CA magazine

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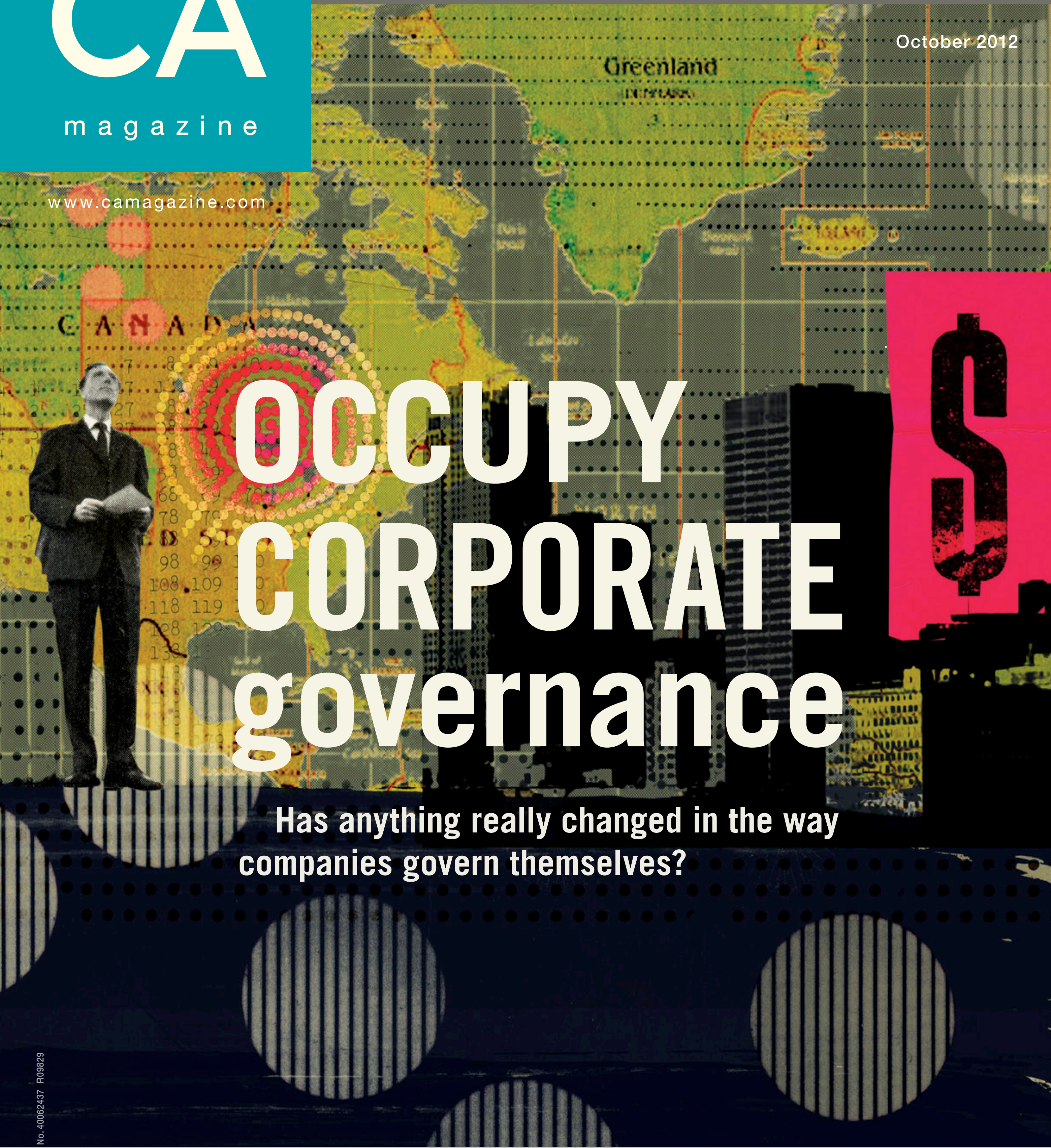

OCCUPY CORPORATE governance

Has anything really changed in the way companies govern themselves?

He knows the drill: David Garofalo saw opportunity where others saw problems P. 24. And a guide on navigating that first accounting gig P. 28

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CA magazine

October 2012 Volume 145, No. 8

Editor	Okey Chigbo
Art director	Bernadette Gillen
Associate art director	Kevin Pudsey
Senior editors	Bernadette Kuncevicius
	Tamar Satov
Associate editor	Yvette Trancoso
Assistant French editor	Marie-Josée Boucher
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Magazine Web producer	Alan Vintar
Editorial assistant	Harriet Bruser
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Contributors	Steve Brearton
Michael Burns, MBA, CA	Marcel Côté
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Fraud	David Malamed, CA·IFA, CPA, CFF, CFE, CFI
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Practice management	Stephen Rosenhek, MBA, CA, CIRP
Studies & standards	Ron Salole, vice-president, Standards
Taxation	Jay Hutchison, CA
Technology	Yves Godbout, CA·IT, CA·CISA

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

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

Subscription inquiries: Tel. (416) 977-0748 or 1-800-268-3793
Fax (416) 204-3416
On the Internet: http://www.camagazine.com
Email: camagazine@cica.ca
letters.editor@cica.ca
advertising.camagazine@cica.ca

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Some things keep changing

And that includes your profession's magazine, which this month introduces some new features

Nothing endures but change, said Greek philosopher Heraclitus some 2,500 years ago. This ancient maxim about transformation explains why *CAmagazine* has evolved over the years from an accounting journal into the magazine you, our members, have come to love. That change you want to see, the change you want the magazine to be, continues — it is part of magazine culture that facelifts and image remakes are done every few years. We have asked you in focus groups and surveys what you would like to see in a revamped *CAmagazine*. You hold the first part of the resulting changes in your hands. It's an ongoing process. There will be more.

PAUL ORENSTEIN

In our lead story, "Occupy corporate governance" (p. 18) by writer John Lorinc, we ask what changes, if any, have happened in governance since the Occupy movement, advocacy groups and other social activists leveled accusations at corporations about how they govern themselves. The general belief is that nothing has happened. Is this true? Lorinc's insightful story makes compelling reading.

In tune with your request for shorter stories, we profile David Garofalo, the CA CEO of HudBay Minerals Inc. In "He knows the drill" (p. 24), Paul Brent tells us that the "hard-driving but affable" new boss was a breath of fresh air who made sweeping changes to the mining company's direction. A second short feature, "Workplace 101" (p. 28) by Lisa van de Geyn, is a how-to story for new CAs on what to do and what not to do at your first job.

The regulars remain the same, though, in time, this too will change. There are regulars on taxation, fraud, personal financial planning and assurance. Also, I would like to thank Carolyn Cohen for her many years of service as technical editor for people management and welcome Sandra Oliver, who is taking on that role.

The biggest changes are in the front of the magazine and the back. Some items such as Netwatch and Work in Process are gone. Upfront has expanded to cover those pages with smaller, entertaining and informative stories. Don't fail to take a look at "Personal accounts" and "50 years ago this month" (p. 10).

At the back of the magazine, we have a section called "And finally" (p.54), which includes "How they do it in" and this month we have Japan. There is also "Where are they now" featuring someone who has appeared in the magazine in the past. And there is "In my," which looks at what well-known CAs have in areas related to work. This month, we look at Dick Pound's briefcase.

Marcel Côté (p. 56) writes about the decline of violence in society, which he says partly comes about from having more women in powerful positions.

Happy reading.

Okey Chigbo, Editor

CA magazine

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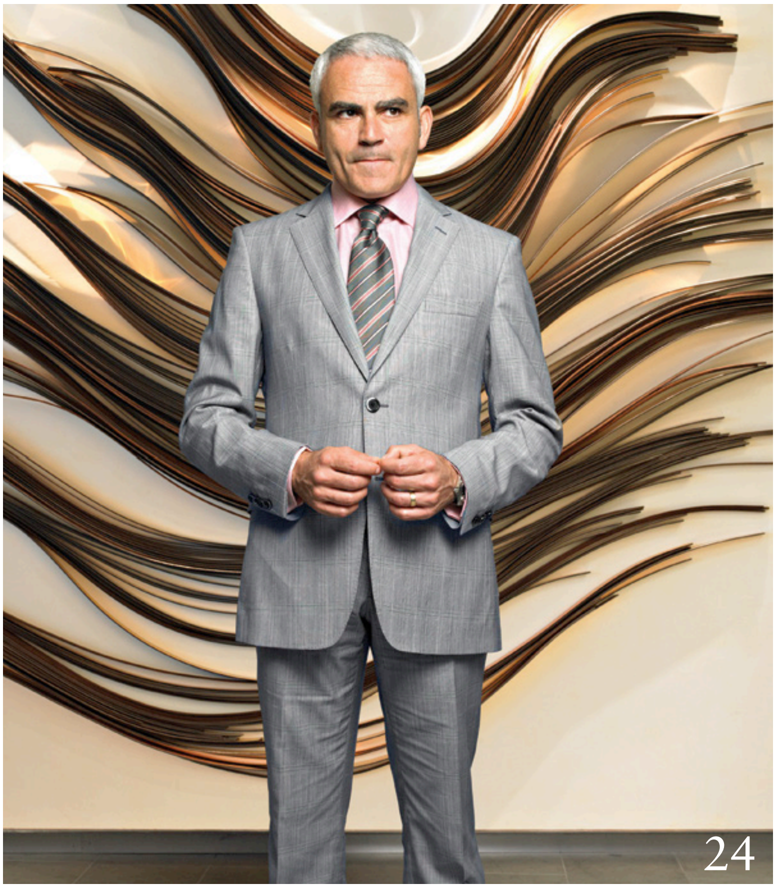
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COVER: MICHELLE THOMPSON

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

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and finally...

Extremely loud and incredibly cool

He totally rocks: Winnipeg CA Shane Matthewson, also known as one-third of the Juno Award winning heavy metal band KEN mode, marches to the beat of his own drum

IAN MCCAUSLAND/KLIXPIX

Please welcome the hardest working band in rock 'n' roll!" It's a popular stage introduction — but for Shane Matthewson's heavy metal group KEN mode, it might actually be true. On its last tour, the Winnipeg trio played 158 shows in 18 countries. To put that into perspective, consider uber-thrash-rockers Metallica played just 18 live shows on its 2011 tour. And, unlike 29-year-old CA/drummer Matthewson, not a single member of Metallica held down an accounting gig at the same time.

"They've been very understanding of me taking time off," Matthewson says of his employer, MNP (formerly Meyers Norris Penny), who gave him a year's leave of absence for the tour supporting the band's most recent album, *Venerable*. If his associates weren't quite aware of the high-volume, hardcore nature of Matthewson's musical career before he went on tour, they probably are now — in March *Venerable* was named Metal/Hard Music Album of the Year at the 2012 Juno Awards.

The members of KEN mode were flattered to be nominated for a Juno alongside legendary band Anvil — and actually winning their category came as a huge surprise. Matthewson was on tour in Sweden when the nominations were announced and thought, "If we win, that's probably going to be the funniest thing that ever happens to us."

Once he stopped laughing, Matthewson's accounting instincts kicked in as he looked for ways the band could leverage the Juno win. First, he emailed every drumstick and amplifier company he could think of, lobbying them for endorsements and discounted gear. (He got it.) Then he hit up provincial arts organizations to get funding for the group's next album. (He got that, too.) "Accounting is great training for pretty much every aspect of running the band," he says. "Other bands — their management doesn't know how to do a lot of the stuff that I do."

And he figures the drum kit is the perfect spot for an accountant with musical inclinations. Keeping time, he says, "you're just counting in your head the whole time."

Sandra E. Martin

Résumé

- **2003** releases first album with KEN mode
- **2008** joins MNP (formerly Meyers Norris Penny), Winnipeg
- **2009** obtains CA designation (Manitoba)
- **2012** wins Juno Award for Metal/Hard Music Album of the Year

NUMBERS Game

Help wanted Recent estimates peg the number of Canadian job vacancies at 200,000. Most experts suggest labour shortages will become more acute in the future

SETH

1 Rank of "Canada's critical shortage of skilled labour" among The Canadian Chamber of Commerce's 2012 Top 10 Barriers to Competitiveness.

1.2 Millions of workers short Canada will be by 2020, according to a 2003 report by Watson Wyatt consultants. Polling that year suggests financial services is least affected, while construction and manufacturing industries are the hardest hit.

45 Number of Canadian industries out of 66 that faced a shortage of skilled labour according to a 2000 Bank of Canada survey.

67 Consecutive months of economic growth in Ontario as of July 1988. Boom times and resulting low employment lead employers to fill labour shortages by using headhunters and poaching workers by offering higher salaries.

180,000 Average number of temporary foreign workers entering Canada annually to fill jobs for which there would otherwise be no candidate. This year, all growth in the workforce will arrive from immigrants.

320,000 Canadians expected to retire this year, according to a 1999 report on coming shortages in the Canadian workplace. The study estimated Canada's unemployment rate would now sit at 3% — in May it reached 7.3%.

882,456 Jobless Canadians not included in the official unemployment rate in May 2012, according to Canadian Auto Workers' economist Jim Stanford. "It is simply not credible to speak of a labour shortage," he said.

Steve Brearton

Working File

SHOULD YOU HIRE OR WORK FOR A FRIEND?

by Lisa van de Geyn

THE SCENARIO

Jill Mah* was in an entry-level position when she and one of her clients, Dana Turner*, struck up a friendship. The two met for brunch on weekends and joined the same gym. Mah's managers approved of the relationship; their once-demanding client was now far more relaxed. When a position opened up at Turner's company in her department, she offered Mah the job. "I accepted without hesitation. I was looking forward to the perks Dana wooed me with — more pay, better benefits, more responsibility and more opportunity for advancement," Mah says.

HOW IT PLAYED OUT

Within a few months, Mah realized Turner wasn't making good on her promises for growth. "I was doing a ton of busy work," she says. "Dana was also really vocal about our friendship and my colleagues were cold toward me because of it." Mah quit after 13 months. "Dana was irate when I resigned. We haven't spoken since."

