, chairman of the US Federal Reserve, surprised the markets with a 0.25% increase in the overnight lending rate to 0.75%. Although such an increase can be interpreted as primarily symbolic, undoubtedly the Fed's intentions were to signal that the US, if not the global, financial system is stronger than it was a year ago.

Illustration by MICHELLE THOMPSON





However, signs of weakness in the global recovery, especially the global credit markets, continue to plague the financial system. High-profile stories such as the Dubai World Islands project's de facto default in November 2009 and the more recently out-of-control budget deficits for some European Union members continue to bestow concern on the public debt markets.

Based on the third quarter of 2009, with GDP results showing 0.1% growth for the quarter, Canada technically emerged from a recession. Canada's emergence from recession has not been without a cost, with the budget deficit at a record high and rumours of federal and provincial asset sales making headlines. Comparatively though Canada's deficit is not nearly as high as other developed economies and as global stability returns Canada is well placed for growth.

Despite the signs of recovery, a variety of companies in the industrial and automotive sectors still have a way to go before beginning to realize meaningful profitability — and tight credit markets are aggravating their problems. On one hand, there are opportunities to purchase struggling competitors at favourable prices, on the other, there are major challenges, such as managing the balance sheet and maintaining sufficient liquidity.

End of an era

The benign economic conditions of the past decade created an expectation of cheap debt capital. In many instances debt was treated as a commodity. Those conditions are behind us and are unlikely to return in the near term. While the equity markets have rallied from the lows of March 2009, credit remains tight, with much lower levels of leverage available for corporations in Canada and across North America. The megacap private equity deals that incorporated large leverage multiples involving corporations such as TXU Corp. and First Data Corp. are unlikely to be repeated any time soon. The Texas Energy Future Holdings merger with TXU Corp. in 2007 occurred at an enterprise value to earnings before interest, taxes, depreciation and amortization (EBITDA) multiple of 8.2x and the Kohlberg Kravis Roberts & Co. acquisition of First Data occurred at an enterprise value to EBITDA multiple of 13.4x.

While the megadeals dominated the headlines, the mid-

Net debt as a percentage of GDP



market was also awash with an abundance of debt capital and corporations amassed unprecedented levels of leverage. The competition to provide financing among banks was fierce. Whether a corporation was large or small, the answer when looking for financing was the same: approach a number of financial institutions, create competition and draw down as much debt as required.

This worked in sync with the operating model of most financial institutions, which was to originate as many loans as possible and syndicate and securitize those loans into the secondary market as soon as the financing transaction was closed. Competition resulted in debt packages that were collateral and covenant light with cash flow analysis a major contributor to credit decisions and the leverage available.

The landscape today is very different for financial institutions and corporations. In the past, selling loans into securitization conduits reduce the capital requirements of banks. However, for financial institutions the securitization market has dried up and the regulatory environment is putting ever increasing scrutiny on risk-taking activity. Annual issuance of global collateralized debt obligations (CDO) have declined to US\$4.2 billion in 2009 from US\$520 billion in 2006, with a notable decline from 2008 to 2009 indicating that a rebound in this secondary debt market is nowhere in sight. In addition trillions of dollars remained trapped in various loan conduits from past CDO issuances.

Despite this, in Canada traditional forms of credit from primary and secondary lenders are beginning to flow albeit at higher costs and only for certain borrowers. Schedule 1 banks have increased spreads sometimes by as much as 200 basis points to 400 basis points over prime and are requiring significantly higher closing fees. That being said, there are still numerous corporations that are funding working capital through mezzanine and venture capital funding that is typically looking for returns in mid-teens to high 20s.

In short, while credit is still available, the economic climate has changed the appetite, approach and structures available. For corporations the routes to access capital have changed depending on industry, size and performance.

Global CDO annual issuance



Source: SIFMA

Rated debt in demand

Interestingly, total reported debt issuance in Canada has been at record highs. According to Investment Industry Association of Canada, there were \$170 billion in financings for the first three quarters of 2009, which represents an increase of more than 33% from the same period in 2008. However, this increase has been predominately driven by government bond and public debt issues. For large corporations the public debt markets have been an excellent source of capital, with a large amount of interest from investors looking for investment-grade debt to provide them with steady yields. For example, in the third quarter of 2009 alone Canadian issuers Nexen Inc., Potash Corp. and Manulife Financial each raised more than \$1 billion in the public debt markets.

Additionally, increased government spending has prompted large treasury issues and provided the much-needed stimulus that is starting to reap rewards as economic activity picks up.

While the statistics are impressive and suggest that credit is flowing, they are not representative of lending activity and availability in the middle market where access to public debt instruments is challenging, if not impossible, in many circumstances. Middle-market companies, chiefly because of their relatively small size and limited market reach, generally don't qualify for investment-grade ratings. And the public market for noninvestment grade debt is relatively thin.

For corporations without access to public debt markets, the options are very different. For many private companies and middle-market companies, conventional routes have disappeared or the terms have changed so drastically that corporations are rethinking their growth strategies. Of course every situation is unique and for some companies access to capital remains relatively simple. However, there are many that are finding themselves without the numerous options available only about 18 months ago. Aggressive cash flow leverage is very challenging and the cost of capital — even with overnight bank lending rates at an all-time low — is expensive with increased interest-rate spreads and fees.

Even where access to capital is less onerous, corporations are reticent to open credit agreements, which have interest rate spreads and terms agreed to during the debt bonanza, for fear of eroding favourable terms. Where growth through capital is on the agenda, this is leading to innovative structures being utilized with, for example, sale and leasebacks on unen-

cumbered properties providing cheaper access to capital while leaving current facilities in place.

Where traditional financing is required, the availability varies considerably by sector. It is particularly challenging in areas that have been more severely impacted by the economic downturn. Canada's automotive sector is a good example. While many companies in this sector have an abundance of hard assets, many balance sheets have been overshadowed by operating losses. As the sector experiences one of the worst downturns in history, corporations have been challenged to raise capital, with financial institutions looking to reduce, not increase, exposure. As a result, even good businesses are having to re-think

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their approach to raising capital, with sector exposure rather than fundamentals driving credit decisions.

The ABL solution

Notwithstanding the difficult credit and economic environment, there are viable financing options. Asset-based lending (ABL) in particular has seen an increase in activity in Canada over the past few months. ABL has never been very popular in Canada because the traditional form of bank financing has been cash flow and earnings-based. For the most part, Canada is more comparable to Europe than the US in terms of volume of ABL transactions. ABL is a common form of commercial finance in the US comprising up to 50% of all operating loans. By comparison, although the banks do not release exact figures, it is generally understood that ABL in Canada comprises a much smaller fraction of the total.

Although ABL has been offered in Canada for the past 15 years and major Canadian banks began offering ABL to its clients in the late 1990s, until recently, most corporations have elected to remain with traditional operating- or term-loan arrangements.

