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May 2013

CORPORATE CONSCIENCE

Can publicly owned companies develop a moral sense?

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Hunting for new clients in the linked-in age of social media P. 30
Introducing the *Scotia Momentum® for business* VISA® card

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Ethics Inc.

Revolutionary ideas on morals, meetings and drumming up clients make for thought-provoking reading.

In *The Wealth of Nations* Adam Smith says, “It is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard to their own interest.” Some—particularly free-market economists—have taken this to mean that the best way to run business enterprises is through the pursuit of self-interest, untrammeled by considerations of conscience. But elsewhere Smith also says, “To restrain our selfish, and to indulge our benevolent affections, constitutes the perfection of human nature.”

These two seemingly contradictory sides of the great 18th century Scottish political economist and moral philosopher form the essence of the question we ask in this issue’s lead story: should corporations have a conscience and, if so, where should it reside? There are numerous situations where corporations act as if they do not have one. Writer John Lorinc tackles this question by asking CPAs and other experts to provide opinions in “The moral law within corporations,” p. 18. For some professional accountants, structures can be created within corporations to get them to act according to a moral code, and CPAs, who “already function according to strict professional and fiduciary codes” will have a vital role to play in such a transformation. These are revolutionary ideas and the discussion among the interviewees makes for thought-provoking reading.

Our next story deals with a topic everyone can relate to: the dull meeting, where your mind wanders to other more congenial things or to slumberland. What are the rules of meeting-making that keep attendees attentive and focused on the discussions at hand? In “Mind over meetings,” p. 26, Roberta Staley investigates the rules for organizing meetings by talking to experts on the topic. This is a must-read.

New clients not flocking to your office in the numbers you think befits your abilities? “Hunting hot prospects,” p. 30, a how-to piece by Lisa van de Geyn, tells you how to find clients in this age of Twitter and other social media. As she reports, a 2011 CICA survey found “a definite disconnect between the ways accountants market their firms and what’s actually effective in drumming up new quality business.” The advice includes “don’t take a cookie-cutter approach” and “embrace social networking and social media.” Don’t skip this helpful article.

As most of you are aware, CPA Canada was launched last month. A new logo has been designed to raise awareness of the brand. “This bold new logo will soon become a globally recognized symbol,” says Kevin Dancey, CPA Canada’s president and CEO. More information about this can be found on p. 14.
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No potential clients on your radar? Here are a few sure-fire methods to zero in on those quality customers and land the new business that’s right for your firm

BY LISA VAN DE GEYN

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Mind over meetings: for tips on de-stressing during office get-togethers, go to camagazine.com/meetings 2013

Breaking news, tax updates, job postings, archives, more articles: you’ll find them all at www.CAmagazine.com
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YOU SEE A HIGH RISE OFFICE BUILDING.

WE SEE A LOW-RISK INVESTMENT.

Want to know the real value of a property before moving forward with a transaction? Bring an AIC-designated Real Estate Appraiser on board. AACIs and CRAs are the real value experts, providing accurate, up-to-date valuations on all property types based on current and emerging market trends. You'll thank them—and your clients will thank you.

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Comic book hero

Mild mannered accountant by day, Larry Hancock occupies his evenings writing about an aging superhero who has lost his powers. “The Purple Ray wants to be more,” says Hancock, 58. “But he spends more time rescuing kittens than fighting crime.”

*The Purple Ray* is just the latest work by Hancock and illustrator Michael Cherkas, who met in their teens while hanging out at Toronto-area comic book stores. They began a friendship and a creative partnership, spurred by Hancock’s desire to have his stories produced in comic form. Since then, the dynamic duo has published smart and unsettling comics and graphic novels, including *The Silent Invasion*, *Suburban Nightmares* and *Secret Messages*, which combine science fiction, aliens and conspiracy theories — think *X-Files* years before David Duchovny became popular.

Of course, as any superhero can attest, balancing an alter ego with a day job is tricky business. In 1988, Hancock asked his bosses at Touche Ross in Toronto for greater flexibility to pursue his writing. No problem, they said — as long as he increased his billable hours.

So he left the firm to become controller at a small real estate management firm with fewer, more flexible hours. He stayed 10 years before moving into private practice. “Have a job in order to be able to have a life,” says Hancock. “Find your interests and enjoy them.” It’s a philosophy that has helped him achieve critical acclaim as a writer, particularly for *The Silent Invasion* series.

*Publishers Weekly* wrote: “A series that will undoubtedly become a classic... This comic has it all: great plotting, humor, suspense and excellent, stylized black-and-white drawings.” Indeed, *The Silent Invasion* has attracted a cult following — it was published in Croatia in 2008 — but it hasn’t been a financial boon. And that’s just fine with Hancock because he enjoys his accounting work.

“I like dealing with numbers and I like dealing with small clients,” he says, adding that he counts many authors, artists and animators among his clients. “Writing comic books is what I do for fun.”

Steve Brearton

Larry Hancock, author of graphic novels and comic series including *The Silent Invasion* and *The Purple Ray*, has attracted praise from critics and a cult following among readers

<table>
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<tr>
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</tr>
<tr>
<td>1986</td>
<td>releases first <em>The Silent Invasion</em> comic</td>
</tr>
<tr>
<td>1998</td>
<td>opens own practice</td>
</tr>
<tr>
<td>2012</td>
<td>releases first instalment of <em>The Purple Ray</em></td>
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</tbody>
</table>
Ethical dilemma  The latest wave of corporate scandals has many asking whether companies and schools need to spend more time and resources on business ethics. A short history:

2 Number of ethicists employed in 1980 at Harvard Business School, an early promoter of business ethics education. “MBAs,” noted the dean, “find ethics Mickey Mouse.”

18 Percent of global poll respondents who trust business leaders to tell the truth, according to the 2013 Edelman Trust Barometer.

73 Percent of Canadian firms with a program or initiative promoting ethical practices, according to a 2000 KPMG survey. The study found fewer than half had a senior manager responsible for ethical issues.

87.5 Millions of US dollars in calculated savings for the Ford Motor Co. from not fixing the Pinto’s faulty gas tank when weighed against up to 180 deaths. This early ’70s risk-benefit analysis is cited as one factor in the new focus on business ethics.

1988 Year the Canadian Centre for Ethics and Corporate Policy is launched in Toronto. “There is a misconception that business people are crooked,” says centre director Elizabeth Loweth. “We want to help them demonstrate that this is not necessarily so.”

2009 Year Harvard Business School graduates instituted the MBA Oath, promising first to “pursue my work in an ethical manner.” Today, 300 educational institutions have oath takers.

up to 100,000 Dollar amount large Canadian firms spend on formal ethics audits in 1996. That year, the US market for business ethics services is worth an estimated US$1 billion.  Steve Brearton

Working File: SHOULD I DISCLOSE AN OFFICE ROMANCE?

THE SCENARIO
A budding romance at the office can be exciting, or so Pete Grant* thought when he started dating a colleague six months ago. “Going to work was suddenly much more interesting,” says the accountant at a big media company. “We spent a lot of time flirting and often lunched together. So I finally decided to ask her out, and we’ve been dating since.” Grant’s happier than ever, but there’s one thing stressing the pair — they’re unsure if they should divulge their new relationship status to their managers or human resources.

HOW IT PLAYED OUT
So far, the couple has kept its romance top-secret at work. “I’ll be honest,” says Grant. “Part of it is fun — it’s thrilling that we have this awesome relationship that no one else knows about. But it’s also stressful; we have to make sure we’re not being obvious and try to keep our distance. We’re also not sure if we should be honest about the relationship in case it doesn’t last,” he says.

THE EXPERT WEIGHS IN
“As people spend more time at the workplace, it is very likely that personal relationships develop from work ones, but two things stand out here,” says Christian Codrington, senior manager of operations for the BC Human Resources Management Association. “If there are times when the objectivity of [the couple’s] work is potentially compromised by their personal situation, superiors or partners need to be aware of that.” Furthermore, most large firms have policies on personal relationships, so it’s best for employees to volunteer the info, he says. “Even if the relationship ends, it is better to have been ‘on the record’ to allow sound decisions about future work projects, movement of people and potential promotions to be seen as — and actually be — transparent and free of bias or conflict.”

Lisa van de Geyn

*Name has been changed

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

The overwhelming majority — more than 80% — of Canadians spend time online, but only 46% of the country’s small businesses have a dedicated website, and less than half (48%) of those businesses sell their products and services through the site, finds an RBC survey. Even fewer (39%) use social media to promote their business.

so much for team spirit

Nearly seven in 10 workers have been part of a dysfunctional team, according to a US survey for the University of Phoenix. Dysfunctional behaviours witnessed among team members include verbal confrontations (40%), placing blame (40%), starting rumours (32%) and physical confrontations (15%).

smartphone stats

While it might seem as though everyone already has a BlackBerry or iPhone, an Ipsos Reid study shows that we’re not quite at the halfway mark, with 47% of Canadians now using a smartphone, up from 34% last year. The use of tablet computers in Canada has also increased significantly to 21%, up from 10% a year ago.
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PERSONAL ACCOUNTS

My most challenging race
Karen Meades, extreme athlete

I started in Ottawa with a five-km [learn-to-run] clinic 15 years ago and just kept running. In March, I went to Chile for Racing The Planet’s Atacama Crossing — the driest desert on earth. In 2010, I did the Jungle Marathon, a seven-day, 250-km event in the Amazon. Other races include the Sahara desert — Marathon des Sables in 2008, known affectionately as the toughest footrace on earth — and I swam “Shark-fest” from Alcatraz to San Francisco in 2002.

But the most challenging race was when my friend Andrea’s dad passed away and we decided a nice way to honour his life would be to run 250 km in the Bruce Trail around Ontario’s cottage country. Each day we ran into some trouble — we managed to get lost; we ran right into a snarling bear; I was bitten by a snake; and the last day a tornado almost hit us as we were running through a farmer’s garlic field. At one point I remember asking Andrea if her dad liked her — I thought perhaps he had cursed us.

As told to Lisa van de Geyn

55 YEARS AGO THIS MONTH

Compiled by Steve Brearton

From the May 1958 edition of CAmagazine

Price tag for a practice: $11,000

Opinions vary as to the number of businesses required to support an accounting office, but the best guess is that a community with 50 businesses, counting even the smallest, can support a small accounting office. It would take about 18 months for the practice to become self-supporting and a young accountant with a wife and one child would need capital somewhat as follows:

<table>
<thead>
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<th>Amount</th>
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<tr>
<td>Operating expenses</td>
<td>$2,600</td>
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<tr>
<td>Office equipment</td>
<td>$900</td>
</tr>
<tr>
<td>Personal and business contingencies</td>
<td>$1,500</td>
</tr>
<tr>
<td>Total</td>
<td>$11,000</td>
</tr>
</tbody>
</table>

From “Problems of Starting a New Practice,” by Herbert Hartley

So, no LinkedIn then?

It is considered objectionable for any member associated with a practicing firm or with a business which overlaps the field of public accounting to have his picture included in any advertisement or paid announcement pertaining to such firm or business.

In Institute Notes, Ontario, “Professional Conduct — Pictures — Associates”

Growth’s final frontier

“At the end of the day, all emerging markets offer growth. But today, really, the last bastion of big growth is the African continent. A billion people, of which 500 million are connected, and 500 million are yet to be connected”

Sunil Bharti Mittal, Indian billionaire, telecom titan and chairman of Bharti Enterprises, at this year’s World Economic Forum Annual Meeting in Davos, Switzerland
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**Must Haves** by Alan Vintar

**ElliptiGO**

*Part bike, part elliptical trainer, the ElliptiGO is a great way to take an efficient, low-impact aerobic workout out of the gym and into the street. With a top cruising speed of 24 km/h and sprinting speed of 37-plus km/h you won’t be breaking any land-speed records, but you will ride in comfort, as the upright body position reduces the neck, shoulder and seat pain commonly associated with biking.***

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  (available in orange)
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  (available in green, blue and black)

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**Going Concern**

**WAYNE ZIELKE**

**FOUNDER & CEO, LEDGERSONLINE**

**COMPANY PROFILE:** Vancouver-based LedgersOnline provides accounting and bookkeeping services for small to medium-sized businesses over the Internet. In addition to its staple product LedgerDocs, a cloud-based document management system that lets clients upload, retrieve and share files virtually (even from their mobile devices), the company provides online bookkeeping services such as accounts payable, expense reports, payroll and financial statements. Founded in 2002, the firm has several hundred clients primarily in BC, and has rapidly grown from a staff of seven to 17 in the past year.

