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It's the edition you've been waiting for:
what's important in technology today?

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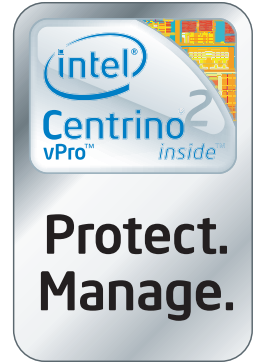
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September 2009 Volume 142, No. 7

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PAUL ORENSTEIN

Special IT issue as relevant as ever

The economy is the No. 1 preoccupation in this year's survey regarding IT concerns

It's interesting how quickly things evolve. As I write, the Bank of Canada is announcing that it expects the Canadian economy to grow in the current quarter and make a leap forward in the fourth. Quite a shift from its previous statement, which was met with a healthy dose of skepticism.

As relieved as we might be by the forecast, the hundreds of CA•ITs who responded to this year's CICA Information Technology Advisory Committee survey to identify their greatest concerns regarding IT are unlikely to change their opinions based on this news. The economy is such a concern for CAs in the IT world that it leads this year's top 10 list. In "The top 10 IT Issues" (p. 20), Gerald Trites writes that CA•ITs worry most about adequate and effective controls in times of economic constraint. This is followed by maintaining security over moving data, the lack of effective IT governance, coping with information overload and the impact of IFRS on information systems. These issues are of such concern that two of last year's top preoccupations, privacy and outsourcing, did not make this year's list.



The second feature addresses the lack of IT governance and coping with information overload. According to Deloitte's Nat D'Ercole, the two are linked. In "Making sense of IT all" (p. 28), he writes that these lead to lost revenue, poorly managed expenses, lost confidence, compliance problems and customer dissatisfaction. He argues that managing information properly is not a luxury: it's a necessity.

Many CAs and IT specialists wait anxiously for CAMagazine's annual IT issue. They want to get their hands on our annual enterprise software survey. For the 11th year, Michael Burns probed vendors for an exhaustive list of products and features. In Work in process (p.16), he explains the findings, which are organized according to customer revenue, number of employees and licence fees. The survey is available online at www.camagazine.com/ERPsurvey09.

Our Regulars section also features an IT article. In "Business intelligence for the SME" (p. 46), Mark Canes explains that small businesses need BI tools as much as larger ones to face competition and grow. The section also offers articles on taxation (p. 40), education (p. 43), standards (p. 49) and people management (p. 52).

As for our columnists, Jim Carroll in Netwatch asks — and answers — "Can CAs help save the world?" (p. 14). He refers to Internet applications that allow companies and individuals to monitor and control their energy consumption. Marcel Côté revisits one of his favourite topics. The title says it all: "Rethinking executive compensation" (p. 60).

Christian Bellavance, Editor-in-chief

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Mark Bindman started chasing fire trucks in his 20s. Today, the self-professed fire buff and accountant-by-day is among 28 volunteers who provide on-site support services — anything from providing fluid replacement to setting up portable showers — for the Montreal Fire Department