The biggest attribute of ABL is that in times where earnings are low, or nonexistent, due to a trough in the economic cycle, ABL is still available because it is highly dependent upon collateral, not earnings per se. ABL is not unlike traditional operating loans in that financing is advanced based on the businesses level of accounts receivables and inventory. However, ABL will normally provide higher advance rates on both accounts receivable and inventory with rates as high as 90% of accounts receivable and 65% of inventory. Additionally, where traditional operating loans will normally only advance on total inventory, ABL loans are often structured to provide specific advance rates on raw materials, work-in-process and finished goods that can provide the borrower with even larger advances depending on the recoverability of the inventory classification. Additionally, asset-based lenders can provide term facilities against property, equipment

and machinery using similar formulas to those used for operating loans. Essentially, where there is an asset that can be appraised, there is a loan that can be made. There is often a perception that ABL financing is a high-cost alternative to traditional loans; however, the reality is ABL products are priced relatively similar to other forms of comparable facilities. In addition, because of the reporting requirements, ABL financing is much lighter on cash flow covenants and that is ideal for seasonal businesses with fluctuating monthly performance or corporations looking to acquire distressed assets. In many cases the only covenant required will be a 12-month rolling fixed charge cover covenant ratio that can be as low as 1:1. ABL can also provide flexible lending limits, with the deal being structured to allow for advancement of funds over the authorized amount in certain circumstances if the collateral is available. This allows corporations to draw down more money in peak periods without having the cost burden of a substantial unused line fee in nonpeak periods.

The main catch is that asset-based lenders will typically track accounts receivable balances and inventory levels on a weekly, and in some cases daily, basis. In addition, lenders will often require receivables to be deposited into their account (or a lockbox) on a daily basis. This gives them further security over the receivable assets as they go directly to the financial institution. Although the reporting requirements are more onerous, management of many corporations find this improves their internal reporting and allows them to react to market conditions more quickly.

While RBC was one of the first Canadian institutions to offer such financing, the majority of major Canadian banks offer ABL to their clients. For instance, Scotiabank has hired a well-known figure in the ABL market in Canada, Wayne Ehgoetz, to head its ABL group through its Roynat subsidiary; TD has acquired the ABL business of ABN Amro, and CIBC has a strategic partnership with CIT's ABL operations. In addition, Wells Fargo has broadened its position in the Canadian marketplace through its acquisition

ABL quick facts	
Typical interest rates	LIBOR +1.5% to 3.5%
Amortization of term loans	Two to five years, straight line
Amount advanced against accounts receivable	Up to 90% of book value
Amount advanced against inventory	Lesser of 65% of book value or 85% of orderly liquidation value
Exclusions from borrowing base	Accounts receivable more than 90 days old Contra accounts where the customer is also a supplier Slow-moving and excess inventory Lower advances on specific component inventory and work in progress
Other reserves against borrowing base	Amounts payable that could (or should) have a priority over the lender such as unpaid wages, vacation pay, source deductions
Availability block	An arbitrary block used in deep turnaround situations to provide for more headroom in the borrowing base
Dilution	A factor applied to eligible accounts receivable to provide for credit notes, returns and allowances
Reporting	Could be as frequent as weekly

On the surface, ABL may seem limited in terms of structure and application. But it can be reasonably flexible and there are options available



of Wachovia, GE continues to play an active role and a host of other independent boutiques and international banks offer ABL.

Further support for corporations struggling to raise capital in Canada is coming through government-backed institutions such as the Business Development Bank of Canada (BDC) and Export Development Canada (EDC), which have significantly increased their interest and ability to fund. BDC recently reported that the amount of loans accepted by its clients rose to \$2.3 billion for the six-month period ended September 30, 2009, a 54% increase over the same period in 2008. These results were largely due to transactions made under the Business Credit Availability Program, where BDC, EDC and private-sector financial institutions collaborate to improve the availability of credit.

On the surface, ABL may seem limited in terms of structure and application. But it can be reasonably flexible and there are options available. Over-advances can be structured into ABLs, which, in part, rely on cash flow not direct collateral. These components, often referred to as a stretch piece or air ball, help companies seeking to maximize leverage. Experienced asset-based lenders understand the interplay between lending on margins that vary between 85% of orderly liquidation values and 65% of book values, knowing there is potential unused collateral that can be partially used to support stretch pieces. Moreover, excess collateral inside the working capital base can be, in some instances, used for term facilities in the event of a recapitalization of the company or other term-debt requirement.

New realities; new opportunities

The emergence of ABL, lower levels of leverage and tighter covenants are just a few of the realities that corporations in Canada have to live with as the global economy recovers. These conditions

are the new reality and corporations wanting to undertake capital transactions will need to do so with this backdrop. This does not mean that as the economy returns to stability there will be less activity; merely that activity will be structured differently.

Increased capital and M&A activity will be driven over the next few years by corporations with debt facilities coming to an end that will find that structures and levels of leverage available to them often will be dramatically different to those negotiated five years previously. While there will undoubtedly be challenges, corporations that consider their options early, seek advice and are open to equity-based solutions will be well placed to recapitalize for the future and become part of the new reality.

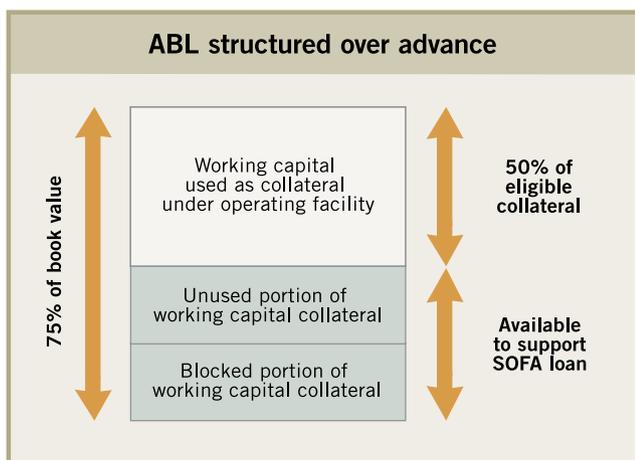
For a transaction to take place there needs to be a willing purchaser and seller. Over the past 24 months, the spread between bid and sell expectations for transactions was so far apart that outside of distressed transacting this was not the case. As a result, the M&A market was almost nonexistent. As this market begins to stabilize and future earnings can be predicted with a bit more certainty, the pricing gap has started to close and 2010 is likely to see a return to M&A. While credit remains tight there is a propensity to lend and products such as ABL are allowing both corporations and private equity to look for opportunities to invest.

Vendors are also starting to see opportunities to realize value. While they may not realize some of the earnings multiples seen 36 months ago, good businesses with stability of earnings and strong management are receiving good prices. If, as everyone hopes, stability remains pent up, transaction demand will drive further M&A activity. One of the fundamentals that existed in 2005, 2006 and 2007 — the large number of baby boomers who need to realize capital from their business — has changed in only one respect: the baby boomers are older. In combination with an estimated record US\$500 billion of dry powder sitting in private equity funds, there is clearly pent up M&A demand.