**HOT FACTOR:** Given the growing acceptance of online applications, more small businesses are seeking web-based options to outsource the often tedious and time-consuming aspects of their operations. Working completely via cloud technology, Ledgers-

**COOL PROJECTS:** A forthcoming rapid bookkeeping tool will make it even easier for clients to feed in information and get the data they need. The company is also looking at the potential to collaborate with other accounting firms to provide live access to their clients’ books so they can consult with clients in real time rather than waiting for scheduled meetings.

**IN HIS OWN WORDS:** “Even a well-organized client has a bookkeeping disaster every three or four years. We provide that ongoing, live service to our clients when they need it — when someone has a problem with payroll, they want an answer within the hour. We’ll often get referrals from accounting firms that realize they simply can’t do that type of monthly work.”

Rosalind Stefanac
WORK/LIFE BALANCE TOPS THE LIST AGAIN

Managing work/life balance remains the top priority for CA respondents in the 2012 International Innovation Network Members in Industry Survey. This finding is consistent with the results of similar surveys conducted in 2007 and 2010, which also found that managing work/life balance was the top priority for CA respondents in industry.

Interestingly, a number of other priorities indicated by survey respondents are closely related to work/life balance. For example, at 76%, health/stress is the next most frequent priority, followed by keeping up with the volume of work at 72%. Respondents also cited other “keeping up” priorities, including keeping up with technology, staying on top of career and professional development and keeping up with standards/regulatory changes.

Most of the other priorities of members in industry relate to a second key theme: career management and advancement. This includes developing leadership skills (71%), developing management skills (69%), advancing your career (58%) and planning your career (54%).

The survey, which was conducted among members of seven accounting associations around the world, shows that priorities of accountants in business are consistent regardless of country. John Tabone is CPA Canada’s manager of member value and research services.

To attract the financial talent you want, get the salary data you need.

Download your 2013 Salary Guide today at RobertHalf.ca/SalaryCentre or call 1.800.803.8367.
New logo aims to raise awareness of the Chartered Professional Accountant brand

After several months of consultation with members, candidates, employers and the leadership of the profession, Canada’s newest national accounting and business designation has introduced a distinctive new logo as a first step in the launch of the Canadian Chartered Professional Accountant (CPA) brand.

“This bold new logo will soon become a globally recognized symbol of the pre-eminent accounting and business credential that sets the standard for the profession in Canada,” said Kevin Dancey, FCPA, FCA, CPA Canada’s president and CEO.

Backed by a new professional education program leading to the CPA designation, the Canadian CPA will demonstrate leadership, inspire confidence and command respect in Canada, while reaffirming the reputation and influence of Canada’s accounting profession in the global financial community.

The design of the new CPA logo is intended to communicate this visually.

Combining a contemporary interpretation of the iconic maple leaf with the bold lettering style used in CPA Quebec’s existing logo, the new visual identity establishes a strong link to Canada and will clearly differentiate the Canadian CPA designation in the global marketplace. The stylized maple leaf is composed of small, medium and large dots in three colours, representing the three legacy accounting designations. The dots progressively increase in size as they approach the centre of the logo where they join to form a plus sign, speaking to the synergy resulting from the unification of the legacy bodies. The horizontal bar of the plus sign arches slightly, resembling a global horizon — symbolic of our international reputation and reach.

Work is currently underway to launch a high-visibility branding campaign starting in the fall of this year.

“With more than 85% of Canada’s professional accountants either committed to unification or already merged under the CPA, it is time to raise awareness of the new CPA designation in the marketplace,” Dancey said.

Watch for further details about use of the CPA logo and the launch of the CPA branding campaign in News from the profession or online at www.cpacanada.ca.
Executives fearful of high personal debt levels among Canadians

According to the latest CICA Business Monitor (Q1 2013), 75% of executives surveyed believe the high level of personal debt among Canadians is hurting the economy.

Fifty-five percent of the respondents also view high debt levels as a threat to future demand for products or services at their company.

“Clearly, business leaders are uncomfortable with the high level of personal debt in the country,” says Nicholas Cheung, a director with CPA Canada. “Executives understand that at some point, interest rates will rise. When that happens, many Canadians could be challenged to keep up with mortgage or debt payments and this would greatly impact their ability to purchase goods or services.”

Research focusing on personal finances conducted earlier showed that debt reduction is an area in which Canadians want to take action in 2013. Half of those surveyed call reducing personal debt a high priority, while another 15% view it as a moderate priority.

The CICA Business Monitor is issued quarterly. Survey results from Q2 2013 onward will be published under a new title — CPA Canada Business Monitor — reflecting the joining together of CICA and CMA Canada to form the new CPA Canada national organization.

More details are available at www.cica.ca/businessmonitor.

Proposed independence requirements

An exposure draft that proposes changes to the independence standards within the profession's Rules of Professional Conduct (RPC) is open for comment until the end of May.

One of the key recommendations would, starting in 2018, eliminate the $10-million threshold that currently provides an exemption for audits of smaller reporting issuers from the more restrictive independence requirements for larger reporting issuers.

The recommendations also speak to restrictions on providing tax planning or other tax advice to audit or review clients; listed entities that are not Canadian reporting issuers, such as co-operatives, credit unions or caisse populaires and social clubs; network firms; related entities; partner rotation; key audit partner compensation; relative size of fees; and mergers and acquisitions. Changes are also recommended to improve clarity and enforceability of the RPC.

The Public Trust Committee charged its Independence Task Force with reviewing the RPC following changes to the Code of Ethics for Professional Accountants issued at the international level.

The profession is a member of the International Federation of Accountants and must adopt RPC no less stringent than the requirements in the code issued by the International Ethics Standards Board for Accountants. Changes to the code, released in July 2009 and effective January 1, 2011, included important revisions to the auditor independence requirements.

The exposure draft is open for comment until May 31. The task force intends to consider the comments over the summer months. The finalized rule and related council interpretations will then be sent to the provincial and territorial institutes/ordre with a recommendation for adoption with application for assurance engagements commencing after December 15, 2014, with transitional provisions as appropriate to ensure the public is not prejudiced by the changes.

The exposure draft can be downloaded from www.cica.ca/independenceinenglish and www.icca.ca/independance in French.

The Women’s Leadership Council is a voice for women in the accounting profession. We act as a catalyst for change, promoting a work environment within the profession that provides for the retention, promotion and advancement of women to positions of leadership without bias, unintended or otherwise, based on gender.

The Women’s Leadership Council, supported by CPA Canada, provides resources and education to further women’s advancement in Canada’s accounting profession.
### RECENTLY ISSUED PRONOUNCEMENTS

<table>
<thead>
<tr>
<th>CICA Handbook – Accounting</th>
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<td><strong>Part II</strong></td>
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<tr>
<td>Section 3462, Employee Future Benefits</td>
<td>May 2013</td>
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<tr>
<td>Section 3475, Disposal of Long-lived Assets and Discontinued Operations (revised)</td>
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CICA Handbook – Assurance

- CAS 610, Using the Work of Internal Auditors (revised) | May 2013 |

CICA Public Sector Accounting Handbook

- Section PS 2125, First-time Adoption by Government Organizations (revised) | May 2013 |
- Section PS 3450, Financial Instruments (revised) | February 2013 |

### RECENTLY ISSUED DOCUMENTS FOR COMMENT (to April 30, 2013)

#### Accounting

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<tr>
<td>ED 2013 Improvements to Accounting Standards for Private Enterprises</td>
<td>June 1, 2013</td>
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<td>April 23, 2013</td>
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<tr>
<td>EDI Clarification of Acceptable Methods of Depreciation and Amortization</td>
<td>April 2, 2013</td>
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<tr>
<td>SOP Improvements to Not-for-Profit Standards</td>
<td>September 15, 2013</td>
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<tr>
<td>EDI Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture</td>
<td>April 23, 2013</td>
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#### Public Sector

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<td>SOP Improvements to Not-for-Profit Standards</td>
<td>September 15, 2013</td>
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<td>SOP Restructurings</td>
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### WATCH FOR

#### Amended Standards

- Amendments to IFRS 9 Regarding Hedge Accounting
- Annual Improvements to IFRS 2010 – 2012 Cycle

#### Documents for Comment

- Financial Instruments: Expected Credit Losses (AcSB EDI)
- Leases (AcSB EDI)
- Rate-regulated Activities (AcSB EDI)
- Standards for Review Engagements (AASB ED)

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Legend

- ED – Exposure Draft
- EDI – ED based on IFRS/ISA
- SOP – Statement of Principles

† Refer to each Handbook pronouncement for the effective date and transitional provisions.

The information published above reflects best estimates at press time. Please visit our website for the most recent information.
one vision
one direction
one goal
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CPA CANADA
With their credibility and integrity professional accountants can play a big role in putting the conscience into corporations

THE

moral LAW

within corporations

By John Lorinc

During the summer of 2009, Bay Street finance legend Brad Griffiths and a pair of co-investors created an oil-and-gas exploration company called Griffiths Energy International Inc. (GEI) and set out to secure development rights in Chad. Through a previous company, Griffiths and his partners had been nurturing a relationship with Chadian Embassy officials in Washington; with the new firm, they began more intensive negotiations with the government to win the permit.

The group offered the Chadian officials a series of increasingly lucrative signature bonuses, then proposed it pay a US$2-million “consulting” fee to a shell company owned by Chad’s US ambassador. When GEI’s lawyer told the firm it...
Some critics argue that companies are not only incapable of acting according to some moral or ethical code, but that they actually display behavioural traits that are troublingly similar to those of psychopaths.

 couldn’t pay off a government official, the company entered into another consulting agreement with a company owned by the ambassador’s wife.

 Over the next year and a half, however, negotiations to secure those drilling rights bogged down as Chad’s petroleum ministry tinkered with the approval terms. Finally, in late 2010, GEI decided to up the ante, offering a US$40-million signature bonus. In January 2011, a team of GEI officials flew to Chad and signed the deal. A month later, the US$2-million fee was withdrawn from escrow and deposited in a Washington bank account registered to a firm owned by the ambassador’s wife.

 Brad Griffiths died in a boating accident scarcely a half-year later, and soon after a new management team began sniffing around the paper trail that led to that bank branch in the US capital. Fast forward to an Alberta courtroom this past winter, where GEI officials were entering a negotiated guilty plea for violating a Canadian law prohibiting companies from bribing foreign officials. The penalty: a $10.35-million fine and the dubious distinction of joining the small but growing club of Canadian firms called out for greasing palms to win offshore contracts.

 For Gordon Beal, a chartered professional accountant and CPA Canada’s director of research, guidance and support, this incident (and others like it) shines a harsh light on the state of corporate ethics in a country involved in the global economy and with trade links to many nations run by dodgy political regimes. But for Beal such transgressions also raise a frankly philosophical question that hovers at the edge of a decade’s worth of reforms meant to hunch the corporate conscience? “People have a conscience that guides our behaviour in our day-to-day lives,” says Beal, who has had a long-term interest in such issues. “But where might conscience reside at the corporate level?”

 Free-market economists going back to Milton Friedman scoff at the idea. Laws and regulations provide a formal framework for commercial behaviour, and the marketplace, not morality, drives investment and corporate decision-making. Companies, in turn, have a single duty: to maximize shareholder value.

 Meanwhile, critics such as University of British Columbia law professor Joel Bakan, author of The Corporation, argue that companies are not only incapable of acting according to some moral or ethical code; they actually display behavioural traits that are troublingly similar to those of psychopaths.

 Beal, who co-edited the book Leveraging Change — The New Pillars of Accounting Education, a compilation of papers in which ethical decision-making was identified as one of the pillars, doesn’t buy Bakan’s cynicism. While he acknowledges that the debate over what constitutes ethical corporate conduct is a difficult one, Beal argues it is possible to create organizational cultures and expectations that go beyond the parameters of the current regulatory environment.