*Names have been changed

THE EXPERTS WEIGH IN

Before you decide to work for a friend, establish the ground rules and discuss how you'll be positioned, advises career expert and cofounder of Toronto-based HR consulting firm 22c Partners Inc., Barbara Quinn. "People watch for perceived favoritism," she says. If the job sours, you can save the friendship by openly discussing the problems and seeking help to find alternative employment. "If the friendship goes sour, you have the opportunity of possibly securing another role with the same company," she says.

For employers, it's generally not a good idea to hire a pal, warns Barbara Moses, Toronto career-management expert and author of *What Next? Find the Work that's Right for You.* "It's almost impossible to treat a friend the way you treat other staffers," she says. "But if you do, be clear on boundaries."

Have you faced a tricky situation at work? How did you handle it? Send us your office anecdotes at: tamar.satov@cica.ca

By Tamar Satov

Canada's hidden cost of retirement?

Canadians used to worry about how we'd pay for our retirement. Today we've added concerns about how we will pay for the retirement of others. A 2012 study by the Canadian Federation of Independent Business on unfunded public-sector pension liabilities discovers taxpayers may be on the hook for more than they expected.

by Steve Brearton

$300 BILLION Total unfunded public-sector pension liabilities

$100,000 Amount per government employee

$9,000 Amount per Canadian

Source: Canadian Federation of Independent Business, 2012

What the ... ?

It seems "work" isn't the only four-letter word making the rounds at the office.

In a survey for US recruiter Career-Builder, more than half (51%) of nearly 4,000 employees polled say they swear on the job. Of those, the majority (95%) cuss in front of coworkers while 51% do so in the presence of their boss. Far fewer swear in front of senior leaders (13%) or clients (7%) — a wise move considering 81% of employers surveyed say swearing brings an employee's professionalism into question and 54% think it makes a worker seem less intelligent. Even so, one in four (25%) employers admits to swearing at his or her employees.

So, who are the likeliest offenders? Employees aged 35 to 44, with 58% saying they swear at work. Both the youngest (18 to 24) and the oldest (ages 55+) workers are the least likely to swear, at 42% and 44% respectively.

MILLIONAIRE NEXT DOOR

The average American millionaire is 61 years old and has US$3.05 million in assets, finds a Fidelity Investments survey of more than 1,000 millionaire investors. As you might expect, most (74%) of the millionaires polled feel wealthy, but the rest say they'd need an average of US$5 million of investable assets to start feeling rich.

DO YOU MIND?

More than a quarter of US adults are offended when colleagues brush their hair or put on makeup at work (27%), wear tattoo-revealing outfits (27%), remove their shoes in their workspace (43%) and clip/bite their nails at work (49%), finds a poll for recruiting firm Adecco. On the other hand, 27% take no offense at any of the above.

TABLET'S TOP TASKS

The main activities migrating from desktop to tablet computers are checking email (81%), reading the news (69%), checking the weather (63%), social networking (62%) and gaming (60%), according to a survey by Gartner, Inc. The study looked at the daily habits of tablet users in the US, UK and Australia last year.

CHART: BAIBA BLACK / SETH

PERSONAL ACCOUNTS

My most memorable golf game

Diane Dunlop-Hébert, CA, president, Golf Canada

As told to Deena Waisberg

"It was about 20 years ago with a gentleman named Ian Wetherly, who's also a CA. He's a scratch golfer and I had a 36 handicap at the time. He kept insisting we were going to play and I kept postponing because I thought it would be a disaster. When you take three shots for his every one, it's very intimidating. Finally, we went to the course one morning at 8:30 and I was so worried about being terrible that I hit my shot, ran to the next ball, hit my shot and so on.

At the end of the game, he joked, 'You know, Diane, it was really nice playing with you but I'm never going to play with you again. It's taken us only 2½ hours to walk and play 18 holes. You play too fast.' I was concentrating so hard and trying not to hold him up or disturb his game that we ended up running around the golf course. We didn't even have lunch because the dining room wasn't open yet. Since then, he's become a terrific friend and I've learned to take things a little less seriously on the golf course."

QUOTABLE

Work? Y bother?

"Sometimes I think Generation Y needs a shake. All this talk of self-direction and work-life balance is worrisome. How are we going to keep up with the enterprising and industrious spirit of China and India if we are so concerned with coddling our young people?"

Anonymous respondent among 50 Canadian executives, politicians, academics and economists interviewed for a 2012 Deloitte study on the future of work

50 YEARS AGO THIS MONTH

Compiled by Steve Brearton

From the October 1962 edition of *CAmagazine*

Need for reform in the Bankruptcy Act

"Bankruptcies and their attendant losses have become a most pressing problem.... A tremendous volume of business is presently conducted in Canada by 'thin' corporations — where the shareholders have very little of their own money in the company. [One] might well remark that such a corporation should not be given credit.... Our present Bankruptcy Act ... displays no recognition, whatsoever, of the need of a separate set of 'ground rules' in dealing with corporations."

Editorial by J.L. Biddell, FCA, partner at Clarkson, Gordon & Co., Toronto

60th Annual Conference

"It was no ordinary task for the host Institute to find itself adding about seven percent to the population of [Fredericton] overnight. The social programme consisted of the more favoured forms of maritime fun and pastimes. A family lobster boil ... square dancing at the Coliseum with Don Messer and his Islanders providing the music ... three bus loads toured Camp Gagetown and in the evening members and their ladies went to watch the harness racing."

Summary of CICA annual meeting in Fredericton

H. ARMSTRONG ROBERTS/RETROFILE/GETTY IMAGES

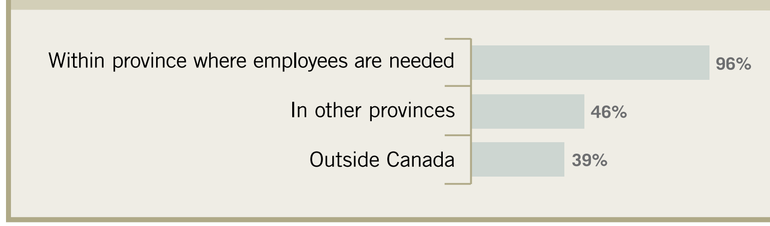
The new management theories make for poor performance

"A lack of the instinct for the profitable course of action and a distrust of innovation are two characteristics of the new managers. Also their major emphasis on human relations 'has led to the exaltation of the smoothy and the distrust of intelligence.' Managers must work less in a vacuum, with less delegation ... they must eliminate the cult of the personality. And most important of all, they must ... devise some method of curbing management's power to perpetuate itself in office despite its poor performance."

Brian J.B. Galvin, CA, assistant professor, Queen's Universtiy, in a summary of "Executives who can't manage," from *The Atlantic Monthly*, July 1962

Findings

LOOKING FAR AND WIDE TO HIRE



Where Canadian companies are searching for employees

Canadian companies are reporting shortages of skilled workers despite an economy that continues to be uncertain, according to the results of a CICA Business Monitor survey.

More than half (51%) of executive-level CAs polled in the second quarter of this year agree their company is having difficulty finding skilled people. Only 26% of respondents say hiring skilled workers is not a challenge, while the remainder is neutral.

This demand for talent seems to fly in the face of respondents' dim economic outlook for the country. Just 21% are optimistic about the Canadian economy for the next 12 months, down from 32% the previous quarter. Concerns about the state of the US economy (37%), the European debt crisis (28%) and uncertainty surrounding the Canadian economy are seen as key barriers to growth. The large majority (62%) of respondents is neutral about Canada's economic prospects for the next year.

While the uncertainty surrounding the economy has led 26% of companies to hold off on hiring, the majority is marching forward and acting on the need to find qualified people. Not only are employers searching in the province where workers are needed (96%), but many are also looking to other provinces (46%) and even outside Canada (39%).

Although few executive-level CAs are optimistic about the Canadian economy, very few foresee Canada (12%) or the US (24%) slipping back into a recession in the near future and this may be helping to fuel the demand for qualified staff.

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

Going Concern

JOHN GALLINGER, CA
PRESIDENT AND CEO
STANDARDBRED CANADA

COMPANY PROFILE: A nonprofit organization, Standardbred Canada's mandate is to promote harness horse racing, as well as record, store and distribute information on all registered standardbred horses in the country. Each member racetrack in Canada has a Standardbred field representative who inputs race information into a database as it happens so that members can access criteria on a particular horse or race. Based in Mississauga, Ont., Standardbred was formed in 1998 from an amalgamation of the Canadian Trotting Association and the Canadian Standardbred Horse Society. With 10,000 members and annual revenue of about $6.5 million, it is operated by an elected board of directors from across the country.

HOT FACTOR: Horse racing feeds $5.7 billion into the Canadian economy every year, of which more than three-quarters comes from Ontario. This year, the industry's sustainability has come into question with the Ontario government's decision to end a longstanding revenue-sharing Slots at the Racetrack Program in March 2013. Standardbred, in collaboration with other provincial associations, is in discussions with the Ontario government to reach a compromise.

COOL PROJECTS: Last June, the organization launched its first harness horse racing fan club, which has attracted about 5,000 people (half of whom weren't previous Standardbred members). This year will focus on creating experiences for fans, such as contests to win an opportunity to ride in a starting gate or visit a breeding farm. An overall database upgrade is also in the works to allow, among other benefits, quicker access to services via mobile devices.

IN HIS OWN WORDS: "This organization works well because of the people in it. Our staff aren't just employees, they are participants in the industry and passionate about what they do. Despite what's going on in Ontario now, I'm hopeful that our industry will continue and we'll come to a solution that works."

Rosalind Stefanac

Must Haves by Alan Vintar

SpareOne Emergency Phone

When it comes to going mobile, the SpareOne Emergency Phone stands alone. It is the only cellphone on the market powered by a single AA battery. Offering an impressive 10 hours of talk time and storage life of up to 15 years, chances are you'll have plenty of juice when you need it most. But if you do have to power up, it's comforting to know that the AA is the most commonly used battery in the world and will be available just about anywhere your travels take you.

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CPA certification program details coming this fall

Defining the Canadian CPA certification program in greater detail has become an immediate priority now that the CA and CMA national and provincial boards have given approval for CICA and CMA Canada to begin working to establish CPA Canada.

A CPA Certification Steering Committee of education professionals has developed, on a provisional basis, the competency map and learning outcomes for the new CPA designation. An overview video of the proposed program[1] by Tashia Batstone, FCA, MBA, cochair of the Certification Steering Committee, is posted on the CPA Canada website, along with a diagram of the potential implementation of a CPA professional education program[2] that provides a graphic synopsis of the proposed certification model.

The provisional CPA competency map was reviewed by participating provincial organizations across Canada throughout the summer with a view to releasing the final version later this fall. This will be the map for the CPA profession, profiling the competencies required of a CPA on the path to, and upon, certification. The map will assist post-secondary educators and program developers in the further development of learning objectives for prerequisite courses and for the modules of the CPA professional education program. In addition to the CPA competency map, a separate guidance document designed for educators is also planned for release this autumn. The guidance document will contain knowledge reference lists and is designed to assist post-secondary institutions in the development of prerequisite courses to ensure their programs meet the prerequisite requirements of the new CPA professional education program.

Watch for more detailed information on the CPA competency map, knowledge reference lists and accreditation standards for post-secondary institutions, as well as practical experience requirements this fall at www.CPACanada.ca.

1. http://cpacanada.ca/blog/2012/06/22/new-video-presentation-on-the-cpa-certification-program/

2. http://cpacanada.ca/wp-content/uploads/2011/11/CPA_CertificationDiagram.pdf

CICA and CPAB Enhancing Audit Quality initiative offers perspectives on the future of audit

The Canadian Institute of Chartered Accountants (CICA) and the Canadian Public Accountability Board (CPAB) have completed the initial phase of their Enhancing Audit Quality (EAQ) initiative with the release of two papers now out for discussion. The papers reflect the views of expert working groups struck by CICA and CPAB to look at proposed changes to the audit currently under review by international policy makers.

"Financial reporting and the capital markets are increasingly global in nature," says Kevin Dancey, president and CEO of the CICA. "Because Canada is likely to feel the impact of any changes made by our major trading partners we need a clearer picture of what Canadians think about these proposals and how they may affect us."

To ensure transparency and that the public interest is served, an independent steering group headed by David Brown, a leading securities lawyer and former head of the Ontario Securities Commission, is overseeing the activities and output of the working groups. The steering group includes corporate directors, audit committee chairs, standard setters, auditors, institutional investors, banking and securities regulators and financial statement preparers.

The first discussion paper, on the Auditor Reporting Model, develops the auditing reporting working group's perspectives on auditor reporting proposals from global bodies such as the European Commission (EC), the US Public Company Accounting Oversight Board (PCAOB), the UK's Financial Reporting Council (FRC), and the International Auditing and Assurance Standards Board. These auditor reporting proposals are intended to narrow gaps that exist between user expectations about the audit and what an audit actually is (the expectation gap), and the information users believe they should receive about the entity and its financial statements and what they actually receive (the information gap).

The paper drafted by the auditor reporting working group evaluates proposals dealing with the provision in

the auditor's report of additional information on the financial statements and the audit in an auditor commentary; auditor statements related to the entity's ability to continue as a going concern; a statement relating to the consistency of the financial statements with other information in documents containing audited financial statements; and clarifications and transparency about the audit process. It also examines whether there is a need to expand the information on which the auditor provides assurance beyond the financial statements.

A second paper by the auditor independence working group evaluates proposals by such bodies as the EC, the PCAOB, the FRC and the United Kingdom House of Lords to improve firm independence, including mandatory audit-firm rotation, tendering and comprehensive audit-firm review, nonaudit services, audit-only firms and joint audits.

A supplemental paper provides additional background to the EAQ research and process for obtaining input, identifies challenges to enhancing audit quality, and discusses global proposals and the EAQ framework for proceeding.

A third EAQ working group dealing with the role of audit committees began work in September and is expected to release its paper later this fall.

All three working groups will be obtaining the input of Canadians prior to developing a final report, which is expected to be released early next year.

Perspectives gained from the consultation process will provide useful input for those who represent Canada internationally where audit quality is discussed. Canadian stakeholders will likewise have the benefit of the input as they follow their own due process in establishing any new rules or standards.

To review the papers and learn about opportunities to participate, visit www.cica.ca/EnhancingAuditQuality.