Conclusion

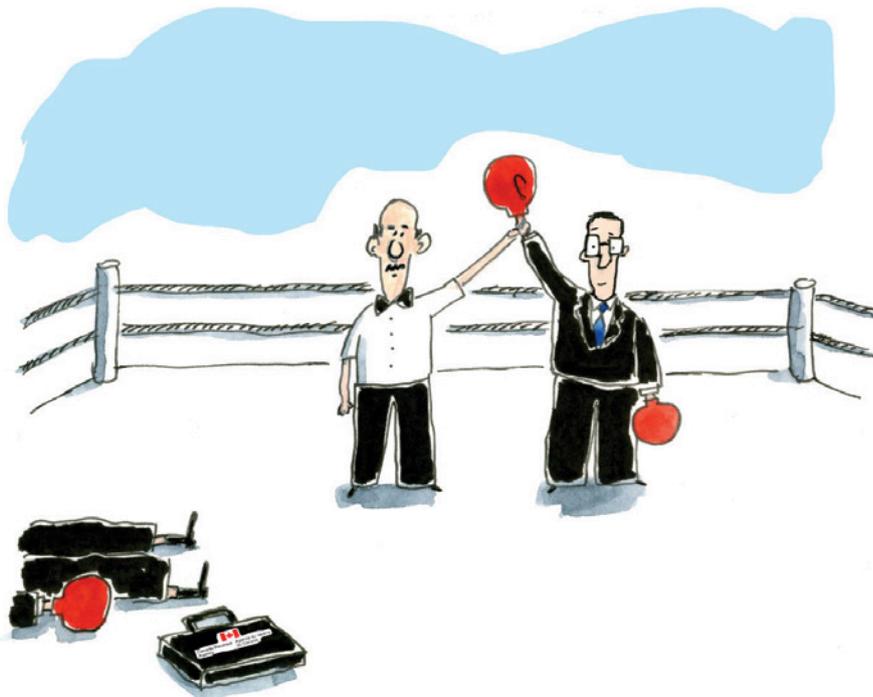
Corporations with a lending facility coming to the end of its term or that have requirements for debt to expand operations may be faced with various challenges. While credit is still tight, there are options with ABL as a viable one for a host of Canadian companies. As confidence returns to the market and M&A activity accelerates, we will no doubt see the return of more aggressive cash-flow lending but we are unlikely to see the highs of 2005, '06 and '07 for a long time. Even as market conditions and credit availability improve, ABL has made its mark and is in Canada to stay.

Neil Blair and Joe Rodrigues are vice-presidents of KPMG Corporate Finance Inc. in Toronto



An important win

A recent court decision meant victory for the taxpayer and also gives guidance on transfer-pricing disputes



The Canada Revenue Agency has become increasingly vigilant in auditing and assessing the pricing of crossborder transactions between related parties. Until recently, there was very little Canadian case law on the subject, but the increased audit activity is resulting in more transfer-pricing disputes working their way through the courts. The outcome in these cases is largely fact dependent, but they also address important issues such as the appropriate transfer-pricing methodology and the meaning of arm's length. The first significant decision was *GlaxoSmithKline Inc. v. The Queen*, 2008 TCC 324, which dealt with the transfer-pricing methodology to be used in the context of the purchase of a prescription drug ingredient. Recently, a second decision of the Tax Court of Canada in *General Electric Capital Canada Inc. v. The Queen*, 2009 TCC 563, released on December 4, 2009, considered the application of the transfer-pricing rules to guarantee fees charged by a related foreign entity. The Tax Court of Canada allowed General Electric Capital Canada's (GEC) appeal of adjustments of more than \$136

million. The decision is important not only because of the magnitude of the proposed adjustments, but also the findings with respect to the appropriate interpretation of the arm's-length principle in this context. The decision is more than 80 pages long and deals with a myriad of legal issues ranging from the modern approach to statutory interpretation to the role of expert witnesses. Our analysis focuses only on the key transfer-pricing issues addressed by the tax court.

During the years under appeal, the taxpayer, GEC, was a financial services company that carried on a number of businesses in Canada, including equipment, vehicle and real estate financing and technology management services. It was a wholly owned, indirect subsidiary of General Electric Capital Corp. (GECUS), a US corporation. The taxpayer financed its operations by borrowing funds from capital markets through the issue of debt in the form of commercial paper and unsecured debentures.

GECUS began guaranteeing the taxpayer's debt in 1988 but only started charging guarantee fees in 1995. Prior to 1988 the GEC debt had been guaranteed by a related Canadian company. The guarantee fees were calculated at

the rate of 1% per annum of the principal amount of the taxpayer's debt securities outstanding from time to time during the year, as evidenced by written agreements entered into by the taxpayer and GECUS. The taxpayer deducted the fees from its income for tax purposes.

The Minister reassessed the taxpayer on the basis that former subsection 69(2) or current paragraph 247(2)(a), as the case may be, of the Income Tax Act applied to deny the deduction of the guarantee fees in respect of its 1996 to 2000 taxation years. The Minister also considered the fees to be benefits conferred on GECUS by the taxpayer under subsection 15(1), which benefits were deemed to be dividends pursuant to subsection 214(3) of the act. As a result, the Minister also reassessed the taxpayer under Part XIII for failure to withhold tax on the deemed dividends.

The basis of the Crown's position was that the taxpayer could have borrowed the same amount at the same interest rate without an explicit guarantee from GECUS. According to the Crown, the taxpayer would have had the same credit rating as GECUS by virtue of its affiliation with the General Electric group of companies. Therefore, the taxpayer received no economic benefit from the guarantee and, as a result, the arm's-length price for the guarantee should have been nil.

As an alternative position, the Crown argued that if the taxpayer's credit rating was not equal to that of GECUS, the court should identify the interest-rate spread based on the difference

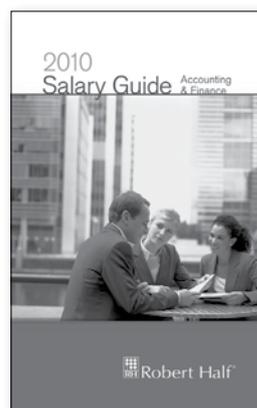
between the taxpayer's and GECUS' credit rating (the yield approach). Then appropriate adjustments should be made to the interest rate differential to account for benefits that the Crown asserted flowed back to GECUS under the guarantee agreement.

The taxpayer argued that the affiliation benefit, if any, enjoyed by the taxpayer from its place in the General Electric group of companies could not be considered under former subsection 69(2) or current paragraph 247(2)(a) of the act. The scheme of these provisions requires that the court consider how the parties would have arranged their transactions if they had been dealing at arm's length. Therefore all distortions arising from the parties' relationship had to be eliminated and the taxpayer's credit rating prior to the guarantee had to be determined on a stand-alone basis, without any support (explicit or implicit) of GECUS. This rating, according to the taxpayer, would be a BB at best for the years in question, as compared with the AAA it actually received from credit rating agencies throughout the years under appeal.

The taxpayer also argued that the Crown's theory that the guarantee was not needed was not supported by the evidence adduced at trial. The guarantee was necessary to satisfy bona fide business needs of the taxpayer. This was confirmed by the fact that an explicit guarantee from GECUS had been in place from 1988 onward. Rating agencies and investment dealers would demand that GEC maintain standby letters of credit in the amount of \$3 billion if it tried to gain access to the Cana-



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dian commercial paper markets without the explicit guarantee. Justice Hogan allowed the taxpayer's appeal and vacated all the Minister's assessments. The tax court heard evidence from 20 witnesses, 12 of which were qualified as expert witnesses. More than 30 pages of the tax court's decision are devoted to a summary of the testimony of these witnesses.

The parties agreed there was no meaningful distinction between former subsection 69(2) or current paragraph 247(2)(a) of the Income Tax Act so the Court proceeded to deal with the text of the latter provision as it is more complete and "represents Parliament's last word on the matter" (para. 181).

Justice Hogan rejected the taxpayer's argument that the taxpayer's credit rating had to be determined on a standalone basis as suggested by GEC. In reaching this conclusion, he considered the relevant authorities on the meaning of arm's length, including *Crawford & Co. v. Canada* [1999] TCJ No. 850 (QL); *Re Galaxy Sports Inc.* 2004 BCCA 284; *Pocklington Foods Inc. v. Alberta* (1998), 159 (4th) 81 (Alta QB), *GlaxoSmithKline Inc. v. The Queen*, and the OECD Transfer Pricing Guidelines. He concluded that the concept refers to how independent parties negotiating with each other in the marketplace would behave for the purpose of achieving the best terms in respect of the purchase or sale of goods and services (para. 196). It was therefore important to maintain the relevant economic characteristics of the controlled transaction in order to ensure the reliability of the comparisons with uncontrolled transactions. In this context, the implicit support of the parent company could not be ignored.