 What’s more, chartered professional accountants and especially CFOs — because they already function according to strict professional and fiduciary codes — have a critical role to play in this transformation. As Gary Hannaford, FCA, CEO of the Institute of Chartered Accountants of Manitoba, points out, “Proposed CPA rules of professional conduct would place an expectation on members in business for setting a tone of ethical behaviour in the organizations in which they work.” Adds Beal: “We aim to position accountants in industry as strategic partners in their organizations. That’s an important role to play. But do we have a higher responsibility?”

 When Larry Page and Sergey Brin founded the search giant Google, they famously cast their corporation’s mission in starkly moral terms: “Don’t be evil” is Google’s unofficial slogan. At the other end of the morality spectrum are Ponzi schemes, such as the one Bernie Madoff created to bilk billions from gullible investors, or fly-by-night telemarketing operators who prey on lonely seniors.

 The vast gray area in between represents a definitional minefield for those interested in the problem of corporate conscience. When Royal Dutch Shell PLC polluted the water and land of the Ogoni people in Nigeria, was the company demonstrating its lack of conscience or was it merely responding to global demand? When giant clothing chains outsource their manufacturing to low-cost sweatshops in Asia, do they reveal a lack of conscience or an awareness of the acute price-sensitivity of their customers? Is it moral to make money by running casinos where some visitors are gambling addicts or money-launderers? When Coca-Cola Co. supports the World Wildlife Fund’s campaign to protect polar bears but lobbies against regulations that restrict plastic bottles, is it acting morally or immorally?

 These are not simple issues, of course. But there’s a growing international consensus that the profit motive shouldn’t be the last word in corporate decision-making. Social and environmental responsibility, as well as labour practices, do matter, if for no other reason than there are huge potential costs associated with ignoring risks. “If we ignore environmental issues today,” observes Bob Elton, a CA and former CEO of B.C. Hydro, “they become a lot more expensive later on.”

 In his view, shortcomings in ethical corporate conduct occur
when so-called corporate social responsibility goals are seen as separate from the financial management of a company. “The biggest challenge and opportunity for the [accounting] profession is to bridge that gap.”

But most in-house accountants know there is another set of ethical headaches that arise from the relentless pressure to generate strong results. Beal recalls being hired by a private firm that had just parted company with its controller (not a professional accountant). When he commenced preparing its financial statements, he realized the company had been overstating the value of its inventory — so much so, in fact, that a restatement would put the company in the red. Beal agonized over how to broach the discovery with the CEO and owner. “I invested a lot of time to make sure I was right and I lost a lot of sleep due to the significant implications of the news.” The news, when presented, was met with anger and disbelief.

“The stresses on the professional accountant in business are worse than they are on CPAs in public practice because they only have one source of income,” says Jim Sylph, executive director of professional standards and external relations for the International Federation of Accountants. Their professional duties compel them to act responsibly in such situations, he adds. “But for them to make a highly ethical decision is incredibly difficult.”

In theory, the reforms of the past decade should have made a difference. For publicly traded firms, the post-Enron/post-credit crisis changes in both the US and Canada have strengthened the role and independence of audit committees, required senior executives to personally certify the company’s financial statements, expanded disclosure and created more intensive focus on risk management.

“This kind of stuff is not, ‘here’s a rule, now go do it,’ ” says Marion Kirsh, associate chief accountant for the Ontario Securities Commission (OSC). “It’s very much about fostering a culture of integrity and ethics.” She worked in a senior financial management role at the Royal Bank of Canada when the Canadian version of the Sarbanes-Oxley rules came into effect. “I saw firsthand how those kinds of regulations really alerted management to new kinds of openness that were not common before.”

Veteran securities lawyer Ed Waitzer, a former OSC chair and now a senior partner at Stikeman Elliott, adds that “corporate conscience is an increasingly well-defined legal concept.” He points to recent court cases where judges have ruled that the oversight responsibilities of corporate directors must be understood broadly.

But he notes that as “liability concerns have increased in our regulatory-intensive environment, directors rely increasingly on outside experts to mitigate liability.” This process of delegation, Waitzer points out, has created a couple of unintended consequences that have a direct bearing on a company’s ability to make ethically responsible decisions.

First, by seeking out expert advice on complex governance problems such as executive compensation or risk management, boards may be diluting their obligations to shareholders and...
Reporting Illegal or Unethical Activity

While politicians and the public always lap up revelations about corporate scandals, whistleblowers often come in for a rough ride, says Jim Sylph, executive director of professional standards and external relations for the International Federation of Accountants (IFAC). “We don’t hold whistleblowers in high esteem.” He cites the case of Northern Rock, a UK lender rocked by revelations in 2008 of secret bonuses paid to senior executives who were pursuing plans to close branches and freeze assets. A young systems analyst was accused of leaking the information, and the company went after him with a zealous campaign of legal threats that left the employee contemplating suicide.

In both the public and private sectors, whistleblowers risk their careers and personal reputations, even if they are acting in the broader public interest. And, Sylph says, it’s not always clear who should be receiving the negative information.

In the case of Griffiths Energy International Inc., revelations about the bribe to the Chadian diplomat’s wife didn’t come from a whistleblower. Rather it was discovered after a senior management shakeup in mid-2011. The company voluntarily disclosed the findings to the RCMP (and US authorities) and participated in the subsequent investigation.

With law enforcement agencies, regulatory bodies and international institutions such as the World Bank cracking down on foreign corrupt practices, Sylph says securities commissions around the world have asked IFAC to review existing ethical standards for the disclosure of information about illegal activities. Some regulators feel that if auditors know about such behaviour, they should be reporting it as material information. In some jurisdictions, that’s legislated along with safe harbour laws guaranteeing that the liabilities of the accountant will be protected.

To further clarify the issue, IFAC’s international ethics standards board last year released an exposure draft entitled Responding to a Suspected Illegal Act. (The response period closed in December.)

The question at the core of the draft is whether an accountant’s duty to maintain corporate or client confidentiality should be counter-balanced by an obligation to report activities that seem suspect but have not been proven to be illegal. While previous standards confirm that accountants do have a professional duty to report fraud and other criminal code offences, there was a broad gray area for reporting suspicious activity.

As with many matters relating to corporate ethics, the questions are complicated. What happens, Sylph notes, if a CPA is serving as a director and discovers “significantly illegal?” If he or she goes public with the information, the firm’s stock price could plunge and the company could be exposed to prosecution. And that director may be jeopardizing his or her chances to be invited onto other boards.

According to the draft, “The proposal would require a professional accountant when encountering a suspected illegal act to take reasonable steps to confirm or dispel the suspicion and to discuss the matter with the appropriate level of management. If the response of those with whom the matter has been discussed is not appropriate, the professional accountant shall escalate the matter to higher levels of management and those charged with governance, as appropriate.”

In effect, Sylph says, the exposure draft proposes putting the onus on an accountant in business to flag potential problems “and go as far as they can go” by reporting the activity either to an enforcement agency or the firm’s external auditor. The draft, he adds, asks, “Is that the right solution or is that an easy cop out?”

—JL
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don’t keep their affairs in good order."

But how can CFOs do more to promote the importance of upstanding corporate conduct? A big piece of the puzzle lies in the relationship between the CFO and the CEO, who is the face of the company and the board’s primary point of contact. FCA Laurie Tugman, former CEO of Marsulex Inc. and a corporate director, says boards should involve themselves in recruiting and vetting CFOs as a means of creating a stronger sense of independence for that individual, and “to ensure that the CFO won’t just act on the CEO’s instructions in conflict situations.”

Elton notes that CEOs must be able to depend on CFOs for “fearless advice” because it is practically impossible for the top officer to impose his or her leadership on all parts of far-flung companies. Drawing on a nautical analogy, Elton says the CFO’s role, “above all else, is knowing when to wake up the captain.”

When boards establish a strong working relationship between an independent audit committee and the CFO, Tugman says, the senior accounting officials in the firm not only have backing, but will also be able to promote structural moves designed to safeguard the firm’s integrity, such as whistleblower protection policies and enforceable codes of conduct. “Ultimately, people are going to break rules so you do need to have oversight and checks and balances.”

Compensation is another important dimension in creating a strong sense of institutional independence for the CFO. While there’s broad agreement among governance experts that director and CEO compensation should be tied to corporate performance as a means of aligning the firm’s interests with those of shareholders, Beal argues that CFO incentive pay arrangements should be more broadly based and less contingent on short-term bottom-line results. CFOs “should be compensated in a way that they can withstand the pressure to deliver short-term results at the expense of their principles.”

At the other end of the career spectrum, some observers believe the profession has to do more by way of ongoing ethics education and training for accountants who are just entering the workforce and who will be the CFOs of tomorrow. Elton, who teaches at the University of British Columbia’s Sauder School of Business, observes that commerce students tend to be very interested in debates about professional ethics, but feels the industry doesn’t capitalize on that idealism and enthusiasm once those young accounting professionals enter the workforce. “There’s not a lot of ethics training going on for those coming in to the profession because they’re busy building their careers,” he says. “Young CAs have to understand how slowly reputation is built and how quickly it is lost.”

Indeed, the very notion of corporate reputation, and its relationship to ethical conduct, may point to a way of re-thinking and broadening the CFO’s role in the way companies police themselves.

Many corporations today not only have the traditional C-suite positions — CEO, CFO and COO — but also chief information officers, chief investment officers and chief risk officers. Should companies establish chief reputation officers? Or, put another way, should the CFO assume formal responsibility for defending the company’s public standing, and not just in terms of accounting for goodwill on the balance sheet or overseeing PR-minded CSR reports?

Kirsh believes CFOs are in an ideal position to be the designated guardians of corporate reputation, and in effect serve as the seat of corporate conscience. But, she adds, “My only fear is that if you assign the duty to an individual, it will be a silo and not the whole organization.” Beal acknowledges the point. “Some will argue that’s too much responsibility to put on the CFO.” Yet for Brooks, the suite of duties that might fall to a chief reputation officer — oversight of a corporate ombudsman, ethics officer or whistleblower hotline — sit naturally with senior accounting officials. “I think the professional accountant should be able to provide a countervailing source of advice on these matters so the executives and the company don’t just focus on the short term. They have a responsibility to argue for good decision-making and conscience.”

John Lorinc is a freelance writer based in Toronto
EVER SINCE MEETINGS WERE INVENTED, they have been causing headaches for their organizers. How do you rein in the nappers, the texters and the chatterers — and actually get something done? Here are some golden rules to follow

Mind over meetings

“You’re getting sleepy” is the velvety mantra of the trained hypnotist.

But it can also be the untrained inner voice of anyone who has had the misfortune of being trapped in yet another dull meeting.

Yes, few can honestly say they haven’t felt their mind wandering to reflect upon last night’s Mad Men cliffhanger or haven’t surreptitiously texted “zzz” to a friend during an attendance-required office confab. The problem seems to be a perennial one, too: according to a 1998 survey from Verizon Business called Meetings in America, more than 90% of attendees at meetings admitted to daydreaming and sometimes missing all or part of a meeting. About 40% dozed off, while 70%-plus brought other work along.

Much as we love to hate meetings, we seem unlikely to forgo them anytime soon. That’s probably because they can serve so many purposes. They can introduce clients to the organization, pool knowledge and mine intelligence, educate and nurture up-and-coming associates. They can be places for negotiation, debate and brainstorming. In fact, the spectrum of possible meeting types seems to be steadily expanding, especially with the advent of new technology that allows teams from far-flung regions to powwow in real time.

BY ROBERTA STALEY

ILLUSTRATION BY MAURICE VELLEKOOP
But all meetings, no matter how sophisticated, can veer off course — or even collapse — at any point. That's why it's important to remember some of the golden rules of meeting making, from planning to execution.

**Follow the leader.** Finding the right leader — one who can control a gathering and garner respect — is probably the most important aspect of meeting planning, explains Leon Goren, president and CEO of Presidents of Enterprising Organizations in Toronto. The person who fills the role might vary, however. A CEO might call the meeting and ask a senior manager to prep the agenda and act as the facilitator; or the CEO might run the meeting if there is something new to announce. For regular weekly or monthly meetings, a team member might be chosen as leader. Anyone can run meetings, says Goren, if you have a good team.