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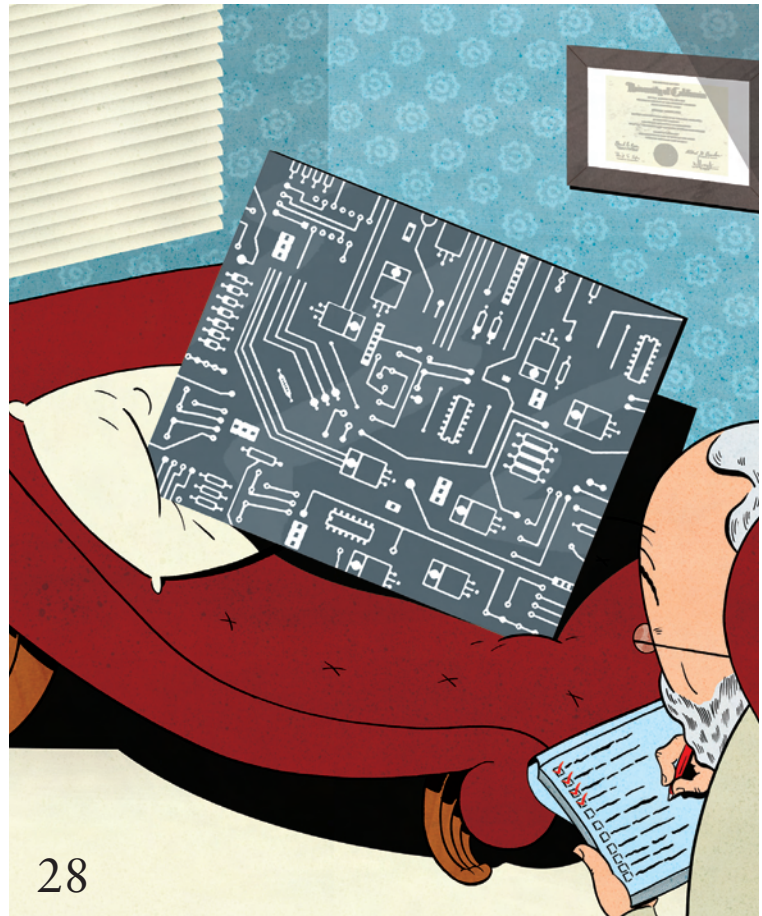
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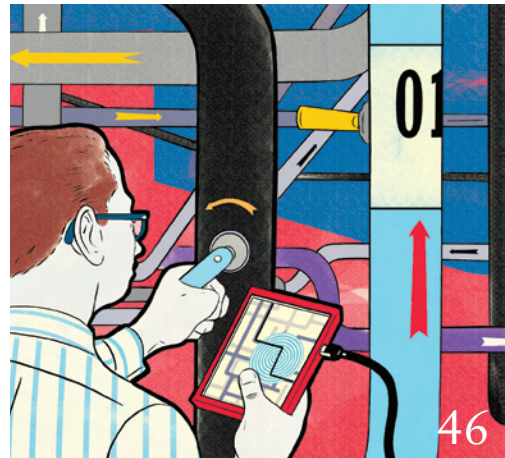
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Mailbox

WE REGRET TO INFORM YOU

I have run across an unusual situation this past season and am wondering if anyone else has had this problem.

It is with respect to a taxpayer who attends university and is employed. Her income is not huge and every dollar is extremely important. The facts are as detailed in the notice of objection.

“The Notice of Assessment has omitted the working income tax benefit of \$500 for which Schedule 6 was included and the \$500 included in the refund claimed of \$1,085.57.

“The taxpayer was a resident throughout the year, had income from employment and was over 19 years of age. She was a full-time student confirmed by form

T2202A. Further, although a full-time student and the form states four months, in fact as stated on T2202A, on Schedule 6 and also on the course material, all of which were included on the T1 form, the taxpayer’s course was from September 3, 2007, to December 3, 2007, which was precisely 13 weeks. As Schedule 6 states, more than 13 weeks would disallow the claim. As the taxpayer was 13 weeks to the day and not in attendance more than 13 weeks, it is respectfully requested the assessment be amended to reflect the original filing.”

Canada Revenue Agency advised me the objection was disallowed because it was told by the student that the university, after informing her it had prepared a letter confirming the 13 weeks, said the letter was not available when she went to pick it

up. It gave no explanation.

Did the university in this case have second thoughts because it might have to prepare letters for hundreds of students in similar situations? If so, that is disgraceful as the \$500 program that the government was good enough to institute is being derailed, and students who could use the money are not getting it because form T2202A would have to indicate weeks.

Joseph G. Rosenthal, CA
Concord, Ont.

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Letters may be edited for space and clarity

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UPFRONT

News, people, briefs, trends + tips

Fire in his belly



Fiery passion: CA and self-professed fire buff Mark Bindman spends his evenings helping the pros during major blazes

When he's not putting out fires for clients during tax time, Mark Bindman literally feels the heat alongside firefighters in his city. While he doesn't run into burning buildings, as a member of the *Pompiers Auxiliaires de Montréal* he is among 28 volunteers who provide on-site support services to the Montreal Fire Department during major blazes. "We take care of the firefighters, keep them safe and provide fluid replacement," says Bindman, 54. "Last night's fire was so big and hot we put portable showers out on the street so they could cool themselves off."