However, the matter did not end there. Justice Hogan had to consider the appropriate framework for the determination of an arm's-length price. Both parties agreed that in the traditional hierarchy of transfer-pricing methods there were no comparable uncontrolled transactions and the resale and cost plus methods were inapplicable. The taxpayer put forward an insurance-based model and a credit default swap methodology, neither of which were adopted by the tax court. Instead, the court found that the yield approach put forward by the Crown to assess the guarantee's value was the most appropriate. However, the proper application of this approach to the facts in the case favoured the taxpayer.

Under the yield approach, the benefit enjoyed by the taxpayer as a result of GECUS' guarantee was equal to the interest cost savings for the taxpayer determined by comparing the interest cost of unguaranteed debt to that for guaranteed debt. To determine the interest savings for the taxpayer, the Court had to arrive at a factual finding of what the taxpayer's credit rating would have been without the explicit support of its parent.

Based on the evidence and the expert testimony, Justice Hogan concluded that the guarantee was executed for legitimate business reasons. If GECUS had removed its guarantee, investors would have taken that as a sign that its appetite for providing credit support for the taxpayer had diminished. Without a guarantee, the taxpayer would have been unable to procure standby letters of credit in an amount sufficient to cover its commercial paper program as the Canadian commercial paper market was

geared to the highest investment-grade issuers. Furthermore, the implicit support of GECUS referred to by the Crown does not provide sophisticated investors — which are the primary purchasers of commercial paper — "the same degree of reassurance that the parent will act [in the event of default] that a legally enforceable guarantee provides" (para. 287).

In the final analysis, Justice Hogan sifted through the conflicting expert testimony to conclude that the taxpayer's final credit rating without explicit support would be in the range of BBB-/BB+, the borderline of investment-grade paper, as compared with AAA, the highest rating available (achieved with the guarantee in place). The interest cost savings to the taxpayer based on the differential between BBB-/BB+ and AAA was determined to be about 1.83% (based on one expert report). Therefore, the 1% guarantee fee was equal to or below an arm's-length price in the circumstances. Justice Hogan suggested that the net economic benefit to the taxpayer was in fact greater than the 1.83% determined under the yield approach because, without the guarantee, GEC would not have been able to execute its business plan as it would have been unable to obtain standby letters of credit in an amount sufficient to cover its commercial paper program. The

The court pointed out that transfer pricing is a question of facts and circumstances and it would be dangerous to draw general inferences from this particular case

court further noted that the taxpayer did not reimburse GECUS for the costs incurred by the latter under its standby facility.

This decision represents a significant victory for the taxpayer and provides guidance on the transfer-pricing methodology to be applied in the context of guarantee fees charged by foreign entities. Perhaps the most important conclusion reached by the tax court is that in addressing the arm's-length concept, it is important to maintain the relevant economic characteristics of the controlled transaction in order to ensure the reliability of the comparisons with uncontrolled transactions. Therefore, the implicit support of a parent company cannot be ignored in pricing debt transactions. However, the court was careful to point out that transfer pricing is largely a question of facts and circumstances and that "it would be dangerous for taxpayers to draw general inferences from this particular case, as differences in facts or circumstances or in the economically relevant characteristics of a transaction can lead to a very different result" (para. 273). Following on this point, it is unclear if or how the concept of implicit support by a parent would apply to other types of transactions such as the sale of tangible goods. The Crown filed an appeal to the Federal Court of Appeal on January 4, 2010.

Rene Fleming, CA, is an executive director with the transfer pricing practice of Ernst & Young in Ottawa. Jennifer Smith, LLB, is an executive director in the Ottawa tax practice with Ernst & Young LLP

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

Welcome to your client's lawsuit

A recent Alberta court decision could open the door for CAs to be pulled into litigation where they have no interest

There is a story about an aged businessman on his deathbed reminiscing about the ups and downs of his career. He was heard to say, "I lost my fortune twice in my life; once when I lost a lawsuit, another when I won one." No doubt he was referring to the cost and inconvenience of examinations for discovery.

A recent decision from the Alberta Court of Queen's Bench has opened the door for parties in lawsuits to compel the attendance of the other parties' accountants at examinations for discovery prior to trial. This has the potential to put a heavy burden on accountants who may have concluded their retainer with a client only to find themselves embroiled in litigation in which they have no interest and no time to participate.

Examination for discovery is a process by which witnesses are obliged to appear and be questioned under oath about any and all facts related to a particular lawsuit. In the US, this type of examination is known as a deposition. The examination for discovery process is generally the lengthiest and the most expensive step in a lawsuit. It can take one day or weeks (spanned over periods of months, if not years) depending on the issues in the lawsuit and

the number of parties and lawyers involved. Discovery is generally regarded as being overly time consuming, uncomfortable, invasive and occasionally soul destroying. Legal authors and the courts have frequently commented on the excessive length and abuses of the examination for discovery process. Those participating in discoveries do not soon forget the experience.

The *Rules of Court* in all Canadian jurisdictions allow for the opposite party in a lawsuit to be orally examined by a lawyer before a court reporter. If the party is a corporation, a corporate officer must be appointed to answer questions that are binding on that corporate entity.

Certain nonparties are also subject to examination for discovery in most Canadian jurisdictions. These include directors, officers, former employees of corporate defendants and agents of parties. Most jurisdictions also allow for examination for discovery of external auditors. Until now, the class of accountants compellable to attend at examinations had been strictly interpreted to mean an accountant conducting an audit as defined by the *CICA Handbook*.

In the case of *Harcap Investments et al. v. Alberta Permit Pro et al.* (2009 ABQB 643), Justice R. A. Graesser of the Court of Queen's Bench of Alberta was asked to consider an application by the plaintiffs to examine the defendants' accountant, Larry Panasuik, as there were a number of financial issues in dispute in the lawsuit. Between 2004 and 2006, Panasuik prepared review engagement financial statements for Alberta Permit Pro. He did not conduct an audit. Justice Graesser considered a number of sources in determining whether Panasuik should be considered an external accountant under the Alberta rules including:

- the wording of the financial statements (which noted that "[this] review does not constitute an audit");
- the wording of the Alberta Regulated Accounting Profession Act;
- the *Canadian Oxford Dictionary*;
- the *Dictionary of Canadian Law*;
- the *Alberta Rules of Court*;
- the *Alberta Business Corporations Act*; and
- how the client described Panasuik.

It is interesting to note that of all these sources, Justice Graesser indicated that the only one that did not assist in interpreting the identity of an auditor was the definitions



in the Alberta Regulated Accounting Profession Act. It does not appear that the *CICA Handbook* was tendered as evidence before the court by either party.

Justice Graesser then identified that there had been no previously decided cases addressing the definition of auditor in the Alberta *Rules of Court*. He was therefore setting a precedent as to how an auditor should be defined for examination for discovery purposes. Justice Graesser found that the subtle distinctions between a review engagement and an audit were not important. The mere act of providing financial statements for the company brought Panasuik within the ambit of an external auditor and therefore Panasuik was subject to examination for discovery. The judge ordered that Panasuik appear at examinations for discovery and bring all his relevant and material records to the examination to be reviewed by opposing counsel, who would then be at liberty to review these records with his client and his expert.

Justice Graesser was also asked by the plaintiff to determine whether Panasuik should be considered a near-employee under the Alberta *Rules of Court* and examined on that basis. Justice Graesser identified the mischief that can occur when the categories of who can be discovered in a lawsuit are expanded. He said: “Unnecessary discovery is to be discouraged and strangers to the litigation should generally not be burdened with having to spend time on someone else’s dispute.”