**Know where you want to go.** Geoffrey Leonardelli, an associate professor of psychology at the University of Toronto and an associate professor of organizational behaviour and human resource management at its Rotman School of Management, says the most important part of meeting planning is determining the objective or purpose. Meetings derail, Leonardelli says,
when the objective is forgotten or pushed to the side by other concerns — some related, some not. That’s why the objective needs to become the mainstay. If the gathering gets derailed, the leader needs to bring participants back by asking, “How is this related to the meeting objective?”

Question the value of routine. The French have a term called réunionnite (literally, “meeting-itis” or an excessive compulsion to gather with others). Fortunately, there is a cure: going on a meeting diet. If you find your organization is having trouble coming up with enough agenda items for each meeting, look at adjusting the frequency to maximize effectiveness. “Just because we have a regularly scheduled meeting doesn’t mean we keep having a regularly scheduled meeting,” says Kevin Johnson, the Calgary-based managing vice-president, enterprise solutions Canada, of Robert Half Management Resources.

Vet your list of participants. “It’s frustrating if you go to a meeting and think, ‘There’s no reason for me to be here at all,’” says Johnson. Accountemps recommends scanning the list of potential attendees to determine who really needs to be included. Often, people are invited simply as a courtesy.

Decide how much time you will need. Just as you shouldn’t hold a meeting if you don’t have enough to discuss, so should you make sure you don’t try to fit in too much. If the agenda is longer than it should be, the meeting will be rushed or participants will have to be kept past the tolerable limits of their attention span. To save time, Johnson says all attendees should be given the information to be discussed at the meeting in advance.

Beware of interrupters. Meetings can go off-kilter due to a Chatty Cathy — a participant who dominates the conversation. “This is one of those tricky things — it can get in the way of competence,” says Leonardelli. “People who dominate a conversation might not be the ones with the most knowledge.” Again, the leader must restate the objective and ensure the perspectives of all participants are heard.

SHADES OF MEETING

Most of us are familiar with the more common types of meetings, such as daily status reports, weekly tactical get-togethers and quarterly strategic meetings. But these coexist with other, more exotic types.

LARGE PROJECT-RELATED MEETINGS

According to Karin Muchall, PwC Canada’s Toronto-based development and transformation leader, meetings are not for disseminating information; they are for talking about what needs to be done. For example, if a large project team is meeting, each group responsible for a certain area will provide the others with a synopsis of what it will be discussing. This creates what Muchall calls a dashboard, highlighting progress so far while revealing current issues or overlap in work streams. Once in the meeting, the full team can redress the overlap and discuss the next steps.

MEETINGS AS CLASSROOM

Meetings are also invaluable for training new staff, Muchall says. For example, PwC has implemented a best-practices model called Enhanced Working Practices, which is based on the principle of “teach, don’t tell.” It is used to help new associates learn to deal with issues that a team might be facing, such as a client problem. It goes like this: a less experienced team member is asked to shadow a more experienced team member in a meeting. They first discuss the purpose of the shadowing session (e.g., seeing how the more experienced team member interacts with a client). The two debrief after the meeting — away from the client — and the more experienced team member asks questions to clarify learning, such as What did you hear?

ONE-ON-ONE MEETINGS

Tête-à-têtes are unique in the wide world of meetings because they, more than other professional gatherings, are about relationship building, says Mitch Silverstein, a partner with Richter in Toronto. Private meetings can also be the most strategic and diplomatic way to deal with conflict. If an associate has made an error, for example, it should be discussed in private. Otherwise, “everyone within earshot will realize that the next time they make an error, they are going to be embarrassed in front of their peers.” Similarly, bad news for clients, be it an error by the firm or simply a big tax bill, is best handled in private and in person. Whatever the news, be honest and direct, says Silverstein. “Don’t sugar-coat it or make excuses.” And draw up an action plan. At the end of the day, he says, “most people appreciate what you have done for them in the past.”

HYBRID AND TECHNOLOGY-ENHANCED MEETINGS

Technology has made it possible to amalgamate old-fashioned face-to-face encounters with teleconferencing, webcasting, Skype, videoconferencing and webinars. Although these meetings have more to do with the how than the what, they are increasingly common. They can also be combined with other tools that enhance the meeting experience. For example, Johanne Bélanger, president of AVW-TELAV Audio Visual Solutions in Mississauga, Ont., says attendees can download meeting information onto their iPads or mobile devices and access it on websites; leaders can also create Twitter walls (a projection of live tweets during a meeting). As Ernst & Young’s Eric Rawlinson explains, such technology helps ensure an immediate and smooth inflow and outflow of information. “With technology, bang, you can hit the Internet right now to find out more data,” says Rawlinson, who attends about 20 meetings a week as managing partner for the Greater Toronto area.
Be attuned to nonverbal communication. As UCLA professor emeritus of psychology Albert Mehrabian famously determined, body language — more than content or tone — has the greatest impact on how a message is received and interpreted. Leaning forward in your chair and putting your hands on the table, for example, can come across as aggressive, explains Goren. However, it’s possible to moderate your body language to elicit the trust of team members. Also, the lack of any nonverbal cues is not always a good thing: Giselle Kovary, co-founder of n-gen People Performance Inc., points out that social media such as text or email can’t be relied upon when it comes to serious discussions.

Meetings involve subtlety.

Take breaks. If your meeting will run longer than an hour, offer snacks, allow attendees to interact and vary the speakers, recommends Accountemps. And don’t overlook the mind-body connection. Ildiko Hegyi, a fitness instructor, holistic coach and president of Infinity Way Inc., an immigration and financial consulting firm in Toronto, explains that our bodies are naturally meant to move. “Being forced to restrict our movement not only causes us to lose focus and concentration; it has several other negative effects,” she says. “That is why it is so important to have five-minute breaks every hour. Simply taking a deep breath, rolling your shoulders or head and standing up and reaching out your arms are easy and effective exercises that anyone can do.” (For more tips from Hegyi on de-stressing in meetings, see www.camagazine.com/meetings2013.)

All that twitters is not gold. Technology has provided all kinds of assistance to make meetings run more smoothly (see Shades of meeting, p. 28). But as Kovary points out, technology is a tool, not a master. PowerPoint presentations can be effective for simplifying complex ideas, but they also can bog down the discussion, warns Accountemps. Above all, any technological bell or whistle is subject to the vagaries of connections, routers and plug-ins. What’s the point of having a fancy video feed if you end up staring at a frozen screen?

Push buttons and pull chains. There might be a reason why “brainstorming” hints at a weather eruption. Nurturing creativity in a meeting is one of a leader’s key roles, says Goren. The leader needs to “mine for conflict and arrive at a breakthrough in thinking to get to where [the group] is trying to go more quickly.” To do this, the leader opens with the salvo that conflict is expected and required: “I’m looking for the best solution and the only way to get there is by beating it up and by having different people present different ideas.” If attendees just nod their heads, “chances are they have already checked out,” Goren says. No matter what happens during the debate, it is up to the leader to decide how to address problems or initiate future steps. Because, ultimately, that is the point of having the meeting in the first place — isn’t it?

Robert Staley is a freelance writer in Vancouver.
NO POTENTIAL CLIENTS ON THE RADAR?
Try these sure-fire methods to zero in on quality customers and land the new business that’s right for your firm
By Lisa van de Geyn

Hunting HOT prospects

AT 31, WILL HENDERSON IS ALL ABOUT THE DIGITAL WORLD. AND LIKE most people his age, he spends a good chunk of time surfing the Internet. “Anytime I need anything, I first check the web,” he says.

It makes sense, then, that his Calgary-based firm’s No. 1 source for new clients is its website and online presence, with about 25% of the firm’s growth to date coming through the site. He and his partner, Paul Campeau, have done away with the old-school methods of promoting Henderson Campeau Chartered Accountants’ specialties and offerings. “I know how my generation operates, and it generally isn’t by reading the morning paper in paper form or looking for phone numbers in the phone book,” he says.

While Henderson and Campeau have figured out how to increase their client base, not all practitioners have mastered the skill. In fact, a CICA survey conducted in 2011 found a definite disconnect between the ways accountants market their firms and what’s actually effective in drumming up new quality business. For example, of the 664 accountants surveyed, only half (52%) ask current clients for referrals, yet they rated this method the most successful way to land new customers.

illustration by BLAIR KELLY
versely, 60% said they attend functions at local businesses or community organizations to attract clients, but just 28% rated this approach as effective.

These stats speak volumes: while you’re out there hunting for customers to add to your roster, your efforts could use a little direction. Here are some of the top dos and don’ts from marketing pros and accountants who’ve seen increases to their bottom lines.

DON’T take a cookie-cutter approach
You can’t find lasting, quality clients if you don’t know who you’re looking for and where to look. “All marketing needs to be centred around your ideal prospects; a cookie-cutter approach won’t work,” says Sue Clement, a marketing and referral expert and the owner of Success Coaching in Vancouver. Once you know your niche market, you can find better ways to sign new business. “Ask yourself what works for your clientele. If your ideal prospects are avid Facebook users, it’s a great indication that you need to be there too. If they attend specific networking events around town, attend the same ones,” she suggests.

A well-balanced marketing plan that focuses on your core audience is like a well-balanced meal, says Clement. Speaking at industry events, hosting seminars, blogging and writing newsletters, for example, are great ways to build visibility and credibility. “Networking and developing referral relationships will bring you in contact with more prospects and get your name out. Each strategy has a slightly different benefit, and it’s key to know which ones work best for you and for attracting your specific prospects,” she says.
**DO make word of mouth, referrals and networking priorities**

It might seem obvious, but word-of-mouth marketing still reigns supreme. Still, there are ways to make this quintessential method work harder for your firm.

“Word of mouth is effective if you give the market something to talk about,” says Jean Caragher, president of Capstone Marketing in San Diego. “Be sure you and your team know how to tell the firm’s story, and ensure that you are delivering superior services to clients so they have positive things to say about you.”

Caragher says it costs about 400% more (and double the time) to sign a client who isn’t referred than one who is.

John Flaim, partner at Flaim Wolsey Chartered Accountants in Halifax, says his firm has obtained most of its clients by referrals. “My partner, Donald, and I listen to our clients, provide competitive prices for our services and respond immediately to phone calls and emails. For this high level of service, our clients reward the firm by referring us to their colleagues,” he says. “The new prospects we get are clients who we want, as they’re not outside our niche.”

Similar to referrals, networking continues to be a solid way for accountants to generate leads, says Caragher, who suggests attending functions and joining committees in your niche market. “Hosting seminars is also an excellent way to get in front of clients, prospects and referral sources to share information and demonstrate expertise,” she says, adding that 15 to 20 attendees is a good number to have so there's enough time to spend with each guest.

Flaim’s firm has had success with this method — for example, giving annual presentations to medical residents explaining the advantages and disadvantages of incorporating. The firm also meets regularly with influencers, such as investment advisers and bankers, to “instil the importance of having a team of advisors that communicate together on behalf of the client,” he says.

A note on networking and events: don’t sponsor something you don’t plan to attend. “And, when you do attend, don’t fill your table with members of your firm,” says Caragher. “Events can be a wonderful opportunity for both networking and client entertainment.”

**DO embrace social networking and social media**

This is about fishing where the fish are, says Toronto social media expert Randall Craig, author of a number of books including the Online PR & Social Media series, and president of consulting firm 108 Ideaspac.

“The world has changed. With the advent of social media and web 2.0, successful promotion today is about ‘pull marketing,’ which means attracting clients to you — gaining visibility through content, creating a community and attracting prospects — instead of ‘pushing’ information out,” Clement adds. “Consider your website and social media presence your main advertising, and invest the time and energy into making it the kind of winning presence that attracts and engages your prospects.”

It’s pull marketing that pushed Calgary accountant Dorin Mihalache to quit his job in September 2011 and start his own practice. By the beginning of 2012, his website, www.taxclinic.ca, was up and running, and since then he’s picked up enough clients to contract four part-time staff.

He attributes his success to promoting the business online. “I’m a true believer in the power of the Internet,” he says. “People like flexibility and online interaction, and this is what I’m giving them.” Besides being present on Facebook, Twitter and Google+, Mihalache says he’s branded his firm around his website’s name, which does well in Google searches.