Being on call seven days a week means Bindman will occasionally wear his uniform into the office (CA firm Bessner Gallay Kreisman, where he is a partner in charge of quality control and professional standards) after spending an entire night at a fire scene. "I can work off the adrenaline for hours, and most of my clients are amazed by what I do," he says. Given that he spends about 30 hours a week on his "fire passion," Bindman says his partners are supportive too. "Some weeks I'll get called to a scene two or three times, but I don't respond to [fire] calls during the workday."

A self-professed fire buff, Bindman started chasing fire trucks in his early 20s because "the thrill, sights and smell of it all really got to me." Since then he has acquired an impressive collection of fire paraphernalia, including eight full-size fire hydrants, a dozen extinguishers, hundreds of fire department T-shirts and thousands of photos of fire stations across North America and the Caribbean. "My one dream is to buy my own fire truck but I really don't know where I'd store it."

Still, Bindman has no intention of giving up his day job. "I took a few fire-fighting courses and know how to cut someone out of a car using basic tools, but this is a hobby I've turned into a community service," he says. In fact, being a fire buff CA has its advantages. "During tax season when I'm particularly stressed, I'll spend 15 minutes going through my collection and it calms me down and keeps me going."

Rosalind Stefanac

CHRISTIAN FLEURY/KLMPX

Résumé

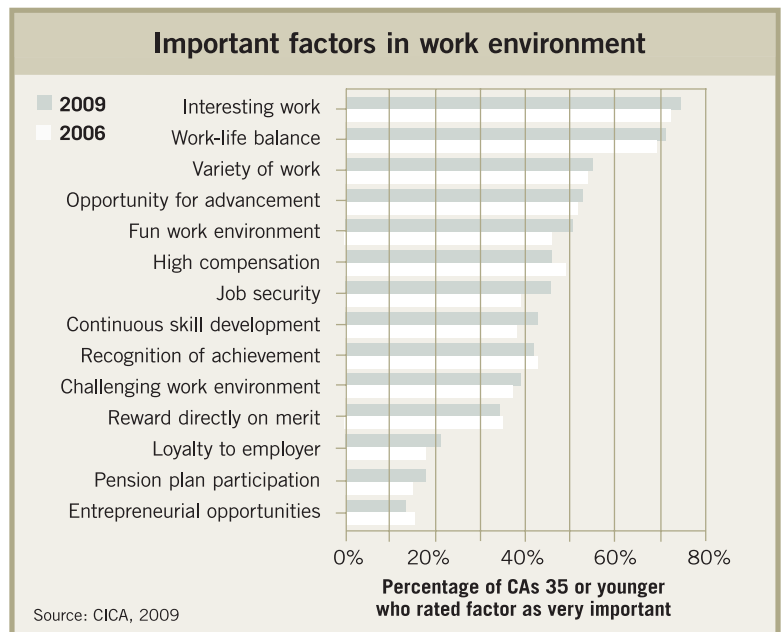
- 1978** obtains CA designation (Quebec)
- 1998** becomes a volunteer with the *Pompiers Auxiliaires de Montréal*
- 2001** joins Bessner Gallay Kreisman as partner
- 2006** elected auxiliary's treasurer/deputy chief

THE VALUE OF INTEREST

Interesting work and work-life balance remain the top priorities for young CAs, according to a recent CICA survey. More than 70% of CAs aged 35 or younger who were surveyed said these two workplace factors are very important to them — about the same percentage that did so when the survey was last conducted (and reported in this column) in 2006. In fact, the percentage of respondents who rated each factor as very important was virtually unchanged from three years ago.

Job security is the one exception: 46% of CAs surveyed rated this factor as very important, up from 37% in 2006. This exception is clearly a result of the current global economic crisis but, despite the increase, job security is not one of the top-five priorities for young CAs. Other factors rated as very important by at least half of respondents include variety of work (55%), opportunity for advancement (52%) and a fun work environment (51%).