Notwithstanding that the judge recognized the problem with broadening the scope of parties to be examined and acknowledged that Panasuik’s retainer did not have the traditional hallmarks of an employee, he found that Panasuik was an employee under the *Rules of Court*. The underlying reasoning was that Panasuik had financial documents in his possession and he had created documents that were relevant to the lawsuit.

There is the potential for the broad findings in this case to lead to an increased participation of CAs in the examination for discovery process of their clients. Consider a simple car crash lawsuit. Thousands, perhaps tens of thousands, of these lawsuits are filed in Canada every year. In many of these cases the plaintiff has a small business and is claiming a loss of income as a result of the injuries suffered. As a result of this case, the accountant who performed a review engagement for that small business owner, even if some years in the past, may be compellable for examination for discovery. The same would apply to accountants for parties to a divorce, also plentiful in Canada.

Of course, once ordered to attend at examinations for discovery an accountant is legally bound to participate. Failure to do so could result in contempt of court proceedings. Attendance at discoveries involves production of the accountant’s files, including electronic files. The examination would involve briefing by the accountant’s client’s lawyer, attendance at discovery for one or more days and having to follow up with information after the discovery, if it were not readily available. Payment for the accountant’s services would be a matter to be negotiated between the accountant and his or her client, if at all.

One issue not addressed in Justice Graesser’s decision is whether an accountant preparing Notice to Reader financial statements

would likewise be considered an external auditor. The concern is that another court would consider Justice Graesser’s decision and take it one step further to say there is really only a subtle distinction between Review Engagement and Notice to Reader financial statements. This is not unlikely, as the judge made a very broad statement in his reasons: “I cannot imagine that a professional accountant, described as a corporate party’s ‘external accountant’ and who prepares annual financial statements for the company, is not an ‘auditor’ within the meaning of Rule 200(4).”

This would greatly increase the number of accountants in Canada subject to examination for discovery in their client’s, or former client’s, litigation.

The Harcap decision has already been considered by one court in Alberta in the case of *Apache Canada v. Husky Oil Operations* (2009 ABQB 730). In *Apache*, the auditor who was the subject of the application to be examined was not a CA, CMA or CGA and not subject to the Alberta Regulated Accounting Profession Act. She was an independent consultant with extensive experience in reviewing operations in the oil and gas industry and providing opinions on the valuation of production from gas plants. There was no doubt her report was relevant to the issues in the lawsuit.

Once ordered to attend at examinations for discovery, an accountant is legally bound to participate. Failure to do so could result in contempt of court proceedings

Master Hanebury in *Apache* found that because the independent consultant used “her unique financial and engineering expertise to prepare her examination,” she should be considered to be an auditor under the *Rules of Court*. Master Hanebury appeared to rely extensively on the reasoning of Justice Graesser in the Harcap case in arriving at her decision.

In Harcap and *Apache* the court appeared more swayed by the relevance of the work product of the subject individual as opposed to whether their roles should be properly defined as an auditor.

In a future application to compel an accountant to attend at discoveries, the accountant ought to have the opportunity to have legal counsel present to make submissions on his or her behalf. An accountant’s lawyer may more fully bring forward evidence of the difference between the forms of financial statements and the assurances provided by each to convince the court not to follow the decision and reasoning in this case.

The decision of Harcap has the potential to open the door for accountants to be pulled into many lawsuits in which they have no interest. Accountants should be aware of this risk and perhaps consider an amendment to their engagement letters to ensure compensation when and if this occurs.

Don Dear, LLB, is a partner at McLennan Ross in Calgary, practising in the area of professional liability

Technical editor: Jo-Anne Demers, LLB, managing partner, Nicholl Paskell-Mede

Cloud computing

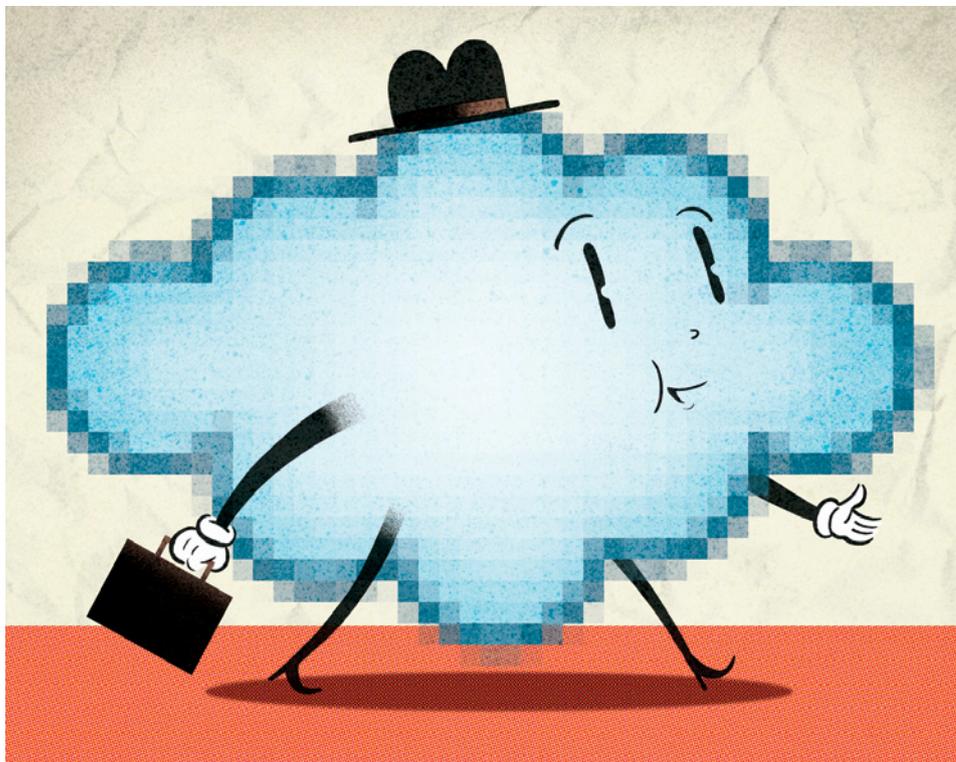
Decisions about switching to cloud computing should be based on sound practices despite any limitations

Cloud computing — providing Web-based services to the public using networks, servers, data warehouses, software applications and Internet services managed by a third party — is an attractive option for companies that view investing capital in computing infrastructure as inefficient. These companies can move their computer processing to a virtual environment, ensuring that costs are more closely tied to the services offered and minimizing their fixed costs. Cloud computing has many advantages. It can be adapted to the size of the business and quickly implemented, and it is transparent in terms of costs and can deliver services that are not available internally. Nevertheless, an organization needs to consider a number of issues before switching to cloud computing.

Data monitoring

One of the distinctive features of cloud computing is that data can be localized, shared and stored in several countries, depending on what the service provider decides. When a company opts for cloud computing, it relinquishes control over its information channels. Accordingly, the different laws in countries where the data circulates can make it difficult for an organization to ensure adequate protection of information. For example, in the US laws such as the USA Patriot Act and the Stored Communications Act have an impact on data confidentiality.

A company can sign a contract with a provider to share data confidentiality risks, but a contract doesn't change the fact that a law in one country does not necessarily apply in all countries involved. Another solution could be to protect information through encryption, a highly regulated practice. For example, it is prohibited in Libya



RYAN SNOOK

unless the encryption software is provided to the government.