As for making the most of social media, Craig says it’s all about showing your know-how. “Accountants are experts in their field. Expose that knowledge through meaningful and appropriate blogging, newsletters and tweeting,” he says. For example, if your expertise is in tax planning, blog about tax tips, then tweet that you’ve rounded up your top planning ideas and link to the post. Then include this information in a newsletter that you send via traditional email.

**DO ditch out-of-date marketing methods**

“I’ve tried targeted flyer distribution, but didn’t get good results,” Mihalache says. “My mailbox is full of flyers every day and I dispose of them right away. I guess the same happened with my campaign.” He also tried a direct-call campaign by purchasing a list of contacts for businesses in his area, but didn’t find it worth the effort. “I had a specialized service calling all of them. We had some results, but it’s very time consuming and the followup is a daunting task.”

As for promotional material (folders, brochures, etc.), while firms should have a package that represents the brand, a brochure never closes a sale, Caragher says. “Your promotional package is a tangible leave-behind; you still need the questioning and listening skills necessary to uncover the needs and challenges of your prospects to demonstrate how your firm can help.”

**DO try CRM systems**

“It’s surprising that for professionals who spend their careers tracking and analyzing data, not everyone uses the same vigour for tracking new business opportunities,” Craig says. Customer relationship management (CRM) is a great tool for maintaining personal contact with potential clients, and keeping in touch with current and former clients.

Using a CRM system allows you to keep data and information about contacts in one place, and you can send personalized (and automated) notes, so that when a prospective customer is ready to look for a new accountant, they’ll remember you — and your expertise — based on the value-added content you sent, says Craig.

**DO ask for business**

“Let’s not forget that accountants need to continue to ask for business,” Caragher says. “They need to be able to describe the types of new business they want, and to ask their clients and referral sources for leads.”

If you’re not being proactive and verbalizing what you need, you’re doing yourself and your firm a disservice, she says. “Accountants don’t ask for leads because they feel it’s unprofessional or they’re intimidated. However, this is a normal part of business and should be a regular activity for practitioners.”

Lisa van de Geyn is a freelance writer based in Toronto.
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Is your governance effective?

The challenge is to develop and implement reliable and useful measurement tools to determine if each strategy is consistent with objectives.

What is effective governance? An enterprise’s strategic objectives form the basis of its governance framework. These objectives can include regulatory compliance, financial performance and operational efficiency. To achieve these objectives, risk management strategies are developed. In other words, the governance framework defines the what and the strategy defines the how.

Next, the enterprise must comply with its governance framework by creating an internal control environment to ensure its business processes are aligned with its risk management strategy and that they function as expected. The last step is to measure whether the strategic objectives were achieved. This is where effective governance comes into play.

That said, an assessment of governance effectiveness inevitably involves a measurement of its components, i.e. objectives, risks and management’s strategy. According to the Committee of Sponsoring Organizations of the Treadway Commission, the purpose of monitoring risk management is to determine whether the internal control system can mitigate risks so the organization can achieve its objectives. For this purpose, current performance management tools are based on the use of key performance indicators (KPI). While numerous definitions of KPI exist, there is agreement that KPI measures the output, purpose or objective of a department, process or activity. However, this principle does not take into account the causal relationships inherent in risk management. According to Robert Kaplan, creator of the balanced scorecard, there is more work to be done before both viewpoints can come together.
“If I had to say there was one thing missing that has been revealed in the last few years, it’s that there’s nothing about risk assessment and risk management. My current thinking on that is that I think companies need a parallel scorecard to their strategy scorecard — a risk scorecard.”

**Fundamental principles**

How can the best use of risk management strategies be measured when implementing a governance framework? Optimal use will depend on choosing a strategy or department that is aligned with the organization’s objectives regarding effectiveness (a department’s ability to achieve its objective), efficiency (the best way to achieve a goal), guarantee (assurance that the department will meet its goal) and usefulness (the department satisfies the organization’s needs). Therefore, the challenge is to develop and implement sufficiently reliable and useful measurement tools to determine if each strategy is consistent with the strategic objectives.

For this assessment to be beneficial, five preconditions must be met:

- strategic objectives have been set;
- strategic objectives are understood by everyone in the organization;
- risks have been identified based on the strategic objectives;
- a cascading risk analysis is performed in the organization;
- risk response strategies have been implemented in the various business units.

The assessment begins with the strategic objectives, from which the enterprise’s risks and management strategies are derived. The objectives and risks should be well understood by everyone in the organization through communication and dialogue with various stakeholders, who can then put strategies in place for effectively managing risks and achieving the objectives.

However, there is one caveat: the best measurement tools don’t guarantee the best results. Meaningful and realistic goals set by management are essential for successful and optimal strategies. Monitoring is only one decision-making tool that helps frame management’s judgment.

**Governance oversight**

Oversight is different from internal control in that its purpose is to determine the effectiveness, efficiency, guarantee and usefulness of the activities within a process, not to map out activities in a predefined process. When it comes to oversight, the biggest challenge to organizations is choosing appropriate measurement tools. For example, how is a change management process measured? This challenge stems from the belief that reliable and useful measurement tools require an onerous internal structure and a leading-edge information system.

The measurement’s usefulness is based on a simple cause-and-effect relationship between various elements. Thanks to Kaplan’s balanced scorecard, we know the correlation between the finance, customer, internal business processes and learning and growth perspectives. Kaplan also identified the correlation between an organization’s structural levels, commonly called strategic business and IT alignment. There is also a third correlation between the measurement tool and the object of measurement. In management accounting, this concept equates to drivers, which are events or tasks that affect results. They can be associated with other concepts, such as value-added activities or key controls. They help identify useful indicators.

Risk management proposes another level of correlation between risk, strategy and objective. We will therefore talk about drivers, key risk indicators (KRI), key control indicators (KCI) and KPI. KRI helps identify potential problems. The probability and impact of a known threat or the expectation of an emerging risk are examples of risk drivers. KCI measures the vulnerability of a process or department. It differs from KPI in that a process, as sound as it may be, does not necessarily help achieve the desired goal. By comparing a KCI with a KPI, a gap between the chosen strategy and desired goal can be detected, and thus a department’s usefulness can be assessed.

KRIs, KCIs and KPIs, together with the scorecard’s various metrics and levels, must work in synergy. The snapshot provided by the indicators should reflect as accurately as possible the chain of activities that contributes to achieving the organization’s objectives.

To eliminate any fears caused by the complexity of the indicators’ structure, remember that when the five preconditions have been met, the causal link between the organization’s structural levels and between the objectives and risks is established. By simply determining the organization’s objectives based on your scorecard’s perspectives, you will have already done a good deal of work with minimal effort. This approach has proven easily feasible in practice, even in organizations where these steps are carried out intuitively, which has shown us that performance measurement does not necessarily require an onerous strategic planning process.

Keeping things simple should also apply when measuring management strategies. Also, the maturity of an operational process must not limit measurement of its effectiveness.

To eliminate any fears caused by the complexity of the indicators’ structure, remember that when the five preconditions have been met, the causal link between the organization’s structural levels and between the objectives and risks is established. By simply determining the organization’s objectives based on your scorecard’s perspectives, you will have already done a good deal of work with minimal effort. This approach has proven easily feasible in practice, even in organizations where these steps are carried out intuitively, which has shown us that performance measurement does not necessarily require an onerous strategic planning process.

For example, an organization in which the implementation of an IT application is a rare event managed on a case-by-case basis would still want to know the level of its success. Keep in mind that the main objective is to meet the business need. The maturity of the chosen strategy will dictate the appropriate level of reliability for the measurement. Therefore, trying to find a precise
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measurement is useless if the process is managed intuitively.

However, in a governance-based approach, a measurement’s usefulness depends on the risk-analysis process. Besides establishing a work methodology, the risk analysis process also serves to set the KRI and KCI objective; this is referred to as risk appetite and tolerance.

This common goal is key in ensuring the correlation between the risk and the strategy. For example, enterprises have IT resource availability needs that vary significantly based on the time of year or day. They must therefore have indicators that can protect them when risk factors change. The enterprise will also verify that its strategy adequately minimizes the risk within the set limits. The risk-analysis process must therefore be mature enough to quantify the targets. Like the five key preconditions, the targets can still be quantified intuitively. Organizations simply have to take the time to fully understand and adopt the risk management concepts.

Lastly, how should results be measured? Oversight can be carried out in various ways, but generally revolves around two areas. The first is self- and independent review, the second is ongoing and periodic review. The point of reference may thus vary from one activity to another, based on the required level of objectivity and feedback time frame.

If the risk-analysis process or strategy review is embedded in the organization’s operations, the organization can quickly react to a change in the risk assessment. However, the decision to have highly effective measurement tools should be based on the organization’s ability to provide information within a short period of time and especially on its real need for it. Do small and medium enterprises really need to continuously measure the effectiveness of issues management? If not, could the internal auditor double as a measurement tool?

To conclude, process complexity is not a determining factor where measurement is concerned. The key is to set measurable risk, strategy and performance targets. Results are measured to ensure continuous improvement, but the fact that the improvement process can also benefit from continuous improvement should be recognized. The use of a qualitative tool, such as a maturity scale, helps in preparing background information. With the information collected over time, it is possible to develop measurement tools that are increasingly reliable and useful.

What happens next will depend on management’s risk assessment, based on which it will be able to determine if the strategies are appropriate or if the processes require further analysis.

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Conduct unwelcomed

An employee accuses a coworker of harassment. Believable or not, it’s best to keep an open mind and not jump to conclusions.
begin the work. Its first job was to image the hard drive of the work computers belonging to Michael and Margaret. This was done after-hours, late the following evening, in the company of Anne and legal counsel.

The following day, the case took a new, but not unexpected (to legal counsel), turn. Margaret's brother contacted Anne to inform her that his sister was demanding a $750,000 settlement or else she would launch a sexual harassment lawsuit for considerably more money. He suggested that everyone involved would want the matter dealt with quietly and that the amount requested was reasonable, considering what had taken place and that his sister would not be able to return to her job at the firm.

He proposed a meeting in a week's time, which Anne accepted. She then called legal counsel with the news.

Legal counsel met with the senior forensic investigator on the case and updated him on the settlement offer. As soon as he mentioned the $750,000, the forensic investigator interrupted him. "That's an interesting number," he said. He told legal counsel he had seen some emails in Margaret's personal accounts that indicated she was planning to leave the firm and set up a consultancy that would, in some matters, compete directly with

Sexual harassment occurs no matter the age or appearance of victims. It is often about power and control, not attraction. It can be a technique to frighten a woman

her current employer. "She mentioned, in several messages, that she would need about '750K' to get it up and operating," he said. "Is it too much of a coincidence that's what she's asking for to keep quiet and leave?"

They agreed it certainly wasn't proof her allegations were false. It was possible both circumstances existed separate of each other: she was planning to leave and she had been harassed. Why not pick $750,000 as the proposed settlement?

But it did cast a shadow of doubt. "We need to know whether Michael did what she said," legal counsel said. "I need you to find out right away."

The forensic investigator concocted a plan that involved a female colleague. She would pose as a human resources consultant working on a general study of harassment issues in the workplace. Women at the firm would be invited to share their thoughts on the topic with her in confidential interviews.

The ruse worked well. Several women from the firm volunteered to speak with her. One in particular, a young secretary who reported to Michael, talked of feeling uncomfortable at a previous job with someone who sounded very much like Michael. The female forensic investigator asked if it was possible she was describing a current situation. The secretary didn't say "yes" nor did she say "no." She was visibly nervous. The investigator felt certain the secretary was speaking of her current circumstances.

"Did anyone else know about this?" the forensic investigator asked. "At the previous firm, I mean."
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“I might have confided in another worker,” the secretary said. “She said to grin and bear it.”

“Was she also harassed?”

“God no. I can’t imagine that,” the secretary replied. “They hated each other. I never ever saw or heard him do anything to her, the way he did to me.” She then declined to say any more.

The case was starting to get more complicated. There was now a theory that Michael was indeed harassing a female worker but that it might not have been Margaret. Or it could have been both.