The changing face of education

While continuing education is vital for professionals who want to stay relevant, effective and at the top of their game, many find it challenging to fit attendance at fixed schedule classroom sessions into their busy work schedules. With the technology available today, we have come to expect access to knowledge and development whenever we want it, from any location, whether at the office, a local café or at the cottage.

So far, the classroom still remains the primary delivery vehicle for CICA's Continuing Education but we are working hard to enhance our professional development offerings to include a blend of ebook reference materials, elearning, interactive webinars and self-assessment components to help satisfy member demand for greater flexibility and access to knowledge.

The new In-Depth Transfer Pricing Course launched by CICA this fall is an example of how we are taking advantage of the flexibility and convenience offered by contemporary elearning technologies to provide busy professionals with access to the training they need without having to travel to a traditional bricks-and-mortar facility for each class. To learn more about the new In-Depth Transfer Pricing Course — Part I and how it complements traditional training methods with online learning visit www.cpd.cica.ca/transferpricing.

2012 Bill Swirsky innovation award

Nominations are now open for the 2012 Bill Swirsky Innovation Award and you are encouraged to consider suitable candidates and to nominate them by the November 15, 2012, deadline. The online nomination form is available at www.cica.ca/innovationaward.

This award program, sponsored by the CICA and CaseWare, is dedicated to innovators, present and future. Named after a prolific innovator and thought leader who retired in 2007 after more than 30 years at the CICA, the Bill Swirsky Innovation Award recognizes an employee, member or volunteer of the institutes/ordre who has demonstrated innovation by leading the development of effective and sustainable projects, concepts, processes or procedures with outcomes that have direct implications for advancing the CA profession, accounting, and/or financial reporting nationally and/or internationally.

The winning entry will be chosen in November by a panel consisting of a representative of the Council of Senior Executives, the CICA president and CEO, and a CaseWare representative and she/he will be presented with a $1,500 cash prize by CaseWare and a commemorative gift in February 2013.

Standards digest

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RECENTLY ISSUED PRONOUNCEMENTS

CICA Handbook – Accounting	**Date issued†**
Part I	
Amendment Regarding the IFRS Changeover Date for Rate-regulated Enterprises	October 2012
Amendments to IFRS 10, IFRS 11 and IFRS 12 Regarding Transition Guidance	September 2012
Annual Improvements 2009—2011 Cycle	August 2012
Part II	
2012 Annual Improvements	October 2012
CICA Handbook – Assurance	
Amendments to the Preface	September 2012
Amendments Regarding Authority of Guidelines	September 2012
CAS 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment (Revised)	August 2012
CAS 610, Using the Work of Internal Auditors (Revised)	August 2012
CSAE 3410, Assurance Engagements on Greenhouse Gas Statements	September 2012
Withdrawal of AuG-19, AuG-32 and AuG-39	August 2012

RECENTLY ISSUED DOCUMENTS FOR COMMENT (to September 30, 2012)

	Accounting	**Comment deadline**
ED	Discontinued Operations	October 31, 2012
ITC	Post-implementation Review of IFRS 8 Operating Segments	November 16, 2012
DII	Put Options Written on Non-Controlling Interests	October 1, 2012
	Public Sector	
ED	Financial Instruments: Income on Externally Restricted Assets	October 16, 2012
ED	Related Party Transactions	November 16, 2012
ED	Use of Appropriations	November 16, 2012

WATCH FOR

CICA Handbook – Accounting	Amendments to IFRS 9 Regarding Hedge Accounting Amendments to IFRS 10 Regarding Investment Entities
Documents for Comment	Annual Improvements to IFRSs 2011—2013 Cycle (AcSB Exposure Draft) Measuring Financial Performance in Public Sector Financial Statements (Consultation Paper)

Legend

DII – IASB Draft Interpretation
EDI – Exposure Draft based on IFRSs
ED – Exposure Draft
ITC – Invitation to Comment

† 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.

The Occupy movement took corporations to task for, among other things, how they were being run. They were not the only ones

By John Lorinc

Occupy corporate governance

IN APRIL, A GROUP OF ANGRY CITIGROUP SHAREHOLDERS TOOK what was once thought to be an unthinkable action against a corporate board and its well-paid CEO. In a so-called "say-on-pay" vote, they rejected a board-recommended US$15-million pay package for the bank's top executive, Vikram Pandit. Though the resolution was not binding, it was nonetheless an unprecedented move that forced the Citigroup board to regroup and figure out how to compensate Pandit. The bank had a long history of generously

illustration by MICHELLE THOMPSON

remunerating its executives despite poor financial performance. While Pandit had accepted only a nominal salary in 2009 and 2010, the bank's board gave him a US$40-million retention bonus the following year.

At about the same time Citigroup's shareholders rebelled against the board's suggestion on pay, retired CA Bill Davis, a longtime investor activist with the United Church of Canada, turned up at the annual general meetings of two of Canada's big banks, the Royal Bank of Canada (RBC) and TD Bank Group, and made a pointedly topical request of their boards. Why, he wondered, are the compensation schemes of the senior-most employees invariably benchmarked against the rest of that very small club of executives who hold those rarified positions? "They have no concept of vertical equity," he said later. "Should we not compare [executive salaries] with entry-level jobs? We have to set this in the context of the world we live in."

According to Davis, one of the bank CEOs, the TD's Ed Clark (who is also the president), conceded the point in his response. "He said, 'You're quite right. We're very well paid. And the Occupy movement is rightly concerned about what it's doing to the middle class.' It was not," Davis added, "a bad answer." But he has yet to hear about how TD's board will deal with his request come next year's AGM. He did hear from RBC, which responded with a generic letter. In the meantime, Davis is putting the finishing touches on his own proposal, which he will file with all five major banks, suggesting boards should start a process to alter the metrics geared to determine executive compensation that would use vertical benchmarks.

Davis was a corporate gadfly long before Enron Corp. had become synonymous with accounting scandals and Zuccotti Park, the park in New York City's financial district that served as a campground during the Occupy Wall Street protests, had become ground zero for anticorporate activists. Yet his "intervention" this spring was nothing if not timely. In the US, the Occupy movement, environmental groups and social-justice activists have continued to press a large and loose agenda that questions some fundamental assumptions about how global companies and huge financial institutions govern themselves and relate to the world around them.

Indeed, these concerns remain as relevant in 2012 as they did in the aftermath of the collapse of Lehman Brothers. Over a few months earlier this year, investors gasped at revelations of trading losses at JP Morgan that were estimated to reach up to US$9 billion, a US$3 billion fraud fine levied against GlaxoSmithKline for unauthorized promotion of some of its drugs, and a still metastasizing scandal over interest-rate rigging schemes at Barclays, the UK banking giant.

Canadian advocacy groups have also connected the dots between growing income disparity, protesters and corporate conduct. "For all the hand-wringing in the media about what Occupy Wall Street is really about, and for all the assessments by pundits that the protesters there cannot articulate what they want, they have done something very profound," commented Trish Hennessy, a communications adviser for the left-leaning research institute Canadian Centre for Policy Alternatives, on her blog. "They are showing us they are ready to stare down powerful corporate interests that prevent America from dealing with its serious fiscal and social issues."

The particular symbolism of extravagant executive compensation in relation to the salaries of ordinary people, adds veteran shareholder activist Moira Hutchinson, is a signal that something has gone wrong in the way wealth is distributed across the economy. But, she adds, it also underscores the broader question of "how corporations see themselves as contributing to the longer-term well-being of society."

Yet in a curious twist, these accusations have come flooding forward after a decade of intensive reform in many boardrooms — some the result of waves of post-Enron/WorldCom legislation and others due to shareholder activism from major institutional investors. Those familiar with the way publicly traded companies now function know that directors and auditors must adhere to more demanding regulations that reach into all areas of governance, from audits to compensation reviews, board elections and risk management.

Surveys have shown that there are now far more independent directors serving on corporate boards than was the case a decade ago. Don Wilkinson, Deloitte vice-chair and head of the firm's Corporate Governance Centre, also recalls that when he started working with boards in the 1980s and 1990s, many were old boys' networks that didn't second-guess management. "I can remember audit committee meetings starting at 7:30 that were over by 8:30," he says. Today, he notes, corporate governance has become "more professional."

The mixed messages raise some thorny questions: is there a disconnect between more demanding governance processes and the actual conduct of large corporations? Or has the publicity around a handful of corporate scandals and outsized pay-packages seeded the clouds of political reaction? Some companies have tinkered with their governance to create meaningful changes, while others are merely trying to give that impression, says Michel Magnan, Lawrence Bloomberg chair in accounting at Concordia University's John Molson School of Business. "You might be an independent director in appearance. But are you in fact independent and can [you] ask tough questions that challenge the chair and the CEO?" Magnan adds that it's difficult to distinguish between the two, as the public is not sitting in those boardrooms and therefore does not understand how decisions are being made.

What's clear is that the scrutiny has never been more intense.

When energy-trading giant Enron imploded more than a decade ago, destroying the savings of thousands of employees, US legislators leapt into action and created the Sarbanes-Oxley Act, which was signed into law in 2002. It required, among other things, that boards hire independent auditors and compelled senior executives to assume personal liability for the integrity of a company's financial statements.

Those reforms, some of which were promptly mirrored by Canadian regulations, set in motion other key governance changes, especially in the way audit committees are constituted and how they do their work. Boards moved to ensure that audit committees were populated by individuals with solid financial experience and chaired by independent directors. In fact, between 2002 and 2008, observes Steve Salterio, director of the Queen's Centre for Governance, audit committees attempted to "step up

The era when you're automatically rewarded just for being yourself seems to be drawing to a close. "We have become a meritocracy. You have to earn your way in"

to the plate." These committees, adds PricewaterhouseCoopers' national corporate governance leader Mike Harris, want to get into details about control issues and see to it that problems are rectified.

In 2003, not long after Sarbanes-Oxley, a new player emerged in the Canadian governance story: the Canadian Coalition for Good Governance (CCGG), the brainchild of former head of the Ontario Teachers' Pension Plan Claude Lamoureux and Montreal investment guru Stephen Jarislowsky. Aiming to add some heft to the voices of institutional investors, the CCGG quickly attracted attention and more members, and now represents 46 members managing $2 trillion in assets. Its membership roster includes the Canada Pension Plan Investment Board, which means that the CCGG speaks on behalf of the vast majority of Canadians. Says Wilkinson: "They have had a powerful impact."

The coalition set out to persuade public companies to make specific improvements in the way their boards function, and as a result of its board-engagement policy, senior CCGG staff, together with one of its board members, regularly meet with board chairs and senior executives of public companies about corporate governance issues. But, as executive director Stephen Erlichman, a partner at law firm Fasken Martineau DuMoulin LLP in Toronto, makes clear, the CCGG keeps its eye on the big picture. "Good governance is not an end in and of itself. You do it to reduce risk and increase share performance."

Among its early priorities: more shareholder democracy and better director accountability. For example, issuers representing 70% of the TSX's market capitalization now have independent chairs and more than two-thirds of boards include independent directors. In 2003, only slightly more than a third of chairs were independent of management. "Who you know is still useful, but there's much more formality in what goes on," says Magnan.

There have been similar improvements in other governance metrics, says Erlichman. In 2010, more than 80% of issuers voluntarily permitted shareholders to vote for each director rather than a slate put forward by the board or management. The comparable figure in 2003: zero.

The CCGG has also succeeded in pushing the majority-vote policy for director elections, meaning that individuals on the board who are standing for re-election agree in advance to resign unless they receive a 50% + 1 majority of the votes cast. What's more, almost two-thirds of boards now disclose detailed voting results, something that simply didn't happen when the coalition began its work. "Now boards understand that shareholders are paying attention to what they're doing and have to explain what they're doing in proxy circulars," says Erlichman. "But we still have a ways to go."

The coalition's activism may have prompted some influential shareholders to up the ante with underperforming boards. Earlier this year, New York fund manager William Ackman of Pershing Square Capital Management LP teamed up with Teachers' and other large funds to overthrow the board of Canadian Pacific Railway, leading to the resignation of president and CEO Fred Green and the exit of chairman John Cleghorn. Ackman's slate defeated the incumbents at a dramatic AGM showdown, paving the way for railway veteran Hunter Harrison to step into the top job. Several directors associated with the Cleghorn board also resigned or chose not to stand for re-election.

Besides the more quiet shifts in board democracy, insurrections such as these suggest that the walls of the old corporate establishment fortress are finally being dismantled, according to journalist and author Peter C. Newman, who has written extensively about Canada's business elite. "That's what's happening, step by step," he says, noting that the era when you're automatically rewarded just for being yourself seems to be drawing to a close. "We have become a meritocracy, which is great news. You have to earn your way in."

Canadian statistics bear out Newman's conclusions. According to Canadian Spencer Stuart Board Index: Board Trends and Practices of Leading Canadian Companies 2011, an index of 100 leading Canadian issuers, almost all boards now do some kind of systematic evaluation of incoming directors to assess their skill sets, a practice that was almost unheard of 15 years ago. And in 2011, almost three in 10 (29%) new directors were women. What's more, the proportion of first-time directors that joined leading boards jumped to 31% from 21% between 2010 and 2011 — evidence that the CCGG's push to increase director rotations has produced results.

Lawyer Tina Woodside, a partner at Gowlings in Toronto and who sits on the audit committees of three mineral-exploration companies, says many new board members are also seeking out director education programs, such as those offered by the Institute of Corporate Directors (ICD), which offers courses on topics such as governance fundamentals, audit-committee responsibilities and executive compensation. The program is the first step toward obtaining an ICD.D designation. "There's this desire for more education and formality in the role," Woodside says. "You can't just pick up your board fees and go to a nice dinner and be done with it." She adds that the push for more director training started well before the credit crisis.

"They take our courses because they want to enhance the toolkit they want to bring into the boardroom," says Stan Magidson, the ICD's president and CEO. While the popularity of the ICD-Rotman Directors Education Program, which is run jointly with the Rotman School of Management at the University of Toronto, is driven by word of mouth, Magidson notes that the Canadian Securities Administrators' guidelines now seek disclosure from issuers about director education programs. "This is a recognition

A 2011 survey found that of the 71 Canadian issuers that held say-on-pay votes, all approved board-recommended payment packages — most with resounding majorities

of the fact that directorship is being increasingly viewed as a profession, not a pastime," he says.