Transborder data flows can clearly lead to privacy risks. The European Parliament's Directive 95/46/EC prohibiting the transmission of personal data beyond its borders except in specific circumstances could also create problems. Imagine the consequences if information stored in a European country suddenly becomes irretrievable. While this example doesn't apply to Canada, it highlights the importance of understanding regional regulations before transferring data to other countries. It's also important to ensure that governments cannot access cloud-computing data for investigative or surveillance purposes without obtaining the required rights and permissions.

In April 2009, the FBI, authorized by a court order, seized computer servers in an attempt to gather evidence on two men accused of fraud who were using the servers in their operations. However, after the seizure a dozen other businesses were unable to use their IT systems because they were part of a network sharing the seized servers. While such a situation is rare, it shows that in the event of a jurisdictional conflict over hosting infrastructures, an organization using cloud computing could find itself subject to an executive power over which it has no control.

Intellectual property

Similarly, how can we claim title to intellectual property when business information can be accessed by a third party (a service provider, an authority or any other Internet user)? Where intellectual property rights are concerned, there is some disclosure-related risk when using the Internet.

In September 2000, the World Intellectual Property Organization (WIPO) published a document providing an overview of existing laws and including a number of suggestions. Based on an April 1997 resolution of the International Association for the Protection of Intellectual Property (AIPPI), the WIPO document addresses Internet information accessibility criteria.

"AIPPI considers that the mere fact of transmitting information by means of a computerised network will not result in the information becoming available to the public, and in consequence being disclosed. Account should be taken of the level of accessibility to the network, which is determined by, inter alia:

- the technical characteristics of the network;
- the method of communication; and
- the access and security provisions."

These criteria are reflected in current case law. In 2004 in the US, an author filed a lawsuit against Google (*Field v. Google*) because the search engine made some of his work available through Google Web Search, a good example of cloud computing. Because this technology allows website operators to exclude all or some of their website content from Google searches, the Nevada District Court ruled in Google's favour, concluding that the Internet isn't the legal jungle it's perceived to be. A level of protection does exist if the necessary precautions are taken.

Risk management and compliance

Under the Sarbanes-Oxley Act, the Basel Accords and the PCI

Data Security Standard, the ability to demonstrate compliance is fundamental. When organizations outsource to cloud-computing services, it is often assumed the service provider is responsible for technical solutions. This issue should be addressed in the service contract. Two examples of relevant provider policies are set out in Google and Amazon customer agreements:

Google Apps: "Google and Partners do not warrant that (i) Google Services will meet your requirements, (ii) Google Services will be uninterrupted, timely, secure, or error-free, (iii) the results that may be obtained from the use of Google services will be accurate or reliable, (iv) the quality of any products, services, information, or other material purchased or obtained by you through Google services will meet your expectations, and (v) any errors in the software will be corrected."

Amazon EC2: "You represent and warrant: (i) that you are solely responsible for the development, operation, and maintenance of your content, including without limitation, the accuracy, security, appropriateness and completeness of your content."

Unless a company can rely on an excellent business relationship with the provider in question, the industry trend doesn't seem to be to voluntarily offer guarantees that satisfy security,

Companies that offer cloud-computing services will have to adapt to each industry and introduce sector-specific mechanisms before cloud computing can be considered

information monitoring and computerized processing requirements. Accountability and internal monitoring mechanisms are therefore key criteria when considering cloud computing. In other words, if monitoring issues are likely to interfere with compliance, cloud computing is not the right solution.

In addition to compliance risks, the cloud-computing environment must be compatible with other platforms. There is no need to measure the complexity of configurations or interfaces. Instead, the likelihood that the provider could cease operations or hand them over to another provider should be taken into account. The trick is to determine if the level of dependence on a provider is compatible with the organization's objectives and to anticipate eventual problems and costs. Issues relating to potential back-up systems could also affect the relevance of the cloud-computing option. In short, supporting applications that are essential to a company's everyday operations with cloud computing could pose a significant risk.

Distinctive features

Providers must recognize that standards applicable to a particular industry, such as the healthcare, transportation or financial services sectors, all have distinctive features in terms of monitoring, personal information management and inherent risks. Companies that offer cloud-computing services will have to adapt to each industry and introduce sector-specific mechanisms before cloud computing can be considered.

Moreover, key applications often need 24/7 technical support,

which isn't always possible in cloud-computing environments where minimum delays of one hour are frequent.

Other important issues relate to the implicit use of the Internet for communication purposes. Unless the user has put a secure link or encrypted line in place, communication on the Internet takes place in the open. What's more, the user may also employ an old version of a browser that has security weaknesses. A company's reputation for stringent security standards will extend to its cloud-computing environment, where standards might not be so strict. Unscrupulous individuals could take advantage of this situation. Since standards for cloud-computing sites are not perfectly clear, in some cases it could be difficult to determine who should take action when information security is breached. Recent experience also shows that service availability is an important issue to consider. Many reputable websites have experienced prolonged service interruptions.

Accordingly, cloud-computing decisions should be based on sound practices, despite the limitations they could impose. A company could simply decide to keep information in its own computing environment and to establish a secure link to an external site for data required for cloud computing. Using several service companies to limit risk is another option. Finally, a company's key applications should be stored internally unless it has a specific analysis procedure and setup in place that will eliminate cloud-computing risks.

Independent report on the quality of internal controls

As specified in Section 5900 of the *CICA Handbook* — or in the manner of a WebTrust or SysTrust report — an independent report on the quality of internal controls may help minimize control and security concerns associated with cloud computing. This report presupposes that relevant accepted standards have been adopted in this area that allow for a comparison of services offered by a given provider. Cloud Security Alliance, created in 2008 to develop standards for cloud computing websites, is currently involved in consultations that could lead to the development of internal control standards similar to those in the credit card industry. Once these standards are well known and understood, it will be easier to establish an audit framework that will improve the use and monitoring of cloud computing. Because of the impact that a security breach could have on cloud-computing service providers, standards should be even more stringent than those currently regulating other types of environments.

André Lessard, CMA, is with the risk management group at RSM Richter Chamberland in Montreal. Yves Giard, LL.M., CA, CISA, is senior consultant with the same group at RSM Richter Chamberland

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

Carolle Brabant Named Executive Director of Telefilm Canada



Telefilm Canada is pleased to announce the appointment of Carolle Brabant as Executive Director. After starting out at Telefilm as an auditor 20 years ago, Carolle Brabant successfully assumed different management roles, including Director of Information Technologies and Systems, Director of Contract Management, Director of Finance and Administration, Interim Executive Director in 2004, and Chief Administrative Officer. Most recently, she served as Director of Administration and Corporate Services.

An innovative leader, Carolle Brabant has always been deeply committed to carrying out Telefilm's corporate plan, which is centered on building audiences, building capacity and a sound administration of public and private funds. In addition, she has contributed in many ways to the continuous improvement of client services, such as the deployment of eTelefilm an online business tool that is unique in the Canadian cultural sector. Finally, she encouraged Telefilm to adopt corporate values and a leadership model in order to position the organization as an employer of choice.

Carolle Brabant is a chartered accountant and MBA graduate.

Telefilm Canada is a federal cultural agency dedicated to developing and promoting the Canadian audiovisual industry, both at home and abroad. Telefilm Canada employs about 200 people and manages four regional offices, in Vancouver, Toronto, Montreal, the organization's head office, and in Halifax.