No other factor included on the survey — not even compensation — was rated very important by the majority of respondents.



The message to employers is that while compensation matters to young CAs, other factors are likely to have a greater influence on attracting and retaining them.

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



ASK AN EXPERT

HOW CAN I KEEP MY DESKTOP RUNNING SMOOTHLY?

Believe it or not, it's the little things that cause the majority of desktop woes. Here are a few simple steps businesses and individuals can take to keep their computers (and budgets) in tip-top shape.

Old hardware. Studies have shown that the likelihood of physical problems with computer equipment goes up significantly after 24 to 36 months. Consider replacing computer systems every three years — one major repair bill could easily cost more than purchasing a new system.

Training. Most employees understand less than 20% of the software they use. The gain in productivity far outweighs any training costs.

Back up data. Most companies fail to keep 100% of their important data backed up 100% of the time. The consequences of lost data can put a company out of business on the spot.

Power protection. Surges and power drops can cause data loss and are always damaging to sensitive components, reducing their lifespan. Surge protection wears off over time, so replace the surge protectors for all computer equipment every two to three years.

Firewall and security. Update computers with the latest security patches from Microsoft or Apple and be sure firewalls are installed and maintained properly.

Spam, viruses and spyware. Eighty percent of all Computer Troubleshooters' service calls worldwide are from people with problems directly linked to these issues. Good virus protection, spam filters and anti-spyware programs are a must if you want a trouble-free computer.

Chip Reaves is CEO of Computer Troubleshooters Global (www.comptroub.com), a computer service franchise with hundreds of locations worldwide

#NUMBERS Game

0 Number of ZENN Motor Co.'s 430 Canadian-made electric cars produced this year that will be driven on our roads.

5 Percentage of new vehicles sold in Canada that should be electrically powered by 2018, according to a current federal task force on electric and hybrid electric vehicles.

41 Billions of dollars in revenue that Canada's electric car industry would generate by 1990 if the government began to assist the development of the sector in 1978, according to a talk by federal Department of Industry, Trade and Commerce staffer Fred Johnson.

70 Potential percentage decline in future North American oil demand if Canadian and US consumers and businesses shifted

Personal charge car In June, auto-parts magnate Frank Stronach announced he hoped to be selling made-in-Canada electric cars within three years. Canada's current fixation isn't so new



to electric vehicles, according to Hydro-Québec president Thierry Vandal in 2008.

200 Number of electric cars BC-based Dynasty Electric Car Corp. produced before closing its manufacturing operation in 2008, after new federal regulations prevented the vehicles from being driven on public roads.

1914 Year the Galt Motor Co. of present-day Cambridge, Ont., produced its first gasoline/electric hybrid automobile.

Galt stopped manufacturing the following year.

9,895 Price in dollars of a Renault R5 electric-powered car in 1979. Distributed in Canada by the Electric Automobile Corp. (Canada) Ltd., the cars were known as Lectric Leopards.

Steve Brearton

Going Concern



**TRISH CONNOLLY, CA
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COMPANY PROFILE: Advanced Publishing Corp. helps publishers create and manage digital versions of their printed publications.

The company converts the material into online formats that offer easy page flipping, search and other interactive features that re-create the experience of reading a real magazine. It also manages associated e-mail delivery and tracking of readers' activities and demographics on the web. Started up by Connolly in 2003, the Saint John, NB-based company now employs eight people and recently opened sales offices in California and Connecticut.

HOT FACTOR: The company is growing at a rate of about 20% a month, adding five publications a month to its roster. Advanced Publishing has already cornered a portion of the market for North American business-to-business

publications — which is three times the size of the consumer publications sector — including 90% of industry heavyweight Hearst Corp.'s digital business publications. Other prominent customers are United Business Media Ltd., Dominion Enterprises and *CAMagazine*.

COOL PROJECTS: Advanced Publishing is developing applications to bring interactive, colour magazine content to electronic readers such as Amazon's Kindle, and mobile devices such as the iPhone and BlackBerry, with plans to release new products at the end of this year.