Such increasingly formalized boardroom procedures have done little to blunt the criticism directed at well-paid executives and their overseers. As *The New York Times*' DealBook blog noted, "The [Citigroup] shareholder vote, which comes amid a rising national debate over income inequality, suggests that anger over pay for chief executives has spread from Occupy Wall Street to wealthy institutional investors like pension fund and mutual fund managers."

Those payouts have functioned as a political lightning rod since the aftermath of the credit crisis, when tens of thousands of workers lost jobs or pensions or both amidst messy bankruptcies, even as Wall Street continued to pay handsome bonuses, in some cases using public bailout funds. What's more, the pay gap between the executive suite and the shop floor continues to escalate. A 2010 study found that the ratio of CEO pay to average worker pay in the US is about 300, compared with just 40 in some European nations.

While Canada hasn't seen bank failures and a huge volume of outsized compensation numbers, the issue has nonetheless become a key talking point in many board meetings. "Compensation has taken on huge importance in the debate about governance," says Magnan. For boards, he adds, "it could be a distraction, or maybe it's a signal that something is wrong."

Woodside points out that compensation disclosure has played a contributing role in the ongoing controversy over this issue. As issuers revealed what they were paying senior executives, the information may have served to fuel competition among firms and recruiters for talented and ambitious managers, resulting in upward pressure on pay packages. "It just ratchets up the compensation," she says, noting that few issuers want to be in the bottom quartile.

Davis notes — as do others — that executive compensation schemes have become so complicated that they also defy understanding. In the case of the big banks, as much as 50 pages of the proxy circular is devoted just to the compensation policies for five senior executives, he says. And the boards, confronted by what he believes is a largely illusory global competition for executive talent, are highly reluctant to act, partly because executive compensation committees are often populated by current or retired CEOs. "They don't know how to bell the cat," Davis says.

Shareholder and political controversy over lavish salaries, perks and dubious compensation tools, such as stock options (considered to prompt excessive risk taking), didn't start with the collapse of Lehman Brothers, of course. In the UK, regulators in the early 2000s responded to public concern with the first say-on-pay rules, requiring boards to ask shareholders to vote on compensation schemes. The votes were considered advisory, in that they didn't compel the directors to act.

Still, Say on Pay Votes and CEO Compensation: Evidence from the UK, a study by Fabrizio Ferri, assistant professor of accounting at Columbia Business School, and David Maber, assistant professor of accounting at Ross School of Business at the University of Michigan, concluded that the shareholders of poorly performing companies used say-on-pay votes to dial back compensation schemes. "UK investors perceived say-on-pay to be a value-enhancing monitoring mechanism, and were successful in using say-on-pay votes to pressure firms to remove controversial pay practices and increase the sensitivity of pay to poor performance," say Ferri and Maber.

Several other countries followed the UK's lead, including the Netherlands, Australia, Germany and the Scandinavian countries. US firms that received post-2008 bailouts had to submit to these kinds of rules in 2009. And in 2011, the US Congress passed the so-called Dodd-Frank legislation that compels say-on-pay motions for large public issuers; the law will require compliance by smaller companies in 2013, according to a 2011 review by HR giant Mercer, which observed that say-on-pay appeared to have increased the influence of large institutional investors. But despite the intense public focus on executive pay, in the US the vast majority of boards — more than 90%, says Mercer — succeed in having their payment schemes approved.

The Canadian experience has been somewhat different, as legislatures and securities regulators have not imposed say-on-pay rules. "They have been moving prudently," says Sander Grieve, a partner at Fraser Milner Casgrain LLP and cochair of the firm's national mining group.

The CCGG has urged large issuers to voluntarily submit their executive compensation schemes to say-on-pay motions and the group's pressure tactics appear to have been working. Erlichman says that 44 issuers held advisory votes in 2010, but the figure almost doubled in 2011 and had reached 99 by mid-2012. In 2003, he adds, not one Canadian corporation did this.

As in the US, the say-on-pay motions on their own have not led to dramatic changes in executive compensation. A September 2011 survey by executive compensation advisers Hugessen Consulting found that of the 71 Canadian issuers that held say-on-pay votes, all approved board-recommended payment packages and most did so with resounding majorities (the average vote was more than 94%). Shareholders at about 40 of some 2,200 US firms rejected the advisory motion.

Still, to keep the ball rolling, CCGG has informally asked the TSX to consider making say-on-pay a requirement for listed issuers. "Right now, it seems to be working on a voluntary basis," says Erlichman. "But if this gets stalled, we may ask for legislation."

By almost all accounts, boardroom business has become significantly more meticulous and systematic in the past decade — a far cry from the often pro-forma affairs of a previous era. But has governance actually improved? And do those changes translate into improved corporate performance?

On that question, the jury is still out, and not just because of the onslaught of criticism from critics of corporate behaviour — such as Vancouver's *Adbusters* magazine, whose cofounder Kalle Lasn kick-started the Occupy movement — but also from insiders who wonder whether the reforms add up to better governance.

Woodside notes that boards spend a huge amount of time these days focused on procedural and regulatory issues, because, as she puts it, "Not only do you have to be governed well but you have to appear to be governed well." She feels boardroom business runs the risk of being sidetracked by procedural matters — e.g., creating committee charters — at the expense of discussions about the company's business strategy and other important topics. "It takes a very strong board chair to make sure you're still dealing with substantive issues," she says.

Wilkinson notes that audit-committee meetings, once brief affairs, now go on for more than four hours. "Some of it has the feeling of more process and tick-the-box changes," he says, adding that Sarbanes-Oxley is pushing people more to a compliance mindset as opposed to getting at substantive issues.

Salterio cites recent academic research showing mixed reviews for the audit-oversight process. A 2010 study published in the journal *Contemporary Accounting Research* and based on 30 interviews with Big Four audit partners found that while the governance environment has improved since the pre-Enron period, some of the changes appear to be symbolic, with management still driving the selection of auditor appointments and terminations — a practice that the Sarbanes-Oxley rules, with their focus on independence, set out to discourage. "Once again, the audit committee is acting like a cheerleader," says Salterio.

He adds that other studies have found that in the post-2008 period, cost has once again become a driving factor in the auditor-selection process; not just in new auditor selection but in ongoing relationships as well. "My sense is that this is consistently happening across the governance world," says Salterio.

Not surprisingly, some governance experts don't share Salterio's negative assessments. Harris feels that audit committees are now delving deeply into the details of accounting-control issues and want to make sure that problems are rectified. And he doesn't agree that boards have become overly cost-conscious in their auditor-selection decisions. "Cost is just one element," he says.

Others wonder about the effectiveness of emerging but highly varied disclosure practices, such as corporate social responsibility reporting, which is a grab bag of details that can include everything from corporate philanthropy initiatives to environmental policies and exposure.

"Some of it is what one would label 'impression management,'" says Magnan.

Still, he and others point out that risk management — environmental, financial and strategic — has emerged from a decade-long deluge of governance reform as an area in which more meticulous oversight and big-picture thinking seem to be coming together. Woodside says she is involved with a number of boards that now receive risk-management matricies on a quarterly basis. "It makes for a much better discussion at the board and it makes management more accountable."

Clients, adds Harris, are really asking for much more detailed risk-management reporting. Wilkinson notes that he has seen some chairs try to move the more procedural and compliance-based work to committees and consent agendas so the boards can refocus on big-picture questions, such as risk, strategy and growth. "I actually think that's a positive development in terms of compliance," he says.

Whether such moves mollify Occupy protestors or activist groups concerned about income inequality remains to be seen. Yet Hutchinson says the "huge improvement" in corporate disclosure — often forced by motions at annual general meetings — has laid the groundwork for better governance. "It's lifting the curtain."

John Lorinc is freelance writer based in Toronto

PROFILE

When **David Garofalo** came on board at HudBay, he brought with him a load of mining experience and a slew of ideas for a well-defined strategy and clear criteria for growth at the base-metal miner

He knows THE DRILL

By Paul Brent

WHEN DAVID GAROFALO TOOK THE TOP JOB AT HUDBAY MINERALS INC. two years ago, those in the industry could be forgiven for wondering just what he was thinking. He had a number of CEO job offers before him, but he signed on as HudBay's CEO — its fourth in two years — helming a company that had been taken over by a dissident board of directors and that had failed to acquire an industry rival.

But where others saw a litany of problems, the 47-year-old saw opportunity. Garofalo was ready to move on from Agnico-Eagle Mines Ltd. after a 12-year stint during which the gold miner grew into an industry darling.

"Having built the five mines that we did, I didn't see a lot of growth for me personally" because Agnico was moving from a growth phase to one of optimization, he explains. Garofalo interviewed for CEO positions at a trio of similar-sized mining companies, but he determined HudBay with its — at the time — underutilized strengths in finding, financing, building and operating mines, would best allow him to shine. "That financial-technical capacity is really what you need to pursue the kind of strategy that we are pursuing, which is really a drill-and-build strategy."

When he came on board in the summer of 2010, HudBay was cash rich with $1 billion on its bal-

photography by NIGEL DICKSON

Garofalo prefers to build companies and assets: “I’m not the sort that pretties something up for sale” ance sheet but looked tapped out, with a dwindling supply of base metals from its existing mines and no new mines in the development pipeline. Unhappy shareholders were clamouring for management "to do something or give us our money back," recalls Garofalo.

While investors were looking to HudBay to introduce some growth in the wake of its failed attempt for Lundin Mining Corp., or to give cash back to shareholders, Garofalo outlined and stuck to a drill-and-build strategy. Under its new president and CEO, the Toronto-based company quickly moved forward with the construction of the more than $700-million Lalor zinc, gold and copper mine and the Reed copper mine, both in Manitoba. It sold a nickel project in Guatemala that did not fit its plans and then moved ahead with development of the giant US$1.5-billion Constancia copper mine in Peru, the acquisition of which was finalized in August.

Garofalo's direction for the company also removed a lot of "hot money" — or short-term investors looking for a quick trading profit from its shareholders who were hoping that HudBay would acquire or be acquired, or pay out a special cash balance for a quick profit. Instead of the hoped-for acquisition spree, the new CEO told investors the company had a different, but compelling plan. "By laying out a very clear strategy with very clear criteria for growth and getting Lalor in the pipeline, that bought us a lot of time and also bought us a stronger currency, which we used to buy Constancia."

The HudBay CEO is now looking ahead to the middle of the decade — 2015 — when the Lalor and Constancia mines will reach their peak productivity. "I wouldn't be surprised if we introduce something else in our pipeline in the next couple of years." A new mine in the Americas would guarantee HudBay has a steady stream of zinc and copper production in the future but it is also necessary to ensure that it can keep its staff of geologists and mining engineers busy. "We are going to have a mine development team that is going to be looking for the next thing and we want to retain that skill set because it is so scarce and precious in our business right now."

The acquisition of Constancia is an example of how the company intends to grow under Garofalo's direction. HudBay had already owned a small stake in industry junior Norsemont Mining, providing it with intimate knowledge of its management and the Constancia deposit before making its initial $520-million takeover deal for what has since turned into a US$1.5-billion-plus resource play. HudBay has another $100 million invested in 18 other junior mining companies, which typically explore high-risk single-site deposits that may or may not pan out. "I expect that out of that farm system we will get some other opportunities, other projects that we can develop ourselves."

While the hard-driving but affable CEO made sweeping changes to HudBay's direction, he did not clear out top management at the miner; instead he kept top executives and expanded resources in neglected areas such as human resources, finance, investor relations and mine development. "I didn't make a lot of changes at the operations level in Manitoba; I inherited a lot of the guys," says Garofalo. But, he adds, he wanted to build a team around the core people at the head office.

After the instability at HudBay in the years prior, Garofalo was a breath of fresh air. "The guys who work there love him and we are happy and lucky to have him," says chairman Wes Voorheis, the head of the activist board of directors who took control of the company three years ago at the head of a wave of shareholder discontent over the unpopular acquisition attempt of Lundin Mining. "He's a clear thinker, an honest guy, extremely hard working, and he has been able to win the trust and respect of the people who work there."

While the hard-driving CEO made sweeping changes to HudBay's direction, he did not clear out top management; instead he kept top executives and expanded resources in neglected areas

Garofalo is famously loyal to his employees, says Richard Ross, his mentor two decades ago when Garofalo was starting out as an accountant in the mining business at Inmet Mining Corp. Ross gave the younger CA much of his mining education. Ross recalls when his protégé rose to treasurer at Inmet in the mid-'90s and hired a crackerjack assistant, Margaret Li. As CEO, Ross pulled rank and promptly made her his assistant. After Ross left in 2009, the longtime assistant also left. Not long after, Garofalo hired Li as his executive assistant at HudBay. "Here is someone who is absolutely very loyal to someone and had a lot of respect for her from prior experience," Ross says. Garofalo had an opening for an assistant, knew she was qualified, and "I don't think he looked at anyone else."

Married and a father of three, who lives in Richmond Hill, Ont., north of Toronto, Garofalo started his first job at Deloitte & Touche in 1987. Over the next two years he attained his chartered accountant designation and then joined Inmet as a senior corporate accountant. He left Inmet in 1998 for Agnico, which then was a one-mine gold producer struggling to stay afloat when gold prices were at historic lows of US$250 an ounce. As Agnico CFO he not only kept the company going, he led the financing efforts that allowed Agnico to build five mines when gold prices began their climb over the past decade, a major factor in being awarded CFO of the Year by Financial Executives International (in partnership with the CICA and other companies) in 2009.

He attributes his success at Agnico and HudBay to his accounting background. "A lot of CEOs in our business are CAs and I think that is simply because this is a very capital intensive business and requires a lot of capital discipline and I think CAs bring that to bear," Garofalo says.

Singled out by *IR Magazine Canada* for providing the "Best investor relations by a CFO" for firms with less than $10 billion in market capitalization in 2009 and 2010, and then again for best investor relations by a CEO in 2011, Garofalo has worked to spread the word among the investment community about HudBay's slow and steady drill-and-build blueprint.

"Our stock price was down 45% last year, in conjunction with everybody else. It was just a bloodbath, even though we hit it out of the park," he says. "We hit all production, cost objectives, all our significant project milestones. I didn't hear a peep from our shareholders."