The break in the case came from the information on Margaret’s computer. Someone had indeed sent a message to Michael’s former wife but it hadn’t been him. At the exact time the message had been emailed, Michael was on a five-hour flight to Vancouver. He couldn’t possibly have sent it from inside a plane.

Margaret, on the other hand, had been on her Hotmail account just before and after it was composed. “Clever,” the senior forensic investigator said to legal counsel, “but also pretty stupid. She should have just sent that one message and it would have made it much harder to see that she was the one who wrote it.”

That still did not mean that Margaret was lying about Michael. The email could have been sent out of anger and revenge. So the forensic investigator, with the agreement of Anne and counsel, tried a direct route. He met with Michael and gently confronted him. “Someone has said you’ve been a bit inappropriate with a young secretary. I’ve been retained to find out if it’s true. But if we can clear this up now the matter can likely be dealt with in the best way possible for everyone.”

Michael looked shocked and stammered a feeble denial. The forensic investigator knew to remain silent no matter how long that might last. They almost always kept talking. After a lengthy, awkward pause Michael spoke. “I’m speaking theoretically,” he began, “but what if the accusation was true. What would happen to the person being accused?” That depends, the forensic investigator said, on what happened, why and what remedies might be taken to make sure it was never repeated.

Michael seemed both deflated and relieved. He told the forensic investigator that he might have been “a bit forward” with a young secretary. He said he’d been drinking a lot and had been emotionally unstable since his wife left. He said what happened with the secretary had never gone beyond a certain point. He agreed to take counseling if he could retain his job. He swore it had never happened before. “Not with Margaret?” the forensic investigator asked. “Are you crazy?”

Michael said. “I can’t stand that… .” He left the rest of the sentence unspoken.

A few days later the forensic investigator attended the meeting with Margaret, her brother, Anne and legal counsel. He was used to interviewing both victims and perpetrators of fraud and agreed to take the lead in presenting the evidence his team had uncovered.

He went through what they knew and what they had inferred from the data and interviews. As anticipated, Margaret and her brother vehemently denied having concocted a plan. After the discussion cooled down, legal counsel proposed a severance package for Margaret that was far less than what she’d asked for but enough that, ultimately, she accepted. Michael agreed to counseling and the secretary agreed to a settlement and a glowing reference letter.

False allegations are rare in business but they do occur. Forensic accountants and investigators must always keep an open mind to the possibility that what is being alleged could be true, false or a combination. Jumping to conclusions is never a good reaction. It can be costly and unfair, and result in other claims, legitimate ones, being launched.

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The right fit

Hiring mistakes are time consuming and costly to your business. Come up with a strategic plan to hire winners.

Finding the right employee can be a daunting task. Many employers engage in the process, struggle to identify the best candidate and then question whether the individual they favour is in fact the right choice. William, the head of the finance team in a small organization, learned that Shauna, his highly reliable longtime sidekick and top-performing senior manager, was moving and leaving the company. He panicked. His team was close and productive, morale was high and it had low turnover. William doubted he would be able to find someone who rivaled Shauna, and he was unsure how to go about looking for a replacement. He was also concerned that a new person would throw off the team’s equilibrium. Hiring the right person was vital.

William wasn’t sure what to do. One consideration was to outsource the search to a recruitment firm. After some thought, he realized the stakes were too high to remove himself from the hiring process. The position was a crucial one in the small organization. Selecting the wrong person could cost money and could pose a risk to team dynamics.

William developed a plan for the hiring process. Here are some steps he followed.

• Take your time. At the outset, William was anxious to quickly find a replacement in order to start the transition process as soon as possible. He was extremely busy with everyday work, so while he understood that he must play a central role in the hiring of this new team member, he also had to be careful that he did not manage the process on his own. He engaged key members of his group in the hiring process, creating a hiring team, made up of indi-
viduals who would be interacting closely with the new senior manager. Shauna was also included in the process, playing a key role in managing a smooth transition.

- **Think ahead.** Hiring a team member is an opportunity for the team to reflect on its vision and direction. It’s a chance to think about what skills and attributes the team will need in the future and what it needs now to move forward. The hiring team and William discussed the hire in the context of their long-term vision. In the past the group had been inwardly focused, getting processes and systems established and running smoothly. Now it believed it was moving into a period of growth where there would be a greater need to meet with stakeholders and clients. The new hire would need qualifications and skills suited to this change.

- **Prepare a thorough job description.** Integrating her knowledge of the role and the hiring team’s compilation of desired skills, Shauna drafted a thorough job description, reviewed and revised by William and the team. The job description also laid out the qualities required to be a high-performing member of the well-established team, which was used to Shauna, who could anticipate the needs of team members. They now needed someone who was adaptable and could learn the ropes quickly.

- **Articulate your value.** William was aware that he would be competing with larger firms for qualified candidates. He worried he would not be able to offer competitive compensation and benefits. He worked to articulate what his small organization did have to offer: it was a fast-growing business with a strong team culture, flexibility, growth and an opportunity to develop new skills. These were qualities the hiring team focused on when answering candidates’ questions about the role and the organization.

- **Do assessments.** William’s team had completed the Myers-Briggs Type Indicator (MBTI) and the Birkman method assessments, which identified everyday interpersonal style. William found great value in understanding the styles, needs and stressors of his group and he learned that his team members enjoyed a high level of activity and most were open to being challenged. These were attributes he hoped to find in the new member. To get additional data to help in the decision-making process, William had the short-listed candidates complete the assessments too.

- **Check references.** After interviewing the short-listed group, William was tempted to make an offer to the person he saw as the top candidate, but knew he should slow down and follow a thorough process. The team conducted in-depth reference and background checks. Because references are typically selected because they will give a highly favourable review of the candidate, it was suggested the reference checks probe for such details as how the candidate interacts with clients or how the candidate deals with challenging assignments. The candid qualitative data the team collected helped William narrow his choice down to two candidates.

- **Trust your gut.** When it came to making the final decision, William met with each finalist. Although he favoured the first one’s qualifications on paper, it was the second candidate with whom he and the hiring team clicked better. He was more comfortable with that candidate and could see her as a member of the team. Based on this final impression, he made that candidate an offer.

- **Try them out.** As a part of the interview process, do a thorough evaluation of the candidate’s skills relevant to the position. If writing is important, get him or her to write a paper or ask for a writing sample. If presentation skills are important, set up a panel interview and ask the candidate to present his or her skills and outline a strategy for the role. If it is possible, rather than a long-term agreement, offer the person a small contract assignment to assess fit and skills.

- **Start off on the right foot.** After all this effort to find the right person, the most important thing for William was to make sure the working relationship was launched well, and that the new hire was oriented to the culture and day-to-day workings of the organization.

Many employers spend months finding the ideal employee and then drop the ball when it comes to integrating the employee into the organization’s culture and daily work. They hand the new hire a binder of protocol and policies, show him or her where the photocopier and lunch room are and hope things come together organically. A better approach is to find that person a mentor, bring the team together for an introductory meeting, perhaps an additional meeting where they revisit the vision and strategy, and ensure there are key people working closely with the new hire for the first few months.

To facilitate a smooth transition, William arranged for the new hire to work closely with Shauna for two weeks. He had a coach do a session with the team and new employee, where they reviewed the team's MBTI assessments. It served as an excellent icebreaker and as an introduction to the personality types and working styles. They discussed the team’s norms and values and the role they played in the everyday work. It was also an excellent refresher for the team.

In addition, William and the new employee met every second day for the first three weeks to ensure his expectations were clear and the new hire’s concerns or questions were addressed.

Over time, William found that the process of finding and integrating a new member into the team had in fact altered the team dynamics. Strategizing and thinking about the group’s future direction, and reaffirming their values and norms changed the team — for the better.

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Evaluating corporate-owned life insurance

There are good reasons to hold a life insurance policy in a corporation — one being the tax treatment.

Corporate-owned life insurance is an effective tool for dealing with a multitude of tax and estate planning issues, at both the personal and corporate level. The array of products and the combinations of insured, owner and beneficiary, as well as the many funding and investment options, allow for great customization. They also make evaluating insurance proposals received by a client a challenge for accountants and other financial advisers.

Life insurance has two important and unique qualities that make it ideal for tax and estate planning: it provides a tax-free benefit on the death of the insured (death benefit), and it can be designed to have a growing cash surrender value (cash value), which is exempt from annual taxation (see Taxation, April). These features allow it to be used for a variety of personal and corporate objectives.

In the corporate context, the death benefit can be used for business continuation purposes, allowing a company to recover from the financial impact of a key employee's death (key man). This may take the form of providing capital to attract a skilled replacement, or dealing with the cash flow and going concern issues resulting from a death such as lost sales, difficulty in collecting receivables or the calling of a bank loan. Alternatively, the death benefit can be used for succession purposes by funding the redemption or purchase of the deceased's shares (buy/sell). An increasing death benefit is useful for buy/sell purposes when shares are increasing in value, and the associated cash value can be used as collateral for corporate or shareholder borrowing.

When the corporate perspective is expanded to include the tax issues and estate planning goals of the shareholders, corporate-owned life insurance becomes very attractive for clients wishing to fund capital gains tax triggered by the death of an insured; fund the lifestyle of a surviving spouse; fund a family trust or enhance the after-tax value of an estate. This is because the policy's cash value grows tax-free, and substantially all the death benefit flows out of the corporation as a tax-free capital dividend, increasing the tax-efficiency and value of life insurance compared with alternative taxable investments within a corporation.

When considering what type of insurance to use for a particular purpose it is important to distinguish between the temporary coverage provided by term insurance and the permanent coverage provided by whole life, universal life or term-to-100 policies. Term coverage has a much lower initial premium and is best suited for temporary needs because the guaranteed premiums increase on each renewal, dramatically at older ages, and the coverage generally ends at age 80 or 85 (though it is usually convertible to permanent insurance until ages 65 to 75). It is pure protection only and has no cash value. Accordingly it is suitable for corporate operating needs, including key-man coverage, insuring corporate debt or for buy/sell purposes where the shares have a relatively fixed value.

Permanent coverage, which is designed to stay in force for the entire life of the insured, is a better choice for holding company and personal estate purposes because of the longtime horizon, the potential requirement for a cash value or for an increasing death benefit, and the
long-term affordability of a level premium or a limited premiumpaying period, which is only available with permanent products.

It is also important to ensure that there is a good match between when the death benefit is required for a particular purpose and when it will actually be paid. This is a function of who is insured and whether it is single life, multilife, joint first-to-die or joint last-to-die coverage. These options also have a material impact on the cost since the earlier a death benefit is expected to be paid, the higher the premium. Accordingly, joint first-to-die and multilife are the most expensive, followed by single life and finally joint last-to-die. The latter is often used for estate tax liabilities, since the benefit is paid on the second death of a couple, which is when large tax liabilities are typically triggered on appreciated capital property and registered capital.

Each client has unique facts and a particular insurance product may be better suited to those facts depending on factors such as the required duration of coverage, the age and health of the insured, the capital or cash flow available for funding the premium, and the desired level of flexibility, guarantees and liquidity. It takes an insurance expert to look at the full array of products and select the optimal one for a particular set of facts and objectives. Nonetheless, the client’s accountant or financial adviser may be engaged to determine if the proposed insurance achieves the client’s objectives and in a cost-effective, tax-efficient and low-risk manner.

The insurance proposals often contain many assumptions that can have a material impact on the projected future values. These assumptions, such as future investment returns and dividend rates, should be compared with appropriate historical rates and conservatively tested within ranges to create a high confidence level that the projected values will be realized or exceeded. In this connection it is important to identify which values or rates are guaranteed within the policy and which are not.

One popular insurance concept illustration compares the option of making premium deposits into a permanent policy within a holding company to the option of investing the same premium amounts in a fully taxable corporate-owned investment such as bonds. This comparison assumes that the deposits are not required for retirement income and would form part of the estate. Typically the illustration uses a higher than current yield for the bonds to allow for higher rates of inflation in the future.