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Interpreting the IFRS world

To be effective, a single set of standards needs only one designated interpreter, and for IFRS that's IFRIC



Under Canadian generally accepted accounting principles, the interpretations issued in the abstracts of the Emerging Issues Committee (EIC) of the Accounting Standards Board (AcSB) have been an essential part of our accounting standards. In the future publicly accountable enterprises will be required to prepare financial statements using international financial reporting standards (IFRS). Where will you look for interpretations then?

In a perfect world, standard-setters would write standards that said exactly what they meant and provided guidance for every transaction imaginable. Although great care goes into the process of developing international standards, a body is still needed to respond promptly to issues of a narrow scope that are identified by organiza-

tions applying existing IFRSs. If each jurisdiction that adopts IFRS creates its own interpretations, the point of a single set of standards is undermined. So there can be only one designated interpreter for IFRS and that is the IFRS Interpretations Committee (formerly known as the International Financial Reporting Interpretation Committee [IFRIC]). Canadians entering the IFRS world must change their sight line from the EIC to IFRIC.

The questions for Canadians are how does IFRIC become aware of issues and how can Canadians ensure they make the best use of this committee? Knowing what IFRIC's mandate is and how it carries out its duties is essential to understanding how to provide input to this committee and gain benefit from its activities. Even if you never submit an issue to IFRIC you need to be aware of its activities, and not just by reading the interpretations issued.

IFRIC was established by the International Accounting

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Standards Board (IASB) to address the need for interpretation. However, that does not mean it is there to resolve urgent issues. The committee is restricted to issues where the lack of guidance in an IFRS has created, or has the potential to create, unsatisfactory or conflicting practices, or where a newly identified financial reporting issue is not specifically addressed in IFRS. In addition, the issues considered are those expected to be generally applicable to a wide number of users.

IFRIC has provided guidance when existing IFRSs have not adequately addressed a particular situation or where it is unclear which IFRSs should be applied. An example of the former is IFRIC 13 Customer Loyalty Programmes, which provides guidance on how to account for awards, such as air miles.

An example of the latter is IFRIC 15 Agreements for the Construction of Real Estate, which clarifies when the accounting for revenue and expenses by entities that undertake the construction of real estate directly or through subcontractors should be recognized in accordance with IAS 11 Construction Contracts or IAS 18 Revenue.

Similar to the EIC, individuals involved in financial reporting are encouraged to submit issues that come to their attention to IFRIC. Once an issue is received, IFRIC has a due process that is detailed on its website. To begin, IASB staff clarifies what the

issue is, then it prepares an analysis of the proposed issue, reviewing the authoritative accounting literature, including the IASB's Conceptual Framework, and considering the alternatives. For some issues staff consults with national standard-setters. In Canada's case such requests are considered by the AcSB's IFRS Discussion Group. In addition, the issue is analyzed against IFRIC criteria, which includes consideration of whether the issue

IFRIC has provided guidance when existing IFRSs have not adequately addressed a particular situation or where it is unclear which standard should be applied

is widespread and of practical relevance, whether financial reporting would be improved through the elimination of the diversity that has arisen in practice and whether the issue can be resolved within the confines of existing IFRS and the IASB framework. The analysis, with a recommendation by staff on whether to add the issue to the agenda, provides the basis for the initial debate by the members.

If the members agree that the issue fits within IFRIC criteria, it is added to the agenda. Once added to IFRIC's agenda, IASB staff expands on the initial analysis to develop the guidance to draft



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an interpretation. The expanded analysis and draft interpretation assist committee members in further understanding the issue so they are able to make a decision about the treatment of the issue within the IASB framework. Once a consensus on a draft interpretation is reached, the draft is released for public comment. Comments are considered before an interpretation is finalized. The final step before an interpretation can be issued and become part of IFRS is discussion and approval by the IASB.

When IFRIC decides the issue should not be added to the agenda, the decision is added to the public record on a schedule labeled Items Not Taken Onto the Agenda. This schedule is a helpful, but not authoritative, source of information and the items are often affectionately referred to as “not IFRICs” or NIFRICs. Before the decisions to not take an item on to the agenda are added to the schedule, IFRIC posts the tentative decisions, with its reasons, on the IASB website. Constituents then can comment on the decision. So if someone has raised an issue you care about, but IFRIC initially rejects it, you may want to comment on that decision.

The schedule describes the issue and lists it in the order of the IFRSs to which the item pertains and provides the reasoning for not adding the item to the IFRIC agenda. The reasons for rejecting an issue vary. Members may decide the wording in the pertinent IFRS is clear, they may decide that the issue was not an interpretive issue but a question of how to apply the standard or they may decide the issue is better addressed by the IASB. When the last conclusion is reached it can be for two reasons: the IASB has a current project in process that could address the issue in a timely fashion, or IFRIC believes the standard itself should be changed. That has to be addressed by the IASB because IFRIC can not change standards, it can only interpret existing ones.

Even if the IASB does not have a current project to address the issue, IFRIC may still recommend that the IASB address the issue through its annual improvements process. This is a process to deal with nonurgent but necessary changes to the standards when there are inconsistencies between standards or clarification of wording is needed. Many of the issues handled by this process are initiated by IFRIC. Therefore, it is no coincidence that the same staff support IFRIC and the annual improvements project.

More detailed information can be helpful and the schedule of NIFRICs includes the date an issue was discussed by IFRIC, which allows you to find through the IASB’s meetings diary, the staff paper developed for committee members to assess the issue. If you are struggling with how to treat a transaction under IFRS this schedule is a good reference to see if others have had the same difficulty. If your concern is not there, you may have uncovered an issue that should be considered by IFRIC.

Many may not be comfortable preparing a submission for IFRIC in accordance with the template provided on the IASB’s website. You might want to consider a useful Canadian first step — the AcSB’s IFRS Discussion Group (IDG).

The AcSB established the IDG in 2009 to provide a public forum for the discussion of issues and collection of Canadian views on problems experienced in the application of IFRS in

Canada. Earlier the necessity for only one interpretive body for IFRS was emphasized. Did the AcSB forget this premise when it organized the IDG? Not at all. The discussions by this group are definitely not meant to result in authoritative guidance. The IDG provides a forum for an informed discussion of an issue, to determine whether an issue seems to fit IFRIC’s agenda criteria. A substantial benefit of an initial discussion of a potential IFRIC agenda item at an IDG meeting is the fine tuning the submission undergoes. Generally, the issue will be clarified through the discussion process, which will improve the probability of the item being added to the IFRIC agenda if it is submitted. For all Canadians, no matter what the outcome, the public nature of the IDG discussions allows constituents to listen and learn from the members’ approaches to problems and how they would apply their judgment to the situation presented.

The discussions provide a variety of viewpoints as a result of the diversity of the group, which includes a cross-section of preparers from corporations on their way to adopting IFRS, practitioners from accounting firms assisting clients with their transition to IFRS, and users of financial statements prepared in accordance with IFRS. In addition, there are representatives of

The public nature of IDG discussions allows constituents to learn from the members’ approaches to problems and how they would apply their judgment to the situation

securities regulators, the chair of the AcSB, a Canadian member of IFRIC and the chair of the IFRS Advisory Council (formerly the IASB Standards Advisory Council). The first two meetings of this group proved there are a number of viewpoints to any issue. An audio webcast of the meetings is archived on the AcSB’s website. Individuals can attend IDG meetings and the AcSB intends to have all IDG meetings made available through live audio webcasts that will subsequently be archived on the AcSB’s website.

Anyone can submit an issue to the IDG, but a Web notice requesting the submission of issues is posted to the AcSB’s website well in advance of an IDG meeting. An individual or organization submitting the issue may attend the IDG meeting to present it or remain anonymous and have AcSB staff present the issue.