The investor tranquillity Garofalo attributes to a long-term effort to turn over its shareholder base. Speculators waiting on an M&A deal such as the failed Lundin acquisition sold off stock, and Garofalo sought out value investors with investment horizons measured in years rather than months. "Those guys just want to see us continue to execute against that long-term strategy because they are not looking at a quick 30% to 40% hit on a takeout, they are thinking this is a three or four bagger in three or five years."

And courting Bay Street is critical for a commodities producer that sees the value of its finished products swing widely on wild markets and take its shares along for the ride. This May, HudBay shares hit a three-year low on falling copper prices. Most investment analysts, however, have a buy on the company, citing the growth prospects from the mines it has under development. Then the company hit another speed bump when it was forced to cancel a US$400-million offering in unsecured notes because of rising financing costs. Still, debt free and with cash on its balance sheet, HudBay says it has other financing alternatives, including US$750 million from Vancouver-based Silver Wheaton Corp., in an agreement whereby the metals streaming company pays a deposit to HudBay in exchange for the right to buy gold and silver from HudBay's 777 mine in Flin Flon, Man.

Garofalo, for his part, says that he will be with HudBay through the company's current rough patch to see Lalor, Reed, Constancia and future mines come into production. "I'm not going anywhere. I think in 10-year horizons. This is my third job in 22 years in the mining business, so I'm not the kind to bounce around. All three companies I have been involved with still exist." That's not a bad record in a business where former industry greats such as Inco, Alcan and Falconbridge have all been snapped up by foreign acquirers.

"I'm not the sort that pretties something up for sale," Garofalo says. "I like building companies, I like building assets. In fact with Constancia, Lalor and Reed, those are my 11th, 12th and 13th mines that I have been involved in the construction of. No one person builds a mine — there are huge teams involved, and I have been very privileged to be involved with some really accomplished mine developers. I have really learned the business from the ground up."

Paul Brent is a Toronto-based writer and journalist

So, you've landed your first accounting gig.
Want to impress your colleagues, manager and partners?
Follow this advice from CAs who have been there

101 Workplace

Lisa van de Geyn

At one of her first accounting jobs at Thorne Riddell in 1987, an eager-to-impress Patricia Barbato received an important assignment from her boss. "I put together an audit file and I remember thinking I was the smartest person in the world and my file was so great," says Barbato, senior vice-president at Revera, a seniors accommodation and health-services company in Toronto. "But once my supervisor got a few pages into it, he told me I had missed the main point of the audit — I spent too much time on things that weren't relevant and not enough time on the things I should have."

illustration by GARY TAXALI

It was a sizable mistake — a classic rookie move. Looking back, Barbato knows she should have asked sooner in the process if she was on the right track. "I would have saved us both a lot of time and saved my credibility," she says.

Like any professionals just starting out, CA students and new CAs know the basics of what their chosen field will entail once they hit the workforce — such as providing business and accounting advice to clients, performing audits, preparing taxes and consulting on personal finances. But newbies who want to become better colleagues and employees, make their managers look good and impress the partners right out of the gate will need to expand their knowledge base beyond crunching data and filling out forms — and take note of how not to leave a less-than-stellar impression, as Barbato may have done at her first job.

Not sure where to begin? Here's a primer for fledgling workers: 10 tips to navigate that first job successfully.

Find a good fit. Everyone's eager to nab that first gig out of school, but before you accept an offer, make sure the work environment will be a good match. "I wish someone would have told me to apply for jobs in firms where I knew the culture would fit my personality," says Rita Zelikman, who runs a public accounting practice in Thornhill, Ont. Feeling like you suit both the position and the office plays a huge part of the experience you'll get out of your first job. "Being happy in an environment comes through in your work, and allows you to learn better," she says.

Sponge smarts off the seniors. Jason Ratzlaff, a partner at Salamon Ratzlaff Groenwold in Saskatoon, laughs when he remembers the advice he was given as a new CA: copy last year's file. "When you are just starting out, public practice can seem overwhelming. There is a lot of information in the prior year's files that has been signed off and approved by a partner, so you can definitely learn by studying someone else's work," he says.

It's key to be an information sponge at all times, says Marielle Brûlé, human resources partner at White Kennedy, LLP, in Okanagan, BC. "While your education gives you a great foundation, other generations have a wealth of knowledge and are a great resource if you approach them and listen." She also reminds rookies to model their behaviour after the highest common denominator, whether in dress or in communication. "There's a reason they are at the top," she says.

Because offices are likely to have multiple generations working on the same team, it's important not to discount the value of experience, says Rishi Bajaj, director of finance for Sofina Foods Inc. in Markham, Ont. "Google and Wikipedia seem to make one an expert on any subject within minutes," he says, but the experience that senior associates and partners have is vital for new CAs. "The ability to combine the fresh perspective that young CAs possess with the wealth of experience of their colleagues will help a company grow and diversify."

Respect office culture. Checking Facebook every five minutes at your desk or texting on your iPhone all day won't earn you any brownie points. "While multitasking and answering phone calls and texts seem normal in your day, it can be seen as a timewaster and inconsiderate by others if it's not a norm in the culture of the firm," Brûlé says. "Students and new staff need to pay attention to protocols. Be sure you are being respectful and using common sense."

Managers are looking for self-starters who take it upon themselves to meet people, get to know the company, orient themselves with processes and ask questions, adds Barbato.

Find a mentor. No matter what sector you work in, you can bet the most successful associates and partners had a mentor in their early years. Barbato, who penned *Inspire Your Career: Strategies for Success in Your First Years at Work*, suggests enrolling in a formal mentorship program within your firm if it is offered, but notes there are many other ways to seek out colleagues who can provide advice or take you under their wing.

"Mentoring can be one meeting where you are prepared to ask questions and learn," she says. "One of the CAs I worked with when I started really appreciated how I spoke to his clients and that I was a quick learner, so he would give me all kinds of different work and taught me so much."

Embrace your errors. "The best advice I received when I was starting out was to always own up to your mistakes and learn from them — it's what every good manager does," says Sabrina Wong, a senior accountant at St. Joseph Media in Toronto.

"Everyone makes mistakes. It's how you deal with them that's important," adds Ratzlaff. "All my mistakes have gotten me to where I am today. It sounds absurd and ridiculous, but I see each mistake as a valuable lesson."

Be passionate. It seems pretty obvious, but wanting to do the best job you can and being excited about your work will make you stand out with the folks in the corner offices. "Find what you love; the rewards will follow," Ratzlaff says. "Maybe you are more passionate about tax instead of audit or maybe you have that entrepreneurial bug and want to start your own business. Whatever it is, life is too short to be stuck doing something your heart isn't into."

Brûlé says she notices attitude, work ethic and energy in a new hire. "I am always impressed by those who have a positive outlook and are committed to going the extra mile."

Put in your hours ... and then some. It depends on where you work but, in public practice, overtime is expected. "And you will not be paid for overtime," says Wong. "It's a part of the public accounting culture." Working extra hours also shows that you're a team player, says Bajaj: "If I can invest a bit of my time to ease things up for another colleague, it's worth it."

Don't get too bummed out thinking about all the happy-hour get-togethers with friends you'll inevitably miss. "Summers are generally lighter, so if you put in the hours, lots of time off in the summer is a nice reward," Ratzlaff says.

Remember the other two Rs. You may be a whiz at arithmetic, but you'll need to spend time reading and writing to really impress your boss. "After doing all those university essays, I thought I could write, but I was horrible," Barbato says. "It's very different to write a succinct, clear memo. Practice helps, as does brushing up on your grammar."

Besides your writing, don't forget to work on soft skills by reading up on leadership, management styles, dealing with people and understanding personality types. "[These skills] aren't usually part of the CA curriculum, but having [them] will lead to great opportunities, and improve all your interactions with coworkers and clients," says Brûlé.

Work it outside the office. That means going to CA events and, instead of being a wallflower, taking the initiative and meeting people. "I didn't realize how much it would diversify my personal and professional network," says Bajaj. "Carry business cards and get out as many as you can. Follow up by meeting for coffee and have specific reasons and a purpose for connecting. Share your expertise, experiences and your network. It should be a two-way, genuine relationship."

Ratzlaff suggests volunteering — and not just to get clients. "Do it to help others and meet people. If you are good at what you do and a nice person, the business will come to you," he says.

Ask questions. We've all heard the saying "there are no stupid questions." Take it to heart. "Time is expensive and making assumptions without clarifying can be costly," Zelikman says.

If you don't feel confident in inquiring because you think your superiors will scoff at your seemingly silly query, you're doing yourself a disservice. "You'll only end up hurting your own development, especially when you need to answer these questions to someone else," says Bajaj.

Not only does Barbato wish she had asked more questions of her employers (such as when she bungled that audit file), she says it would have been smart to do the same with her colleagues and clients. "I should have had the courage to be more inquisitive," she says.

Years later, as a manager, Barbato saw the lesson come full circle. One of her employees submitted work, only to have to go back and redo most of it. "She had gone off on the wrong track but didn't check in with me until it was too late," says Barbato. "You have to keep asking questions until you really understand what and how your boss wants things done."

Lisa van de Geyn is a freelance writer based in Toronto

 By John Giakoumakis

A view from the bridge — Part II

There can be a great divide between mining companies and foreign governments with tax matters as the protagonist

A characteristic of mining in certain foreign jurisdictions, particularly less-developed ones, is the availability of legally binding mineral agreements between foreign governments and mining companies. An important component of such agreements is the stabilization of the tax regime to the regime currently in effect and applied to the particular mineral deposit to be exploited. Where such agreements are available they provide a level of certainty that is welcome by the foreign investor, particularly in the face of a significant investment in a politically risky jurisdiction. When one thinks the rules are known, foreign jurisdictions may seek to rewrite them.

In 2011 Guinea launched a mining contract review for inappropriate provisions granted by previous governments with the goal of their removal. The government also approved a new mining code to replace an existing one. While the code provides for various incentives for mining companies such as a reduction of the corporate tax rate from 35% to a negotiable rate, it also entitles the state to increase its stake in commodity companies from the carried participation of 15% with the right to buy an additional 20% for a total stake of 35%. The Ghanaian government formed a committee in 2012 to review mining agreements with the possibility of their renegotiation to ensure that the country benefits fairly from the mining sector. Mali is also proposing to raise the state's share in mining projects to 35% from 25%.

In more extreme cases, governments may even opt to expropriate mineral properties. Even if expropriation is not outright, acts by foreign governments such as increasing taxation can adversely affect foreign operations to such a degree that the result is effective expropriation. The ultimate remedy is pursuing international arbitration, a typically lengthy and arduous process.

As part of its plan to bring key industrial sectors considered vital to the economy under state control, the government of Venezuela in 2011 signed a law to nationalize gold exploration and exploitation activities and has revoked multiple mining licences. Venezuela has withdrawn from the International Centre for the Settlement of Investment Disputes, an independent, self-governing international organization with close ties to the World Bank. In addition, it plans to renegotiate its bilateral investment treaties with certain countries.

Ernst & Young surveyed tax directors, CFOs, audit committee members, tax policy-makers and tax administrators. Their views, published in E&Y's 2011 – 12 Tax Risk and Controversy Survey, included the following:

- 75% of companies say they have experienced a rise in the volume or aggressiveness of tax audits;
- 97% of tax administrators report they will increase their focus on tax risk related to international structures and crossborder transactions in the coming three years;
- 81% of tax policy-makers see growth in general anti-avoidance rules and other anti-avoidance legislation in the next three years, while 94% see new legislation in the area of disclosure and transparency;
- 81% of tax administrators see increased disclosure and transparency requirements ahead;
- 75% of tax directors in the largest companies (those with more than US$5 billion in annual revenue) report heightened risk or uncertainty around tax legislation. This figure rises to 78% for companies based in the BRIC countries (Brazil, Russia, India and China) and 83% for those based in the US;
- 73% of respondents feel that entering into or operating in emerging markets significantly increases their levels of tax and tax controversy risk.

Forward-focused mining companies recognize the existence of key external stakeholders such as governments, taxation authorities and local citizens

In Behre Dolbear's 2012 Ranking of Countries for Mining Investment — Where Not to Invest, the mining advisory firm lists seven criteria for its qualitative determination of countries whose policies and business environment promote growth in mining investment:

- the country's economic system;
- the country's political system;

- the degree of social issues affecting mining in the country;
- delays in receiving permits due to bureaucratic and other issues;
- the degree of corruption prevalent in the country;
- the stability of the country's currency; and
- the competitiveness of the country's tax policy.

Taxes are on the list. Based on its experience the firm notes that the economic viability of a mining project is threatened during periods of normal commodity pricing when the total "government take" from combined taxes (including duties, imports, income taxes, royalties, and severance and excise taxes) reaches 50%.

With mining companies necessarily anchored to the location of the mineral resource, they can be at the mercy of shifting political winds and the focus of governments as a source of mandate-fulfilling funding. From a foreign government's perspective, there is a multiplier economic effect of increased mining activity through wages paid to employees, amounts paid to local suppliers and service providers that in turn spur further economic activity. Alternatively, there is a negative multiplier effect of decreased mining activity and growth opportunities lost as a result of inactivity.

Tax uncertainty can become a worrisome component of an international mining company's physiology with a heightened awareness and sensitivity to political risk as governments struggle to meet debt requirements, to satisfy their social obligations and to deal with the spending history (or as some would call it, budgetary misdeeds) of previous administrations. Global mining companies look hard at where they should do business in their ultimate responsibility to deliver value to their shareholders. Multinationals that operate and have pipeline projects in multiple jurisdictions must decide on which existing operations to maintain and grow and which projects to develop. They may choose to avoid investing in a particular country with an unpredictable fiscal regime and to divert their resources elsewhere. A mining company must deploy its capital efficiently, operate productively and profitably, develop projects in accordance with its project pipeline and to grow profitable reserves, and taxes matter within these overall strategies. Beneficiation policies such as those of South Africa, notwithstanding their economic benefits, raise issues that mining companies must assess, such as their costs, the long-term resource potential and whether it justifies the strategy, the effects on the overall supply chain and business-process structure of the company, and the risks associated with the strategy and how the risk profile of the jurisdiction is affected. From a tax standpoint, given the potentially substantial costs, a cost-benefit analysis must be undertaken and consideration given to the availability of or the ability to negotiate related tax incentives.