Due to preferential tax treatment, the insurance option usually provides a much higher net estate value than the bond option at life expectancy, unless the rate assumed for the bonds is about twice the implicit yield of the insurance. The interest income earned by the bonds is taxed at the higher rates that apply to passive income and then subject to the top dividend rate that typically applies when the liquidated investments are paid out to the estate or a deemed dividend results from the windup of the corporation on the death of the shareholder. By contrast, the difference between the premiums paid and the eventual death benefit is exempt from tax, and by life expectancy the entire death benefit passes to the estate as a capital dividend. Simply put, premium deposits grow in and flow out of the corporation tax-free.

Another common illustration is based on the same analysis, except that the bonds and the life insurance policy are compared as vehicles for providing retirement cash flow. The bonds are sold as the principal is required to supplement the interest income, and both capital and interest are paid out of the corporation as taxable dividends. By contrast, the cash value of the policy is used as collateral by either the corporation or the shareholder, to obtain a series of third-party bank loans to create the cash flow. The interest is added to the outstanding loan balance (provided the loan does not exceed 75% to 85% of the cash value) and the entire loan amount is eventually paid off by the death benefit.

Where the borrower is the corporation, the loans are paid out to the shareholder as taxable dividends, whereas when the borrower is the shareholder, the borrowings are not taxable but could give rise to a shareholder benefit, which is typically mitigated by a guarantor fee paid by the shareholder to the corporation. Additionally, shareholder borrowing does complicate repayment of the loan since at the time of death, the policy, which is providing security for the loan, must be released before the death benefit is paid out. This requires the executor or surviving shareholder to substitute other collateral for the loan, until such time that the death benefit flows out to the estate or surviving shareholder, providing the funds to repay the loan.

Though the policy and corporate bond options are modeled to provide identical after-tax retirement cash flow, the policy will typically have a larger residual net estate value. If having an estate is of little consequence, this may not be an appropriate strategy. Note that one of the key assumptions in this comparison is the cost of borrowing, which should not be underestimated. Lastly, an alternative corporate investment may be illustrated using a mix of interest, dividend and capital gains to provide a more relevant comparison depending on the risk tolerance of the client and the mix of investments within the policy.

These examples show how insurance proposals must be evaluated within the context of the client’s goals and circumstances and with due consideration as to the assumptions used. Some concepts, which combine leveraging and interest deductibility to increase the tax benefits, can become quite complex. Make sure your client understands how they function and what the benefits and risks are. Care must also be taken to ensure that more aggressive arrangements are properly structured, documented and implemented to reduce the risk of a challenge by CRA.

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Technical editor: Jay Hutchison, tax managing partner, Canada, E&Y
How to make it easy

Will a back-to-basics approach focusing on cash flow help make financial performance easier to understand?

**Statement of cash flows**

<table>
<thead>
<tr>
<th>Direct Method: shows each major class of gross cash receipts and gross cash payments. The operating cash flows section of the statement of cash flows under the direct method would appear something like this:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Cash receipts from customers 100,000</td>
</tr>
<tr>
<td>• Cash paid to suppliers (25,000)</td>
</tr>
<tr>
<td>• Cash paid to employees (30,000)</td>
</tr>
<tr>
<td>• Cash paid for other operating expenses (11,000)</td>
</tr>
<tr>
<td>• Interest paid (1,600)</td>
</tr>
<tr>
<td>• Income taxes paid (15,400)</td>
</tr>
<tr>
<td><strong>Net cash from operating activities</strong> 17,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Indirect Method: adjusts accrual basis net profit or loss for the effects of noncash transactions. The operating cash flows section of the statement of cash flows under the indirect method would appear something like this:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Profit before interest and income taxes 22,000</td>
</tr>
<tr>
<td>• Add back depreciation 29,000</td>
</tr>
<tr>
<td>• Add back loss on sale of business/equipment 26,000</td>
</tr>
<tr>
<td>• Deduct gain on sale of business (10,000)</td>
</tr>
<tr>
<td>• Changes in fair value of derivatives 8,200</td>
</tr>
<tr>
<td>• Items reclassified from other comprehensive income (46,200)</td>
</tr>
<tr>
<td>• Increase in receivables (27,000)</td>
</tr>
<tr>
<td>• Decrease in inventories 13,000</td>
</tr>
<tr>
<td>• Increase in trade payables and accrued liabilities 19,000</td>
</tr>
<tr>
<td>• Interest paid (1,600)</td>
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<td><strong>Net cash from operating activities</strong> 17,000</td>
</tr>
</tbody>
</table>

In this global environment of ever-increasing information, we face greater challenges in analyzing the performance of companies. Assessing performance results shouldn’t require an unsophisticated investor to engage the services of a technical accountant, an investment analyst or an MBA, or worse, induce a migraine. If an investor can’t understand published financial and nonfinancial information, then the company’s management has failed to meet the fundamental postulate of financial reporting.

The measurement of wealth has never changed; it has been and will always be the ability of an individual to possess or exchange cash for goods and services, or goods and services for cash. The accumulation of wealth, the goal of investing, is therefore achieved by increasing cash or ownership of assets that can readily be converted into cash or can generate cash on a consistent basis. Understanding this fundamental relationship, cash flow is, or should be, the most important factor to unsophisticated investors in assessing the performance of their investments.

**Back to basics**

Between 1999 and 2002, after the fall of Enron and other large companies, business leaders consistently spoke about simplifying financial reporting, using such terms as “focus on core business,” “back to basics,” and “back to
fundamentals.” In February 2001, the *St. Louis Business Journal* editorial “Back to Basics” read: “It almost sounds too easy to say it’s a matter of fundamentals. Reporters, economic development gurus, fundraisers, headhunters — you name it — we all enjoy looking for the shiniest pebble in the sand. We want that ‘new, new thing,’ so to speak.

“Behind the headlines and the artistic renderings, however, is reality. ... Cash flow and strong management generate profits, not press releases.”

What does back to basics mean? If something is basic does it not imply that it should be followed or applied regardless of time or circumstance? If we say we are going back to basics, when did we lose our way and why? If the concept or principle is basic, does it not imply that it is easy to understand or grasp, and if so why don’t more companies follow these principles?

According to the IFRS conceptual framework, the fundamental goal of financial reporting is to provide information that is useful to investors in making rational investment decisions. Critically, the information should be comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence. If these fundamentals are not followed, as seen with Enron, Global Crossing and others, the basic need for useful and comprehensible information is not being met.

The core information an investor needs to assess the future prospects of a company is an understanding and assessment of the timing and amount of eventual cash returns from an investment. This includes cash to be received through dividends and cash to be realized on eventual sale of the shareholding. As dividends are funded and paid from free cash flow, and as capital appreciation of the shareholding is typically driven by a company’s growth (which is funded with cash investment), the key financial information for any company is its cash flow.

When did professionals begin to focus investors’ attention away from cash flow to such measures as net earnings, operating earnings, EBITDA, adjusted EBITDA and other variations with the assertion that some of these metrics are fair representations of true cash? Unfortunately, these metrics are impacted by discretionary accounting treatments that may be manipulated through subjective decisions that can push or pull earnings from one reporting period to another.

While these measures can be appreciated, none is as powerful or transparent as cash flow. It is so important that most companies spend much time working their way out of poor earnings results by stripping away at the items (usually losses) in an income statement that are noncash. If regulators and standard setters gave cash flow more prominence, many companies wouldn’t need to spend time adjusting earnings to arrive at a fair message of operating profit and cash from operations. Unfortunately, the current cash flow disclosure requirements don’t help an unsophisticated investor see the forest beyond the trees, as such regulatory standards allow the use of the indirect method. This method doesn’t lend itself to providing an investor with sufficient and appropriate information to clearly understand and gain an appreciation for the generation and uses of cash from operations.

**Statement of cash flows**

Years ago companies disclosed a statement of changes in financial position, essentially listing the variances between opening and closing balance sheet accounts to summarize what activity had occurred, with the offset to cash. This statement added little value to an investor’s ability to understand the true cash flows of a company. In the 1990s there was an effort to make the statement more useful, resulting in the statement of cash flows.

This was a significant improvement from the statement of changes in financial position, but where (we believe) the standard setters fell short was allowing companies the choice of preparing the statement under two methods, direct and indirect.

For a quick comparison of the two methods described in IAS 7 “Statement of cash flows” please see table on page 46. Note that the focus is on the operating cash flow section as the investing and financing sections would not differ significantly between the two methods.

Clearly, the direct method is easier for an unsophisticated investor to understand as it effectively answers two fundamental questions of a cash-flow statement: how much cash was received or paid and what the reason was for receiving or paying cash.

Conversely, the indirect method falls short of providing useful information within the operating activities section, as it is essentially an exercise in mathematics and accounting logic rather than providing a user of statements with useful information regarding the generation and uses of cash.

Under the direct method, management may further break out lines such as “cash receipts from customers” and possibly “cash paid to suppliers” by major product lines or cash paid for other operating expenses by significant cost drivers. When combined with an exhibit that shows these cash flows on a trended basis, a truly clear and transparent picture of the business emerges.

While companies would face challenges in transitioning to the direct method due to system limitations, advances in technology (e.g., ERP systems) would make the process of developing cash flow statements under the direct method less daunting. Therefore, we believe regulators and standard setters should insist on the direct method and allow sufficient time (within three years) for companies to adopt this approach. Given cash flow is so important, why not give it the prominence it deserves?

In addition, companies would be compelled to structure their chart of accounts in a way that lends itself to more insightful tracking and reporting of cash. After all, if the future growth and sustainability of a company is based on its ability to generate positive cash flow, should systems not be designed and structured to

**According to the IFRS conceptual framework, the primary goal of financial reporting is to provide information that is useful to investors in making rational investment decisions**
track and report on these cash flows? Consequently, if presenting a company’s cash flows using the direct method provides investors with meaningful insight into the operations of the company, then disclosure under the direct method should be mandatory.

Cash flow from operations should never include one-time items and should have cash taxes separate from operating activities, or, at a minimum, as a subset of the operating activities. However, one of the many advantages of cash flow is that one cannot include one-time items such as cash flow from the sale of available-for-sale investments or nonoperating assets (both of which would appear in investing activities) to erroneously inflate cash flow from operations. In short, by the very nature of operating activities, we contend that one-time, nonoperating items would not meet the definition and should be shown separately.

Essentially, in the direct method, operating cash flow represents the cash generated and used in continuing to operate the business and therefore should be limited to cash receipts relating to sales of products and/or services, and cash payments relating to costs incurred to produce and deliver such products and/or services to the customer. Cash expended for corporate administration costs should be shown separately. Cash receipts would then be broken out by major product groups, while cash payments should be broken out, at least, by major cost drivers (e.g., salaries, raw materials/inventoriable costs, shipping, power consumption). Each industry will have its significant drivers. This can be further tied to the expenses that industries talk about in the discussion of drivers in the MD&A.

In addition to the direct method of presenting the statement of cash flows, companies should also disclose cash flow by cash-generating unit and further by large-scale projects and acquisitions (those that remain stand-alone with limited merging of resources). Also, all intercompany transfers of cash should be disclosed to get a better picture of cash-flow generation and use by divisions. Also recommended is including supplemental cash-flow information that discloses the total cash investment of a project or acquisition and the cumulative cash returns on such investment. Presumably, over time recoverability or lack thereof of such investments would be evident and would allow shareholders to hold management and the board accountable.

Finally, generation and uses of cash should be explained in the MD&A in sufficient detail that unsophisticated investors can understand important trends; for example, why cash is declining, why cash flow has not increased by the levels expected, or why it is likely that cash will or won’t grow by historical levels in the future (short, medium, or long term).

**Trending cash flow and related key metrics**

While we appreciate the current regulatory requirement of quarter over quarter and year-to-date over year-to-date from prior year analysis, we believe all such requirements should go a step further to require at least a five-quarter trend of cash flow and all key metrics. Every metric should be trended as that is the only way to understand how well management has been managing cash and is likely to continue doing so.