IN HER OWN WORDS: "Having been the CFO of a public cable television company for a number of years, becoming the CEO of a small startup has been a significant change in almost every way imaginable. I think the most fun has been seeing the progress from literally starting at zero — with no product, customers or staff — and seeing the result of hard work and perseverance."

Rosie Lombardi



“How do I know that a potential hire is going to fit our culture?”

Unfortunately, you can't know for sure. But there are ways to greatly increase your chances of finding the right fit. One is to work with a recruiter who truly understands the importance of corporate culture.

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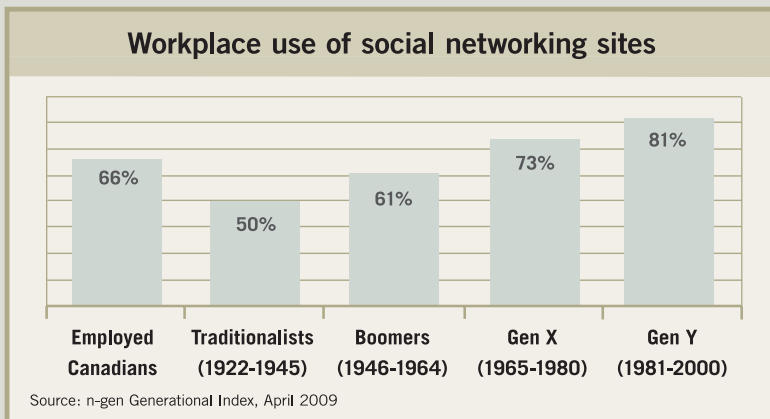
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Don't be a social media outcast

If you aren't poking, tweeting or using some other form of social media at the office, you are now officially in the minority.

In a survey of more than 800 employed Canadians conducted by Leger Marketing, two-thirds (66%) said they use social media at work, with the most popular forms being YouTube and Facebook/MySpace — including daily Facebook visits by at least a quarter of those under the age of 45. Half of workers 64 or older have also gone social, preferring sites that post users' travel advice.

"Web 2.0 technologies in the workplace have crossed the generational divide, and they're here to stay," says Giselle Kovary, managing partner of HR consulting firm n-gen People Performance, which commissioned the study. "We expect that the use of these new media tools will continue to increase as more employers see the potential for collaboration and learning, and begin to relax the rules for surfing at work."



GET WITH THE PROFILE

Still not convinced social networking has reached a critical mass? Consider the results of an Ipsos Reid survey that shows 56% of online Canadians have a profile on a social network — and it's not just the young'uns. Six in 10 online Canadians aged 35 to 54 who are aware of social networks have a profile, as do 44% of those 55 or older.

NAME THAT CRA AGENT

Telephone service agents at the Canada Revenue Agency must now identify themselves to callers by their first name and give an employee ID number if requested. The new policy will help reinforce agents' accountability and make the CRA easier to deal with, says a statement from the Canadian Federation of Independent Business.



Mobile gadgets: perk or tether?

Say your boss hands you a brand new BlackBerry. Is it a reward for being a top performer? Or is the implication that you need to work harder and stay connected to the office even when you're not there? That's the subject of a new report, "Implications of Employer-Supplied Connectivity Devices," by global human resources association WorldatWork.

It found that management may unwittingly be fuelling resentment by providing mobile devices without clarifying expectations and boundaries of use. For example, the study found three out of four users of hand-held connectivity devices never turn them off, and 42% of the 627 US workers polled believe that being given an electronic device means they need to always be available. On the other hand, one-third of respondents regarded an employer-supplied device as part of a total rewards system, while nearly half said it signifies status or importance in the organization.

According to a separate survey of 7,000 Canadians by staffing firm Kelly Services, 32% of us are working longer hours due to new technologies. Even so, 76% say the ability to work outside the office, yet remain in constant contact, is a good thing — boosting productivity and improving work-life balance.

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The fraudster next door

Fraudsters may come in all shapes and sizes, but in Canada at least, they do share some characteristics. According to KPMG's latest Profile of a Canadian Fraudster, almost three-quarters are men and 69% are between the ages of 30 and 49. Most commonly, they have been with their employer for three to five years.