Forward-focused mining companies recognize the existence of key external stakeholders such as governments, taxation authorities and local citizens. Beyond the overall recognition that global and tax risk must be analyzed, monitored and managed, the implementation of management efforts must include the forging of strong relationships with taxation authorities and working in a cooperative environment to conduct tax audits and to resolve disputes in the most efficient and open manner. Moreover, enhanced relationships with continued dialogue can influence changes to tax legislation such that the result meets the goals of the taxing jurisdiction without stifling long-term foreign investment and economic growth.

A great divide can easily develop between mining companies and foreign governments with tax matters as the protagonist. Adding the question of fairness, the differences in views of the players are often tantamount to a chasm that can seem unbridgeable. At the risk of oversimplification (and of humour that is somewhat anathema in the tax arena), on the one end of the divide is Judge Learned Hand's wise and often-quoted dictum from the US Supreme Court 1934 case of *Helvering (Commissioner of Internal Revenue) v. Gregory*: "Any one may so arrange his affairs that his taxes shall be as low as possible; he is not bound to choose that pattern which will best pay the Treasury; there is not even a patriotic duty to increase one's taxes." The other end of the divide can be summarized by Bob Dylan's lyrics in 1989's *Everything Is Broken*: "Broken hands on broken ploughs; Broken treaties broken vows; Broken pipes broken tools; People bending broken rules … Everything is broken."

Enhanced relationships with continued dialogue can influence changes to tax legislation such that the result meets the goals of the taxing jurisdiction

While broken may not always be an accurate descriptor (and Dylan's song is certainly not tax focused), some element of adjustment may be unavoidable. However, changes should not come at the cost of future foreign investment, they should not contravene existing fiscal agreements between states and mining companies, and they should not be so excessive as to render projects uneconomic. Most importantly, a collaborative approach between foreign governments and mining companies is critical in achieving fair and sustainable outcomes. Multinational mining companies should always be willing to invest time and resources into engaging transparently with foreign governments, discussing alternatives, educating foreign governments with less-developed fiscal regimes and reaching mutually beneficial results.

Although the proverbial win-win may sound like a tired cliché, no matter what the tax issue, it is an attainable goal, although inevitably one party may hurt a bit and the other may not be as happy as originally anticipated. Anything short of this is unlikely to be a sustainable proposition.

John Giakoumakis, CA, is vice-president, corporate tax, Barrick Gold Corp.

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

By Sandra Oliver

Tough made easy

Most managers are not comfortable dealing with difficult employees, but it is an essential part of good management

Lorraine, the manager of a small department in a mid-sized professional service firm had had a few too many run-ins with one of her employees. The employee had a tendency to behave poorly when stressed — under the pressure of an impending deadline he would get aggressive with team members, make disparaging remarks and shamelessly bully others. In short, he made things unpleasant for everyone who worked with him.

The manager knew something had to be done, but Lorraine was reluctant to sit down with this problematic employee for fear of how he might react to her feedback.

And Lorraine is not alone; many professionals lose sleep over the thought of talking to employees about their behaviour or problematic work habits. It's not an easy task and many managers are not properly trained to deal with such tricky situations. However, if difficult issues are not dealt with and if managers don't or won't deliver constructive criticism to an employee when it is needed, they will end up regretting it. Neglecting to address issues can result in a negative work environment and poor team morale.

Delivering tough feedback is not always easy to execute and many managers worry that they will hurt an employee's feelings or that they may lose the employee at a critical time for the company. But there are a number of ways to handle a tricky employee situation before it escalates.


RYAN SNOOK

It is important that managers understand that feedback demonstrates to employees that, as a boss, they care enough to talk to them. It's remarkable, in fact, how little one has to say in order to help someone. Bosses who follow through and deliver the touchy message often find that good employees act quickly on the feedback and are usually appreciative.

To prepare for the delivery of the feedback, a manager should craft a specific and succinct message. It should outline the problem behaviours and the impact of those behaviours. And that's it. No further embellishment. If the employee gets the message, he or she can act on it. There's nothing kinder than that.

In Lorraine's case, she prepared for her tough conversation by spending time developing a concise and specific message that went like this:

"Yesterday several members of your team came and complained to me. It seems that when you are under pressure your demeanour changes. In group meetings, rather than providing feedback to staff, you make sarcastic comments or speak negatively about their work," she said. "The impact of this behaviour is that the staff is demoralized and does not give you its best work. Staff is afraid to come to you with problems. When I hear this, I am concerned that you can't effectively manage the bigger projects or the bigger teams. This will limit your growth here."

After saying this, she stopped, waited and allowed time for the employee to respond. She understood that the less said following the feedback, the more would be heard.

Lorraine used some of the following principles to prepare her message:

- *Make it timely.* Don't save up your feedback for performance-review season. If you establish a healthy pattern of two-way feedback, trust builds and the relationship deepens. Make giving positive and constructive feedback a daily habit, so it becomes a part of the way you work. Everyone will benefit from such an approach.
- *Do it in person.* Deliver important messages in person. Using voicemail or emails may seem like less pressure, but it is easy to misinterpret an email or voicemail and they will do little to develop a relationship. It is important for the manager to see the body language and reaction of the employee and to address any misunderstandings or questions that may arise.
- *Make it forward-focused.* As much as possible, cap your feedback with instructions on how to fix the situation next time around, e.g., "Before you start the next project, I would like to have a planning meeting with you. Let's see how we can work together to get this organized and alleviate pressures and stress points."
- *Make it specific.* Use the situation-behaviour-impact feedback model: start by describing an actual situation where the behaviour occurred, describe the person's behaviour in that situation, and give a clear account of the impact his or her behaviour had on you or others. The result is a message that is clear and that can inspire action and productive change.
- *Prepare and keep it short.* To prepare, write out your message. When you deliver it, if you talk for more than five minutes you will have likely diluted the feedback. Commit to your plan. If you try to wing it, the potential emotional response of the recipient and pressure of the situation may cause you to back-pedal and muddy the message.

Calling out unproductive behaviour and relaying tough messages are essential parts of good management. Left untended, problems fester, emotions boil over and one small issue can balloon into a full-blown crisis. Fine-tuning feedback skills should be a crucial component of every manager's development plan.

One thing is for certain: tough feedback done right is more likely to improve the performance of your employee and organization than no feedback at all.

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

By David Malamed

All you have to do is ask

Fraudsters are increasingly using social engineering to breach a company's security and it's amazing how easy it is to do

Although Brian had a good job driving a luxury vehicle for an upscale car service, he had much loftier aspirations. Single, in his mid-30s, he also coveted a lifestyle his salary could not support.

Brian was intelligent but had never gone to university. His family was poor and he needed to work. As soon as he was old enough he obtained his bartender's diploma and spent many years pouring drinks. The pay was good and he learned a lot about human nature, but the long, late hours took a toll. As a 30th birthday present to himself he quit the industry and found a job as a driver.

An avid reader and a charming conversationalist, Brian found it easy to speak with the people he shepherded around his city. He was up on current events and had interesting insights about politics, sports and especially business to share with his passengers.

Not everyone enjoyed Brian's overtures to chat, however. One new customer, an elderly man named Mohan, made it clear he didn't want to converse with his driver, which he conveyed in a brusque tone. Brian took a simmering dislike to Mohan.

Around the same time, Brian read a magazine article about social engineering, the process in which business people are manipulated or tricked into divulging confidential information or duped into cooperating with a fraudster (whose goal is often to hack into a company's computer network) without knowing they're being victimized. The article fascinated Brian and he read as much as he could about the various aspects of this type of sting.

He devoured *The Art of Deception* by Kevin Mitnick, a former hacker turned security consultant who is credited with coining the term "social engineering." Mitnick once told US Congress that "the human factor is security's weakest link." He also quoted Albert Einstein in his book: "Only two things are infinite, the universe and human stupidity, and I'm not sure about the former."

Security, Mitnick argued, was often merely an illusion, one made worse when human "gullibility, naiveté

BLAIR KELLY

thought, that on the drive back to the office as Stan freaked out on the phone to Mohan, he never imagined Brian was the mastermind of the con.

Brian's ruse (he was soon detected but by then he was living in South America) was one of many examples of what Rich Mogull, then research director for information security and risk at global firm Gartner Inc., said in 2006 was "the single greatest security risk in the decades ahead."

The number of scams and the ingenious ways perpetrators extract information from employees are legion. Companies are so vulnerable to social-engineering attacks that some security firms, such as Colorado-based Lares Consulting, conduct audits to show just how easily their clients can be compromised.

A few years ago Lares founder Chris Nickerson explained how easily he infiltrated a retail company with a large call centre. He told *CSO Newsletter* that on-site security vulnerability testing requires his team to acquire information about the target prior to the exercise. "I like to find holidays or time-relative events," he said. "In this particular exercise, there was a horse race going on in the area. Everyone in the city and around it geared up and left the office to go to it. That was a perfect time for me to come in and say I have an appointment with someone we'll call Nancy. I knew Nancy wasn't going to be in the office because on her MySpace profile it said she was getting ready to go to the race. Then her Twitter profile said she was getting dressed to go to the event. So I knew she wasn't in the office. Before I went to the office, I went to a thrift shop and got a Cisco shirt for $4. Then I went in and said, 'Hi. I'm the new rep from Cisco. I'm here to see Nancy.' The front desk attendant in this situation said, 'She's not at her desk.'"

Nickerson asked if he could wait. He said he was hungry and inquired about a place to eat, knowing there was nothing close by. The attendant kindly suggested the company's cafeteria.

"Being allowed to go to the cafeteria gave me full access to the facility because the only thing that was guarded was the door," he said. "The cafeteria led right into the rest of the building."

While in the cafeteria, Nickerson did what he calls USB key drops. He put file names on them such as "Payroll" or "Strategy 2009." "The USBs had rootkits on them. Many contained an auto-run rootkit. Others had Hacksaw, a little piece of tech that you can use with a U3 drive. You plug it into a machine and, if the machine has auto run on the CD-ROM running it, it will start dumping all the passwords, usernames, all that. It will also put a hook into the machine to start emailing that information to an email account that you give it to contact. It only takes about 30 seconds to enable itself."

Nickerson left the USBs "in areas that people are in where they might forget something: the bathroom, for instance, on the sink. Another good area is near the coffee machine; areas where people naturally put things down where they might not remember to pick it up. I've never done USB key drops without success." The goal, of course, is that someone will find the USB and, thinking it's an internal device, plug it into a computer.

Nickerson and a colleague eventually sat down at some unused desks in a large open call area. Under the guise of being from Cisco, they hacked the computers in broad daylight, passing out cookies (the baked kind) to everyone (a ruse Nickerson often uses).

Clever and confident con artists know how to beat systems and it's impossible to keep all fraudsters at bay. But many companies don't even try. Employees need to be trained on social-engineering techniques and given clear rules about what information, such as passwords, should never be given out to anyone they don't know. Fear of insulting or angering a senior person who demands such information over the phone is one of the primary ways social engineers obtain their information.

In other words, make sure everyone knows that not being social at times is the best way to protect against being conned.

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

By Mark Yamada

Confronting a perfect pension storm

There's no doubt some things need to change in our pension system. Are pooled retirement pension plans the answer?

SARA TYSON

Is it too late to avert a pension crisis? Governments have been known to rearrange deck chairs as ships take on water. Bill C-25 (41-1), An Act relating to pooled registered pension plans (PRPP), recognizes that Canadians aren't saving enough for retirement and targets expanded pension plan participation. The evidence suggests if something is not done soon, regardless of one's definition of crisis, we may have to break out the lifeboats.

Demographics are channelling more tax revenues to health care, already 38% of provincial spending according to the Canadian Institute for Health Information. But if an already burdened social-welfare system must also support successive and increasing waves of retirees with inadequate pensions, fiscal spending flexibility will be severely restricted. A perfect pension storm may be brewing. How will PRPP legislation impact coverage adequacy and what must happen to make pension systems work better?

Dark demographic clouds

When the Canada Pension Plan (CPP) and the Quebec Pension Plan were established in 1966, Canadians could expect to live to 72 with seven-and-a-half workers supporting them over seven years of retirement. Today, with life expectancy at 80-plus, there are only five workers to support each retiree over 15 years of retirement, double its original funding intention. By 2036, only two-and- half workers will support one pensioner. Sustainable? (For example, the Nova Scotia Teachers Pension Plan has 13,525 active members supporting 12,014 retirees and employee/employer contributions of $132.7 million a year compared with payouts of \$348 million a year. The plan has a \$1.655-billion deficit [2011], \$122,365 per employed teacher.)

CPP contributions have increased from 1.8% of salary (1966) to 9.9% (since 2003) with an annual maximum and the funding base has moved from pay-as-you-go to partial funding (targeting 20% funded status by 2014 and 30% by 2075). However, more is at stake than the CPP. It is the creeping liability to an aging population that is the real risk; too few taxpayers supporting too many retired people who have not saved enough.

Abandoning the pension promise

The private sector defined benefit (DB) pension plan, an obligation of employers to pay employees an income in retirement usually based on a percentage of salary, has burdened and influenced the restructuring of entire industries from auto and steel to railroads and airlines. It was a significant impediment contributing to the failed attempt by an investor group, ironically led by the Ontario Teachers' Pension Plan, to acquire BCE Inc. The consequence has been an accelerating shift of responsibility for pension savings from corporations to individuals and defined contribution (DC) plans. DC plans are tax-deferred savings plans into which employees pay a portion of their salary, often partially or fully matched by the employer, with employees making investment decisions and, importantly, taking on the duty of providing a retirement income for themselves. Individuals are ill-equipped to handle this obligation. Exacerbating the problem, government caps on contributions make it beyond "reasonable hope" for DC plan members to accumulate half of what DB members can ("Legal for Life: Why Canadians Need a Lifetime Retirement Savings Limit," James Pierlot, Faisal Siddiqi, C.D. Howe Institute, 2011).