Key metrics that should be included in disclosure documents on a trended basis and given the utmost prominence (e.g., at the bottom of this statement or in a supplemental cash flow and, at the very minimum, in the MD&A) are:

- cash sales by major product or service and by region;
- cash costs, by key drivers, and their relationship to cash sales;
- cash flow per share (investors deserve a quantification of how well cash is returned on each share they own);
- new-product introductions and a view to the future cash generation (while this is an issue that many companies struggle with, a range should be provided);
- cash return on investment (every investment the company makes in certain projects needs a tracking mechanism to show how well the investment has done in terms of cash returns);
- price to cash flow (derived by dividing the company’s stock price by cash flow per share);
- free cash flow is a measure of financial performance calculated as cash flow from operations minus capital expenditures. This represents the cash a company is able to generate after investing in sustaining and/or growth capital expenditures. Free cash flow can be a key metric as it gives an investor a view as to how management creates shareholder value by pursuing activities that will enable continued generation of cash; and
- cash-to-debt ratio divides operating cash flow by total debt. The idea is the higher the ratio the better, but all depends on trend analysis and on the industry, as capital intensive industries may have lower cash flow-to-debt ratios, in comparison with peers.

A number of these metrics are often included in internal management reports or analyst reports to analyze cash flow or performance. If some users are already computing these metrics, it may be useful for many users and worthy of increased disclosure.

Some would argue that to do so all one needs is to look at the cash balance from period to period. However, this narrow view does not consider long-term obligations, debt repayments, large cash outflows coming due, sustaining and growth capital investment requirements and other expenditures that are not noticeable when one looks at a cash balance at a point in time. We believe not only in trending but also in laying out historical, current and expected cash outflows. This helps investors or creditors understand whether current and expected future operating cash inflow will be sufficient to cover outflows or if the company has to increase sales, divest assets or businesses, or seek debt/equity financing in order to stay afloat.

**Conclusion**

We neither believe nor have grand illusions that these thoughts as described are revolutionary. Our desire is to challenge the status quo and generate further discussion and action by those who have the ability to make meaningful change. Such change in disclosure will provide insight into a company’s performance and will restore confidence in companies for years to come.

Lincoln Greenidge, CPA, CA, is corporate controller of HudBay Minerals Inc. Ravi Correa, CPA, is senior vice-president and chief accounting officer of RoundPoint Financial Group

Technical editor: Ron Salole, vice-president, standards, CICA
This column highlights a specific valuation issue every quarter. We hope it is helpful in informing a broad range of valuation and pricing decisions and serves as a starting point for a more tailored process.

The multiples are for public companies, taken from quarterly Duff & Phelps publications. Private company multiples and value may be different.

In Q4 and over the year, energy multiples deteriorated, as did interest-sensitive industries such as utilities, while service industries and technologies enjoyed significant appreciation. Organic growth is increasingly hard to come by, resulting in purchasers paying up for market share, seemingly regardless of the amount of implied goodwill or counting on synergies. In private-sector transactions the trends were similar where historically high multiples were paid for distribution, service and manufacturing businesses — in part due to very scarce supply and significant investable resources.

These statistics are without removal of surplus cash, therefore certain multiples overstate the value of the operating businesses.

<table>
<thead>
<tr>
<th>EV/EBITDA trading multiples</th>
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<tbody>
<tr>
<td>Energy</td>
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<td>Energy</td>
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Note: EV is calculated without reduction for surplus cash.

GOING WITH THE FLOW

Canadian energy sector EV/EBITDA multiples continued to be depressed during the final quarter of 2012, compared to Q1 levels. Although there are always a variety of factors that influence their value, the significant price discount oil producers in Alberta are receiving for their product compared with popular oil price benchmarks such as Brent Crude and West Texas Intermediate is a big factor.

Recent history shows that Canadian heavy oil (as measured in barrels of Western Canada Select) typically trades at a discount to these benchmarks, but it’s the size of the discount that is proving troublesome for all stakeholders. So why such a discount? The greatest reason is that Alberta-based oil producers are having a challenging time transporting their product to Gulf Coast refineries; thus, creating an over-supply. And the anticipation of plentiful cheap natural gas in North America has provided the market with a prospective suitable alternative energy source. With approval of the much-needed expansion of the Keystone XL pipeline still in the hands of Washington, along with minimal refinery capacity in Western Canada, there is no quick fix.

Are Alberta-based oil producer share prices undervalued? Perhaps it will depend on when all alternative means to market open up and gas prices return to “normal” levels.

Visit camagazine.com for additional current valuation metrics for Canada and the US by industry and multiples of net income, not just EBITDA.

Stephen Cole is a managing director at Duff & Phelps Canada and is Camagazine’s technical editor for business valuation. Brandon Lewis is a senior associate at Duff & Phelps Canada.
Nigeria

Nigeria is a powerhouse in Africa. The sixth-largest oil-producing country among OPEC nations is also the continent’s most populous: more than 170 million call Nigeria home. With so many people, the country is a study in diversity. But the variety of cultures — more than 250 ethnic groups and more than 500 languages — and different religions (50% Muslim; 40% Christian and 10% indigenous beliefs) makes offering a primer on customs a challenge. What’s proper to say and do depends on the region. But if you’re doing business in Nigeria, there are a few fine points of etiquette you can learn to get started.

Pressing the flesh
As in many countries, handshakes are standard in Nigeria both when greeting and saying goodbye at meetings. Don’t be afraid to get personal: taking the time to inquire about the other person’s general well-being and family is not only accepted, it’s expected. Rushing the greeting is considered rude.

What’s in a name (or title)?
Nigerians prefer to be addressed by their academic, professional or honorific title and surname. Saying “Hi, John” on first meeting is the most efficient way of getting your foot in your mouth. Wait to be invited before calling someone by his or her first name.

A matter of style
While they vary across cultures and regions, communication styles are worth noting. For example, southern Nigerians may speak more loudly than people from other regions; it’s not uncommon for voices to be raised during meetings. Be careful, though; if you raise your voice in an attempt to fit in and your tone comes out unintentionally harsh, you may be seen as hostile.

Take my card. Please
When exchanging business cards, give and receive them with either both hands or the right hand only, never with just the left. That hand is considered unclean and an agent of bad luck. Be sure to smile. Don’t write on business cards; if information has changed, have new cards printed. Also, when receiving a card, make sure the person sees you studying it before putting it away.

Where are they now? Bev Watson

When Bev Watson appeared in CA magazine at age 49 (“Dream chaser,” August 2003), she was already an accomplished extreme athlete, having survived the 24-hour Canadian Death Race, logged 15 years with Canada’s national parachuting team, and won several world-championship sky-diving medals. She was also doing triathlons and flying her own plane. Her activities would have exhausted people half her age, so we were delighted to learn that, in her late 50s, Watson is still going strong.

In 2006, she headed to Argentina and climbed Aconcagua, the Americas’ tallest mountain. The following year, she climbed to the summit of Mt. McKinley, the tallest mountain in North America. Since 2004, she has competed in the Xterra World Championship off-road triathlon six times, winning a medal at each event (including two golds). She’s done the Ironman World Championship three times, consistently finishing in the top 10 in her age category, and last August, she won in her age group in Ironman Louisville, setting a course record for that group.

Watson has also thrown herself into a new sport: the grueling obstacle courses known as Spartan Race (named for the legendary warriors of ancient Greece). She competed as a pro last year, placing third at a race in Portland, Ore.

Back in 2003, when not hurtling toward a finish line, Watson ran an outfitter store in Grande Prairie, Alta. In 2006 she sold the store’s third location. Since then, she has been semi-retired, living in Priddis Greens, Alta. She trains for events (the Ironman requires 30 hours a week), manages her rental properties, volunteers, and helps relatives with accounting. She’s also done a little motivational speaking. Although always busy, Watson misses the mental stimulation of the business world and is pondering a part-time job.

“The CA is a great designation because it’s transportable and you can come and go — there are always jobs,” says Watson. She has no regrets about putting work on hold to follow her dreams, and recommends that others do the same. “Don’t be afraid to take time off during your career. You only have one life to live.”

Jaclyn Law
DAN McGrath

Shortly after receiving his CA designation in 1987, McGrath joined Cineplex Odeon Corp. as assistant controller. In 2011, he became chief operating officer at Cineplex Entertainment. McGrath oversees an array of departments, keeping an eye on everything from theatre design and construction to legal issues and marketing. In addition, he is a director and treasurer for both the Motion Picture Theatre Associations of Canada and Ontario; he sits on the board of directors of Scene Corp. and chairs Canada’s Walk of Fame. When it comes to doing his job, a position that sees him traveling every other week, the Toronto native relies on a technological trifecta to take care of business: his desktop, his smartphone and his tablet.

DESKTOP: DELL

“In the office, I live by the desktop computer. We use a Microsoft product called SharePoint as the basis for our company portal. It provides access to a gamut of information and updates.”

SMARTPHONE

“I’m a huge BlackBerry fan, mainly because of the keypad functionality and email. It’s my absolute go-to device whether I’m in meetings, traveling or at home.”

BLACKBERRY APPS: THE CINEPLEX APP

“That’s obviously shameless self-promotion but because I am a moviegoer, I use the app to look up show times.”

BLACKBERRY TRAVEL

“Once you’ve booked travel somewhere, if it’s in your email inbox, all you have to do is open it up and hit the BlackBerry button and it will give you the option to add the info to [the app]. You’ll get reminders: ‘Do you have a hotel? Do you need to rent a car?’ You also get advance notification to say your flight is delayed.”

TABLET

“I’ve become a huge convert to the iPad. I bring it to all my meetings. I can access our corporate intranet, bring up plans of a theatre or pictures — the screen size allows you to work effectively.”

IPAD APPS: BLOOMBERG MOBILE

“That’s my go-to app for stock quotes related to work. [I use it] whenever I want to check the Cineplex stock price.”

PRIORITIES

“This app allows me to set up individual pages for each department or business unit that reports to me, detailing the projects or priorities they have. It’s a great app because it’s something I’m constantly updating while I’m in meetings.”

SCORE MOBILE

“For sports scores, it’s Score Mobile. That’s another one I’m constantly checking. It’s on both my BlackBerry and iPad. I am a diehard Leafs fan.”
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Productivity and labour unions

In Canada, about 16% of private-sector workers are unionized (versus 7% in the US). Union membership in the private sector is in a steady slow decline, here and elsewhere in the world. Increasingly, workers in the private sector are choosing not to unionize. In the public sector, unionization reaches 71% of civil servants. Are unions becoming pressure groups for government workers?

Why do workers unionize?
The first reason is money. Collective bargaining puts workers in a monopolistic situation that helps them increase their compensation, which is the main advantage of being unionized. The second reason is, traditionally, it offered protection of workers’ rights. But those days are long gone thanks to the shrinking job market, legislative changes and improved human resource practices. The 84% of private-sector workers who are not unionized do not feel their rights are being infringed.

There are costs associated with unions. A collective agreement imposes constraints on work organization, such as on task assignment, scheduling, promotions and vacation. What’s more, in promotions, merit takes a back seat to seniority. A collective agreement can also cause a downward leveling that protects bad workers in the name of equality. Unions are political organizations. Those who end up leading them are the most influential and they can abuse their power, especially if union democracy is poorly structured, as is frequently the case. The resulting deterioration in productivity can be an even bigger burden on companies than the higher wages unionized workers often command.

Significant cost for the economy
If it were only a matter of getting higher wages, unionization would have few negative effects on the economy. But unions usually push counterproductivity measures, leading to more sclerotic work organization. Pushed by technology and competition, the business environment is evolving faster and faster, and companies must adapt. If adapting becomes arduous because of short-sighted unions intent on protecting the status quo, companies become less competitive. The decline of unionized companies due to loss of competitiveness is probably the main reason unionization is decreasing in the private sector.

More progressive unions
Enlightened union leadership can help unionized companies improve their productivity on an ongoing basis and increase their flexibility. In Scandinavia and Germany, most private-sector workers are unionized. Their trade unions focus on improving wages and productivity, and do not condone mediocrity. As anywhere in today’s world, the survival of unionized companies depends on productivity-based attitudes, flexible work organization and the promotion of good behaviour at work. Without these crucial factors, unionized companies are condemned to a slow death.

Concentration in the public sector
In Canada, labour unions are found mostly in the public sector. However, faced with the government’s monopoly, they have little influence over remuneration. Moreover, because of the lack of competition, productivity is less of a concern in the public sector. Government bureaucracies survive restrictive labour practices and low productivity. But if the Canadian labour union movement wants to be something other than a pressure group for government workers and regain its standing in the private sector, productivity must be its battle cry.

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