The first two meetings of the IDG reviewed a variety of issues. After discussion, some appeared to be specific to Canada, more information was needed for others and for a couple of issues the IDG supported communication to the IASB and IFRIC. Agendas and short meeting notes are posted to the AcSB website along with the archived webcast of the meeting.

Now that you know how the interpretation process works internationally, consider submitting problems you have had in applying IFRS to a particular transaction. Or take some time to listen to part of the IDG’s discussions.

Karen McCardle is a principal with the Accounting Standards Board

Technical editor: Ron Salole, vice-president, Standards, CICA

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Andrea Pennells, Head of School
Brentwood College, 2735 Mt. Baker Road, Mill Bay, BC V0R 2P1
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The information revolution

Within the space of two generations, computer technology has profoundly changed our relationship to knowledge. According to Peter Nicholson, past president of the Council of Canadian Academies, our technological capability to access information has increased about 10 million times since the beginning of the 1960s. However, our ability to assimilate information and turn it into knowledge has remained unchanged. In fact, it has even diminished in response to the new abundance of information.

As a result, our attitudes toward knowledge are undergoing a radical shift. In a presentation titled *Information rich & attention poor*, Nicholson highlighted a few major changes.

Traditionally, human knowledge has been viewed as stock — a collection of knowledge in semi-permanent form, as illustrated by large libraries with their millions of books and other documents. The information revolution has transformed this stock into a flow, exemplified by Wikipedia and Google. If you're looking for information on a topic, all you need to do is log onto the Internet and there it is.

This superabundance means that information must be condensed — into a sentence, a paragraph or even a Power-Point presentation. If you're interested in Leo Tolstoy's *War and Peace*, for example, there's no need to read it. A few minutes on the Internet and you have a pick of summaries, ranging from a paragraph to several pages.

The value of information is decreasing at the same rate as the amount of information is increasing. Consequently, in-depth understanding of a given subject is no longer valued — what counts is the most recent update.

As a result, the demand for experts has decreased. Wikipedia, for example, is written by hundreds of thousands of volunteers who collectively know everything about everything, thus marginalizing the need for experts in all areas. More and more doctors are caring for patients who have read all about their symptoms on the Internet. So who's the expert? In fact, the authority of experts is

increasingly called into question because we have access to information we need on the Internet. Crowd wisdom is supplanting expert authority.

Because the business model for newspapers and encyclopaedias relies on scarcity of information, these industries have seen their sales plummet. In fact, information has become so abundant that it is now free. Why pay experts when information is available on demand?

Why did we seek to acquire knowledge in the past? Was it just in case we might need it at some point? Today, a quick Internet search gives us access to the latest information. How to find information has become more important than knowledge itself. The ability to navigate the Internet's hyperlinks and search engines and to multi-

Given the abundance of information, what's important isn't to know everything, but how to find what we need

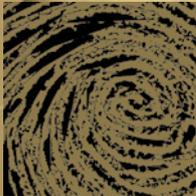
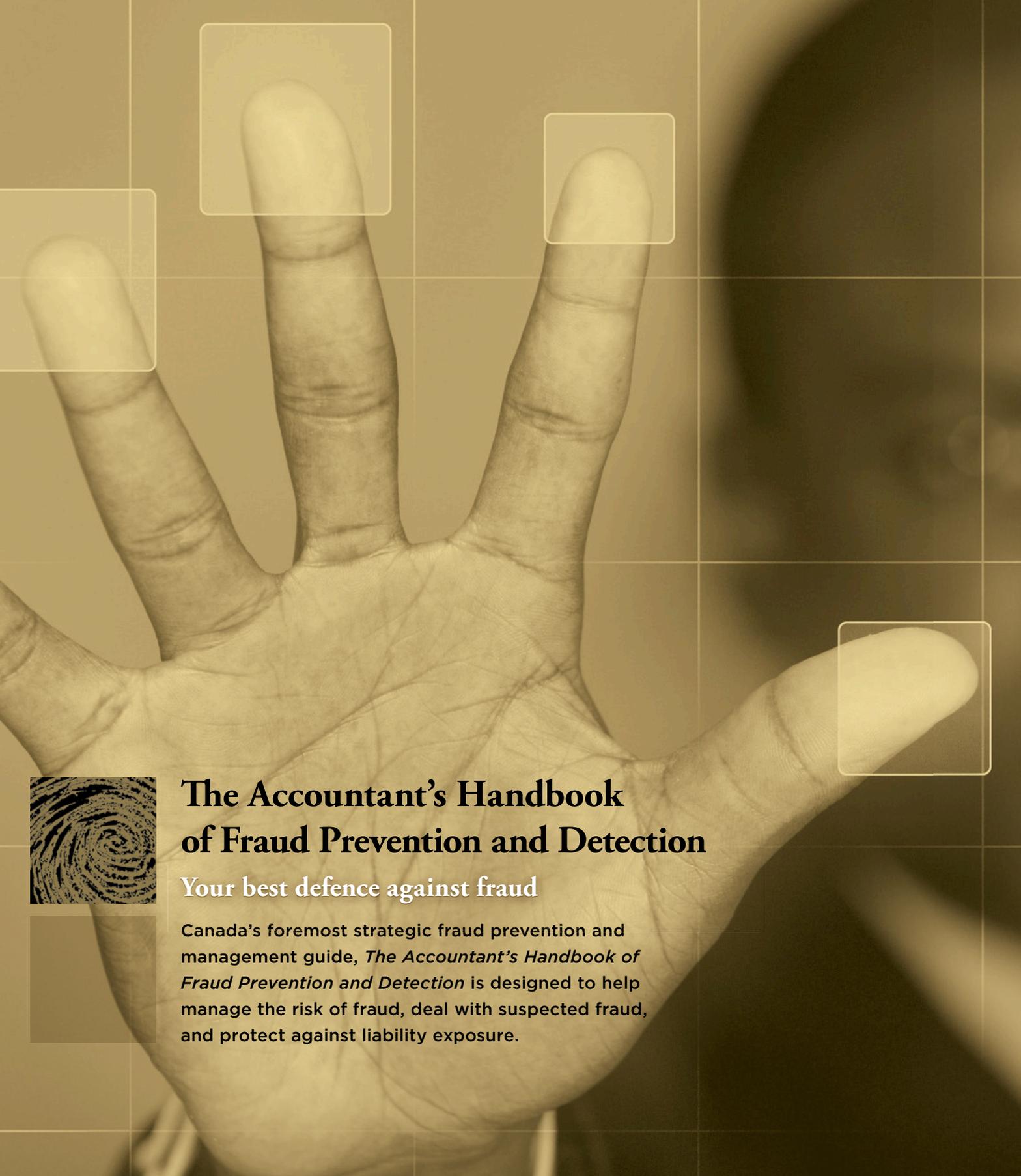
task has become more important than having in-depth knowledge in an area. Given the overabundance of information on every subject, what's important isn't to know everything, but how to find what we need.

The Internet hasn't yet reached maturity. The hyper-accessibility of information will continue to escalate at the same pace as technological progress. Expertise will be replaced by Internet skills. Should this be a concern?

Yes and no. On the one hand, there is no proof that the intelligence produced from the anonymous contributions to Wikipedia and other Internet databases is better than that produced by experts who have spent their lives studying a subject. The risk is that thought could become superficial.

On the other hand, we are better informed on a host of subjects, albeit on a superficial level. What we've lost in depth, we've easily gained in scope, which will have a significant impact on education for generations to come. I will come back to this issue in my next column.

Marcel Côté is founding partner at SECOR Consulting in Montreal



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