It is bad enough that 60% of Canadians have no pension at all, but voluntary programs have had disappointing participation rates. Only 26% of tax filers contribute to one

It is bad enough that 60% of Canadians have no pension at all, but voluntary programs, such as the RRSP, have had disappointing participation rates. In any given year, only about 26% of tax filers contribute to one. Those fortunate enough to have a DB pension saw the financial crisis of 2008-2009 stress plans into deficit at best or a disaster, such as Nortel, at worst. Mercer's Pension Health Index for Canada measuring the solvency condition of DB plans was at 63% at the end of the first quarter of 2012 versus the US at 82%; 100% is fully funded. Without new direction, these plans will drift in and out of deficit for years, making pension costs unpredictable. Not surprisingly, smart and well-bankrolled corporations such as RBC are shifting responsibility to employees by eliminating DB plans for new employees. If professionally managed DB plans have struggled to keep up, what hope have individuals?

Butchering sacred cows

One in five Canadians is a member of a public-sector union and 84% of them have DB pension plans guaranteed by taxpayers. Even these pension "haves," who typically receive 70% of their best five years' salary as income in retirement, indexed to inflation, may not be safe. If not fully funded, the increasing burden borne by taxpayers can't continue without radical change. Canada Post, like RBC, is putting new employees into a DC plan to mitigate this risk.

A shrinking workforce makes change unavoidable even as the average public-sector worker retires at age 58 and the average private-sector worker at 62. An example from Bill Tufts and Lee Fairbanks' *Pension Ponzi: How Public Sector Unions are Bankrupting Canada's Healthcare, Education and Your Retirement* is illustrative. Taken from an Ontario Municipal Employees Retirement Service (OMERS) report, one of Canada's largest pension plans, a member who retires at 60 with 32 years of service and a 70% of best-five-year salary pension (\$33,600) over 32 years contributes a total of \$50,000 to the plan, matched by the employer (the taxpayer). Assuming 2.5% inflation, OMERS values the benefit to the member and family at \$960,000. Can you imagine a \$50,000 investment inside your RRSP over 32 years growing to \$960,000 in benefits? It's possible because taxpayers unwittingly pay for it. The weight of the numbers means these deals will have to be revisited.

The pooled retirement pension plan

Federal and provincial governments have the responsibility for pensions in Canada. Evolving from employment-standards law, affirms Ken Burns, partner with Lawson Lundell LLP in Vancouver, the employer/employee relationship sets the legislative basis for pension law. The PRPP would shift liability from employers to financial institutions administering the plans (insurance companies or banks). Burns suggests this move is significant, akin to making the PRPP like an investment product (think RRSP), giving it broader application. He thinks the fiduciary duty of the carrier will be to provide an adequate roster of products from which plan members can assemble a portfolio. In a 2011 C.D. Howe report, Keith Ambachtsheer and Ed Waitzer urge more clarity about default options — a preselected investment for members who do not want to make investment decisions.

The proposed PRPP targets small and medium-sized businesses and sole proprietorships for whom pension plans are an expensive luxury or not available at all. Theoretically, by allowing financial institutions to pool assets from different employers, plan members will benefit from the economies of scale and get to keep more of their own money rather than pay 2.5% mutual fund fees annually. Larger DC plans charge 0.8% to 1.75%. Savings could be significant. The plan for PRPPs is to cap fees at an as-yet-undisclosed level (perhaps 0.5% to 1% per annum). Ambachtsheer seeks legislative clarity about fees and about conflicts of interest for carriers pushing their own products. If low fees are mandated, most current DC plan sponsors must seriously consider transitioning to the PRPP format. Practically, Burns says plans with more than 250 to 300 members are likely to stay with existing carriers, although pricing pressure may be exerted. While PRPP economics for carriers is not good with a capped fee, Burns adds that an annual administration fee per member may be a practical compromise.

Moving fiduciary responsibility to carriers is meant to encourage small businesses to support the plan. Employers currently held to this duty for DC plans are not entirely off the hook because they need to administer payroll and work with carriers on employment records.

The PRPP as proposed is mandatory with a 60-day opt-out provision. Apparently we are so lazy we won't take the trouble to opt out even if there is money involved. Matching employer contributions is not mandatory, a real drawback for participation.

Quebec has been more aggressive with participation. Its voluntary retirement savings plan (VRSP) is moving forward, requiring implementation by employers without an existing plan with as few as five employees with one year of uninterrupted service. No employer contribution is required, but employee contributions are auto escalated from 2% in 2013 to 3% in 2016 to 4% in 2017. The default investment is a life-cycle (target date) fund with no more than five other investment choices permitted. In a significant departure from the proposed PRPP model, member contributions may be withdrawn prior to retirement (less deductions). This gives the VRSP flexibility.

Forcing members to save for their own benefit is good, and restricting access to funds, as the PRPP does, is best for long-term accumulation. But PRPPs must compete with RRSPs and access to funds for many is important.

Why not expand the CPP?

Some politicians, union leaders and others have lobbied to expand the CPP instead of introducing the PRPP. They argue that administrative mechanisms and economies of scale already in place will allow for scale and better returns. But consider the liability. In 2012, the combined CPP and OAS replaces about 39% of the average annual Canadian salary of $46,000. This proportion is similar to public pension schemes in the US, New Zealand, Germany and Sweden. Countries with high levels of public pension income replacement are Greece, 95%; Luxembourg, 85%; Spain and Austria, 80%; Turkey, 70%; and Italy, 65%. Alone, this list is reason for pause.

For countries already running budget deficits, large pension liabilities can be destabilizing. Witness the turmoil over reduced pensions in Greece and Italy. Directly sharing the responsibility to fund retirement with those who benefit from it makes most sense.

Converging storm

Converging for a perfect pension storm is an aging population that is not saving enough and a corporate sector off-loading financial and fiduciary pension responsibility onto employees who lack the knowledge, time or inclination to make effective investment decisions. Legislative limits on savings are widening the divide between a growing cohort being relegated to DC plans and DB plan haves, the majority of whom are civil servants who will retire on pensions funded by the have-nots. Add a financial services industry lurking with pricey options, DB plans struggling for solvency and expensive long-term public-sector retirement deals struck by politicians and bureaucrats with a short-term focus. Troubling winds become palpable.

Designing a better ark

There are five ways to weather the storm.

- *More savings*: there is no substitute for starting early and saving more. To the extent the PRPP can expand participation through a 60-day opt-out provision that employees may be too lazy to act upon suggests potential. Auto contribution escalation, as Quebec has proposed, would be a positive add-on for other provinces to consider. Limits on lifetime savings in DC plans need to be raised to compensate for the shift from DB plans. Tax incentives for contributing employers are the best way to get their attention and support. To get employees to participate employers need to put something on the table, which may be the most effective way to encourage participation.
- *More workers*: extending the age of retirement and OAS eligibility should be no surprise. Shifting a current liability to a deferred liability doesn't eliminate the problem but buys time. Coordinating immigration policy by encouraging younger workers is an example.
- *More effective investment choices*: Canadian investment product providers need to offer better, not more, solutions. A life-cycle default, such as Quebec's VRSP proposes, is a good idea because it does much of the investment decision-making for plan members, although it has several glaring flaws (see "What DC Plan Members Really Want," by Ioulia Tretiakova and Mark Yamada, *Rotman International Journal of Pension Management*, 2011). Limiting product offerings is good because choice confuses people.
- *Better DB plan governance*: DB plans are governed by theoretical assumptions. Like steering a ship by the stars and ignoring the radar image of the icefield ahead, DB plans need better guidance systems.
- *Lower costs*: save more by spending less. Introduce more product competition. Use low-cost exchange-traded funds rather than high-cost mutual funds. More providers, foreign asset managers and administrators would help domestic suppliers become more globally competitive and reduce overall plan costs.

Summary

As the PRPP now stands, only two of the five goals above are addressed: more participation (perhaps) and lower costs (maybe). Pension reform should consider doing what is best even for reluctant employees. Like requiring everyone to wear a life-jacket, passengers won't sink immediately, but will be forced to take more personal responsibility if their ship goes down.

Mark Yamada is president and CEO of PUR Investing Inc., a registered portfolio manager and software development firm specializing in risk management and disruptive technology for pension plans, investors and advisers

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Technical editor: Garnet Anderson, CA, CFA, vice-president and portfolio manager, Tacita Capital Inc. in Toronto

Burns says plans with more than 250 to 300 members are likely to stay with existing carriers, although pricing pressure may be exerted. While PRPP economics for carriers is not good with a capped fee, Burns adds that an annual administration fee per member may be a practical compromise.

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By Jean-Sébastien Mercier + Zoheir Boualga

Committee concerns

Audit committees and internal auditors are on the same page when it comes to priorities for improvements

SUSANNA DENTI

Recently there has been a spate of articles in the press about how audit committees are concerned about and want to improve their internal audit departments. In order to identify these major concerns of audit committees in this era of hypergovernance, RSM Richter Chamberland's risk management group in Montreal conducted a number of roundtable discussions with clients and contacts and surveyed 30 of its internal audit clients and a number of audit committee chairs.

And RSM's findings corroborate what internal auditors and audit committees have been espousing, in varying order, as their main priorities — integrated risk management, maintaining internal control, information technology and regulatory compliance. A fifth concern of audit committees, corporate culture, is not necessarily a priority for internal audit departments.

1. The majority of survey respondents said that integrated risk management (IRM) is the main concern of internal auditors and the audit committee. The Treasury Board of Canada Secretariat defines IRM as "a continuous, proactive and systematic process to understand, manage and communicate risk from an organization-wide perspective in a cohesive and consistent manner. It is about supporting strategic decision-making that contributes to the achievement of an organization's overall objectives."

The Autorité des marchés financiers, a body that is mandated by the Quebec government to regulate the province's financial markets, has this to say about IRM: "The board of directors and senior management have the primary responsibility for developing a risk management framework to address the various types of risks to which an institution is exposed. Furthermore, effective and successful risk management depends on the ability of senior executives to set the 'tone' and on the promotion of a risk management

culture within the institution that is based on and supported by an organizational strategy and is focused on the means for managing and optimizing risks. As stated above, risk management at a financial institution should not be considered to be a project, but, rather should form an integral part of its corporate culture, a way of doing business."

As concerns the internal audit function, Standard 2050: Coordination issued by the Institute of Internal Auditors (IIA) explains why internal audit must participate in IRM. According to this standard, "the chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts."

Even today, most organizations have separate internal audit, risk management and compliance functions. Driven by a concern for and a duty to organizational independence, internal audit has a hard time finding a foothold in IRM.

In response to this need, in March the IIA published the *Practice Guide — Coordinating Risk Management and Assurance*, which explains the role of each stakeholder, especially the internal audit function, and cautions about levels of involvement that may impair its independence.

The guide points out that risk-management information is necessary to achieve better annual planning and that internal audit plays a significant role in managing risks, due to its strategic positioning in companies.

Clearly, internal audit plays a major role in achieving sound corporate governance. Internal audit should take time to understand the concerns of its audit committees

2. Maintaining internal control is senior management's responsibility, but it is also one of the major priorities of internal auditors and audit committees.

To that end, IIA Standard 2130: Control states: "The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement." In the interest of independence, the role of internal audit is not to control but to create and maintain its evaluation activities and recommendations.

This desire for independence should be treated with circumspection. After all, it is up to senior management to decide whether to implement a recommendation, generally based on a cost-benefit analysis.

Therefore, auditors who do not properly explain the risks of a failure or the benefits of further mediation may distort senior management's analysis and cause it not to take action as a result.

However, in resource-constrained situations, when internal audit overestimates the importance of a recommendation, senior management may allocate unnecessary resources to mediation and overlook other priority activities.

Of course, maintaining internal control is a priority for internal audit departments, especially when their recommendations give them a great deal of influence, the impact of which must be controlled by adequate supervision and report-review processes. To help senior management assess the effects of its recommendations, internal audit often ranks the impact or criticality of each one.

These rankings can guide senior management in deciding how much effort to invest in making improvements. The information obtained during the annual risk analysis and the engagement planning phase may prove extremely helpful in determining the degree of criticality, especially if the annual risk analysis is performed as part of an IRM process.

3. Information technology (IT) plays an undeniable strategic role in a business. Needless to say, internal audit deals with it at every level and in all its activities.

IT internal auditors should be consulted first and foremost about the annual risk analysis. Working with other internal auditors, IT auditors make a valuable contribution that can change the assessment of a risk involved in a process. Due to the growing use of automated controls, residual risk is often underestimated and auditors assume it will be covered by an IT audit. Involving IT auditors can help determine the scope of engagements so that the real risks are covered.

Furthermore, when IT auditors are involved in the process from the outset, integrated activities can be more effectively planned. These activities are likely to add value since IT-related risks may affect all of the controls used on an application-based process. With IT auditors on board, the scope of an engagement can be optimized to include all of the real risks.

More and more internal audit functions are providing operational assistance in IT before solutions are implemented. This proactive review has the advantage of reducing costs because it is easier to make changes in design during the pre-implementation phase.

Another benefit is the higher rate of success in introducing software. Once again, the auditors' involvement should be properly monitored and limited to evaluation so as not to affect their independence.

Moreover, auditors gain knowledge of these systems during their review that can be used to provide valuable input in the planning process.

Just as IT auditor involvement in operations engagements can be beneficial in some cases, operational auditor involvement in system-design reviews can also add value and advance knowledge in very interesting ways.

Because of their knowledge of business processes, IT auditors will be able to identify opportunities for automating controls to make the processes more effective and less risky.

4. As with internal controls, regulatory compliance is also senior management's responsibility. However, thanks to its privileged position in businesses, the internal audit function can influence management's view of the importance of compliance.

In the wake of Regulation 52-109, the Canadian equivalent of the US Sarbanes-Oxley Act, many public company internal audit departments were pressed into service.

It should come as no surprise that companies have tasked internal audit departments with monitoring and assessing compliance. The skills and organization required to carry out these tasks are the responsibility of internal audit, as is organizational independence, which is a major asset in evaluating senior management's responsibilities.

The integration of monitoring functions under the umbrella of internal audit is a noticeable trend in these times of resource optimization. Integration opens the door to multiple synergies, especially if the internal audit function is already involved in an IRM process that covers compliance risk as well. Furthermore, compliance assessment departments face recruitment challenges since they often seek the same employee profiles as internal audit departments.

By grouping the monitoring functions, it may be possible to create centres of expertise and improve employee retention thanks to the wide range of tasks and work that staff may be offered.

The strategic positioning of some companies will lead them to voluntarily comply with certain standards. For example, more and more companies are adopting strategic policies on responsible environmental management and complying with stricter environmental standards as a result. Noncompliance could have a significant impact on the strategic positioning of these companies, which will subject them to internal monitoring.

The same applies to compliance with Regulation 52-109, in which case internal audit may be considered a major ally.

Depending on the circumstances, internal audit departments may be entrusted with the task of fully or partially monitoring compliance. Rarely would they have no involvement at all in the monitoring process.

Even though specialists may need to be hired to cover certain areas of compliance, internal audit departments are structured for monitoring, quality control and accountability, as stipulated in the IIA standards, which is why they are ideally suited to monitor compliance.

5. Corporate culture, the fifth concern of audit committees, was not considered a priority by the respondents to the RSM survey.

Yet in this era of hypergovernance, corporate culture must be included in the assessment of an organization's control environment.

The rules advocated by senior management are important components of corporate culture that should also be assessed by the internal audit department.

The monitoring functions of a company, including internal audit, are also important components of a control environment.

In fact, internal audit's positioning and methods can greatly influence corporate culture and, by extension, how senior management responds to audits and perceives the auditors' work.

A properly positioned audit department that is aligned with the corporate strategy and focused on the right risks will be able to strengthen corporate culture.

A relationship with senior management based on mutual respect and healthy collaboration will also positively affect perception of the tone set by senior management for the entire company.

In light of the survey results, all concerns raised targeted very important components of corporate governance. Clearly, internal audit has a major role to play in achieving sound corporate governance. As part of a strategic positioning exercise, internal audit departments should take the time to fully understand the concerns of their audit committees.

In this way, they will be able to offer a range of services showing that their monitoring role can make a significant contribution to sound corporate governance.

Jean-Sébastien Mercier, CPA, CMA, CPA (Wash.), CIA, CCSA, CRMA, is a manager and Zoheir Boualga, MSc, is a staff auditor with internal audit, risk management and advisory services at RSM Richter Chamberland in Montreal

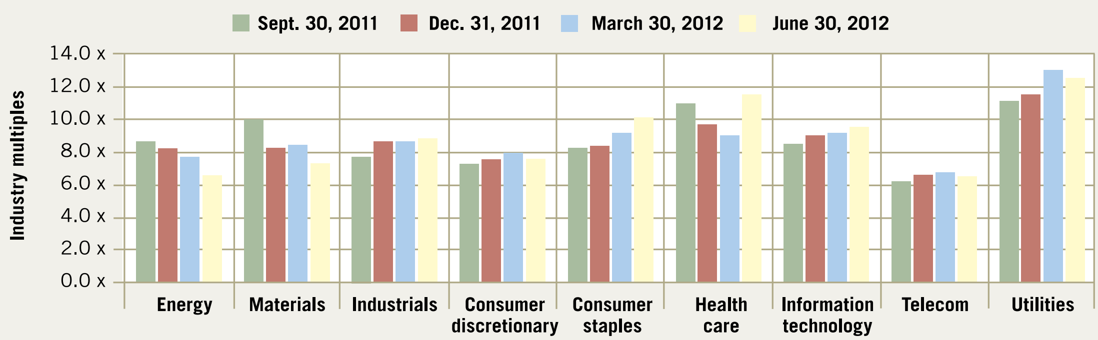
Technical editor: Yves Nadeau, CA, CPA, CRMA, partner, assurance and risk management consulting, RSM Richter Chamberland

What's it worth?

AN OVERVIEW OF THE VALUATION LANDSCAPE, HIGHLIGHTS AND METRICS | BY STEPHEN COLE

This column will highlight a specific valuation issue every quarter. We hope it will be helpful in informing a broad range of valuation and pricing decisions and serve as a good starting point for a more tailored process. The multiples are in respect of predominantly public companies. Private company multiples and value may be different.

EV/EBITDA trading multiples
(Canada)



Note: EV is calculated without reduction for surplus cash

VALUATION MATTERS MAKING HEADLINES IN Q2

Facebook (Nasdaq: FB) made its much anticipated IPO on May 18, 2012, closing at US$38.23 a share. Facebook joined the growing list of social-media companies (i.e., LinkedIn, Yelp, Zynga) to go public in the past two years. The company boasted a 76% gross margin rate and a 53% EBITDA margin rate for the 12 months prior to its IPO. Successful social-media companies typically have high gross margins, high EBITDA margins and very high anticipated revenue-generating capacity. Facebook's IPO valuation compared to its peers is set out below. However, Facebook's and Zynga's stock price from IPO to end of July dropped 38% and 66% respectively. Overvalued or a bargain? Ask iPhone's Siri.

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

Summary of Facebook multiples and comparable companies

	EV/Revenue		EV/EBITDA	
	May 18, 2012	July 23, 2012	May 18, 2012	July 23, 2012
Comparable companies:				
Amazon.com Inc.	1.8x	1.9x	49.9x	53.0x
Baidu, Inc.	1.6x	1.2x	2.8x	2.1x
eBay Inc.	3.7x	4.1x	13.1x	14.2x
Google Inc.	3.9x	3.8x	10.5x	10.8x
LinkedIn Corp.	15.6x	16.4x	120.7x	127.4x
Pandora Media Inc.	5.6x	5.1x	–	nm
Shutterfly Inc.	1.4x	1.9x	15.8x	21.8x
Yahoo! Inc.	3.3x	3.5x	12.6x	13.4x
Yelp Inc.	10.7x	13.7x	–	nm
Zynga Inc.	3.5x	2.2x	–	nm
Median of comparables	**3.6x**	**3.7x**	**13.1x**	**14.2x**
Facebook	**19.4x**	**14.4x**	**36.9x**	**27.3x**

Note: May 18, 2012 – Facebook IPO date

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AND FINALLY...

HOW THEY DO IT IN...

JAPAN

Meeting clients for the first time in the Land of the Rising Sun? If you're wondering about the finer points of Japanese business etiquette, consider the following:

Status rapport At business meetings, seating is arranged by order of rank or position; the highest-ranking person sits at the head of the table, with the next highest seated beside him or her, and so on. Drinks, which are usually offered at the start of the meeting, are also served in order of rank and the boss drinks first.

Getting carded There's a formal ritual to exchanging business cards: casually passing it over in a two-finger hold just won't do. Cards are treated with respect. They should be bilingual, with information written in Japanese on one side and in the visitor's language on the other. When offering a card to an associate, hold it in both hands and be sure to receive a card with both hands as well. Take care not to put your fingers over any information and don't put the card away immediately; wait until the person has left the room.

Dinner talk If you're invited to dinner, chances are, alcohol will be offered. If you don't drink, you may find yourself politely refusing more than once. It may be wise to have a good excuse at the ready. If you do partake in a libation, don't worry about pouring your own drink; your neighbour will take care of that for you. Just remember: you're expected to top up his or her glass as well.

Twenty-one questions In Canada, if you're asked how old you are you may be tempted to utter a few choice words, but in Japan, don't take offence. Some questions that may make you uncomfortable are not considered impolite.

Yvette Trancoso

Where are they now?

PAUL ORENSTEIN

GREEN ACRES

Evan Chrapko, CA•IT, has been busy helping to change the world — first with multiple technology startups, including initiatives in the telecommunications, energy and healthcare sectors, then with companies that convert waste into energy.

It all started when Chrapko, 48, and his brother, Shane, sold The DocSpace Co. Inc., a cloud-based file storage and exchange service, for $811 million in 2000, when *CAmagazine* first featured the entrepreneur ("Space Cowboys," December 2000).

In 2006, Evan and Shane became co-CEOs of three enterprises: what has now become Himark bioGas, Growing Power Hairy Hill (GPHH) — the $100-million integrated bioRefinery scheduled to open this fall in Hairy Hill, Alta. — and Algae Grow and Harvest Technology. Himark develops the patented technology, Integrated bioMass Utilization System, that drives GPHH; GPHH turns agricultural and human waste into green, sustainable energy. The brothers are also opening a nonprofit, biowaste energy centre called BioWaste to Energy for Canada — Integration Initiative Corp., of which Evan Chrapko is founder, president and chairman.

While the biggest plant in the world using Himark's licensed bioGas technology is under construction in Oakley, Kan., Chrapko has been traveling to Asia and the Middle East to take his bioGas and algae technologies to these regions. "We're working at processing [human] waste and producing electricity, which the developing world is sorely lacking," he says. Chrapko wants "to ramp up the company's ability to deliver more of its solutions" to other countries such as Thailand and Bangladesh.

"My family and I plan to move to Manila or Singapore within the year," says the father of two, "so I'm looking into housing, schools and healthcare. I will 'be' the Asia office, working out of my home for starters. Not as glamorous as Dubai but closer to the action."

How long will they make the area home? "Oh, for years," he says, "God and health permitting."

Lorie Murdoch

In my briefcase

by Angela Lawrence

DICK POUND

is a top-notch Montreal FCA and tax lawyer, but it's his crusading reputation in the sports world as a former Olympian and influential member of the International Olympic Committee (IOC) since 1978 that has built his public persona. Pound's passion to maintain integrity and fairness in sport led him to help found the World Anti-Doping Agency. Not surprisingly, he was named one of *Time Magazine*'s 100 most influential people in 2005 and was also inducted into Canada's Sports Hall of Fame in 2011. Though he's the recipient of many awards and accolades, Pound is not one to rest on his laurels; instead he masterfully juggles his law career and IOC involvement with writing books, articles and a popular tax newsletter. Here's what you'll find in the multitasker's briefcase/computer bag.

PAUL ORENSTEIN

SPARE CREDIT CARD

"I like to keep a low-limit spare credit card with me in case the people at Visa say my card is compromised, which they're happy to do when I'm in the middle of nowhere. I tell the bank, 'I don't want you to get worried if I'm in Geneva and charge something and then charge something in Montreal later that day. It simply means I've flown across the Atlantic.' "

MANUSCRIPT

"I usually have a draft of a manuscript of a book or article I'm working on. One of the great things about traveling is when they close the door on the plane, nobody can reach you for six or seven hours sometimes. I get a lot of my writing done during air travel."

FLASHLIGHT

"Some places I go to are not always reliable in terms of their lights. We were out at an IOC meeting in Durban last year. Well, you never know what's going to happen in the middle of the night there, so I like to have a little pencil-shaped flashlight with me."

TAX CASE NOTES

"I normally have a batch of tax cases for the newsletter I do, *Pound's Tax Case Notes*, which Carswell publishes 25 times a year. I give [each case] four stars, three stars — with a little comment on why it is or is not an important case."

SMALL LAPTOP

"I always have my laptop — a relatively small, 7-by-9-inch Gateway — and an encrypted flash drive so that I have two copies of everything."

BOOK

"[When] I can't work on a plane I bring a book — a [real] one, not an ebook. A lot of the books I read now tie into my research for a book I'm writing about the Montreal 1844 Olympic Games." One is *The Union of the Canadas: The Growth of Canadian Institutions, 1841-1857*, by J.M.S. Careless.

PASSPORT

"I travel quite a lot, enough that I always have it in my briefcase."

Outlook

BY MARCEL CÔTÉ

WHERE ECONOMICS AND POLITICS MEET

The decline of violence

Two global trends — globalization and computerization — are supporting a marked drop in violence around the world. Harvard University professor Steven Pinker, Montreal-born and a McGill graduate, documents this phenomenon in one of the most important books published in recent years, *The Better Angels of Our Nature.* Violence has been declining for centuries as civilization has progressed. And the rate of decline has accelerated significantly in recent decades.

By today's standards, the ancient world was extremely violent. A careful reading of the Bible provides a very clear illustration of this. The slaughter of enemies, mass rapes, fratricide and torture were common occurrences. The emergence of cities and of civil society a few thousand years ago ushered in a less violent cycle. Nevertheless, even in the Middle Ages, torture, slavery and massacres of populations defeated in wars were part of the social norms and violence was the daily lot of families. It was not until the Renaissance and the advent of the nation-state that the rule of law developed, and order and justice, as we know them today, were gradually enforced.

Over the years, all forms of violence gradually declined. Even as recently as the 1950s and the 1960s, wars killed more than 50,000 people every year around the world. In the past 15 years, wars have accounted for fewer than 10,000 lives per year. A century ago, torturing animals for the sheer delight of spectators was a socially acceptable form of public entertainment. Today, one of the last manifestations, bullfighting, is slowly disappearing. Even the animals used in medical research are now protected by protocols. Public hangings were common 100 years ago; they have now disappeared, along with the death penalty in most countries. Individual violence has also decreased: from 1945 to 2008, homicides fell by 40% in the US, and rape, by 80%.

This broad decline in violence can be observed around the world, including developing countries. The reasons go beyond industrialization.

Pinker uses impressive statistical data to show that it is being brought about by several converging trends. The result is that violence is losing prestige and usefulness in today's world. Industry and commerce — the primary sources of economic progress — demand the rule of law. Democracy ensues, severely limiting the whims of governments and protecting citizens from criminal violence.

Gender equality is another important factor. The fact that more women hold influential positions in society has had a major impact on decreasing violence, as women adopt a more conciliatory approach to conflict resolution than men and tend to avoid violent confrontations. Most acts of violence are committed by young men, the vestige of a genetic heritage that is no longer relevant today.

The fact that more women hold powerful positions in society has a major impact on decreasing violence

The emergence of the global village driven by television and travel is also contributing to the decline by binding us together around the world. Dictators can no longer slaughter fellow citizens with impunity. Urged by populations who can view these images of brutality on the Internet, democratic countries are increasingly working together to prevent political conflicts from spiralling into civil wars. Moreover, heads of state responsible for brutal acts are now being brought before international courts.

For the first time in the history of humanity, violence is no longer glorified as a means of conquest or dispute resolution. Controlling a village or a clan through force and terror makes no sense today. In fact, only in the fantasy worlds of movies and video games do people kill without qualms, and these are the few remaining outlets we have for the violent instincts still inhabiting our genes.

In this context, it is rather ironic to see our government building prisons and increasing the budget of the Canadian Armed Forces. Come on, Ottawa, read Pinker's book.

Marcel Côté is consulting partner, SECOR KPMG, Montreal