The report is based on a survey that polled senior executives such as CFOs and vice-presidents from across Canada in a wide range of industries, including financial services, energy and natural resources, consumer markets and industrial markets. One-quarter of respondents had revenue of more than \$1 billion, while another quarter had revenue of less than \$100 million.

"Now more than ever, corporate Canada cannot afford to wait for a Ponzi scheme or more tales of corporate greed to occur before it takes the problem seriously. Shareholders are demanding more accountability in these times," says James Hunter, national leader of KPMG's forensic practice.

Some findings:

- 69% of fraud cases were internal jobs, 20% were externally initiated and 11% involved insiders and outsiders;
- 62% were carried out by people below management

level, while 22% were committed by senior management;

- the education level of those committing fraud varied: 40% had no post-secondary education, while 30% had some post-secondary education, and another 26% had either a university degree or a professional designation;
- a full 73% of fraudsters acted alone and in a mere 7% of cases more than five people were involved;
- the three main factors leading to fraud were personal need (28%), opportunity (19%) and greed (14%); and
- bad habits (alcohol, drug abuse, gambling) were a factor in only 11% of reported cases.

The report says that to detect and prevent fraud, companies should look at three things:

- an effective whistleblowing hotline;
- a robust and properly implemented code of business conduct; and
- a consistently applied and thorough system to prescreen new hires.

"The number one method to help bring fraud to light at an early stage is a robust upstream communication mechanism — in other words, an effective whistleblowing or ethics hotline. Nothing else is quite so powerful," says Hunter.

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

Mobility highlighted in IT report

Denmark and Sweden top the charts as the most networked economies in the world for the third consecutive year, according to the Global Information Technology Report 2008-2009. The US comes in third, up one position from last year. Singapore, Switzerland and the other Nordic countries, together with the Netherlands and Canada, complete the top 10.

The report, which was sponsored by Cisco and produced by the World Economic Forum in cooperation with the international business school INSEAD, was released for the eighth consecutive time this year. With record coverage of 134 economies worldwide, its aim was to provide a comprehensive international assessment of the impact of information and communication technologies, known as ICT, on the development process and the competitiveness of nations.

This year's report notes that it has appeared at a difficult time for the global economic system. "Against such a daunting economic outlook, it's important to

reaffirm the crucial role of ICT for general competitiveness and progress and the importance of continuing to invest in ICT infrastructure and related services, as well as, more broadly, in innovation," it says. Under the general theme of mobility, the report notes that mobile telephony has "proven instrumental in raising prosperity and reducing poverty in developing countries, where it has boomed in recent years." Meanwhile, it says Canada has moved up three spots from last year to re-enter the top 10 for the first time since 2005-2006. Its "networked readiness" is boosted by an excellent ICT infrastructure (4th), a conducive market environment (15th) and widespread ICT usage (11th).

In addition to a networked readiness index, the report provides insight into best practices and policies, detailed profiles for each of the economies featured in the report and data tables.

This is a summary. For an expanded article, visit www.camagazine.com/globalITreport09.

"In the past, we were running at 78 percent—Now, with SYSPRO's assistance, we're running at over 125 percent. That means that SYSPRO is helping us produce our products under budget, and that shows up in terms of profit."

Rick MacMichael, Controller, Bourque Industrial

Bourque Industrial unified with SYSPRO ERP

Since 1946, Bourque Industrial Ltd. has been fabricating and servicing high-quality steel products from its facilities in St. John, New Brunswick. Founded by Leonard Bourque, the company has been family-owned and operated for over 62 years. Today, Bourque Industrial boasts over 100,000 square feet of fabrication space in four buildings, and approximately 100 employees.

Bourque Industrial has two operating divisions. The Custom Fabrication division manufactures products of carbon steel, stainless steel and aluminum, for both domestic and international markets. Custom Fabrication creates new or replacement equipment, and effects repairs of existing equipment, for some of the largest firms in the power generation, petroleum refining, process equipment, and structural steel industries.

Bourque's second business, the Contract Manufacturing division, represents a growing industrial sector. Contract Manufacturing integrates state-of-the-art process and technology to deliver a competitive product solution for the commercial aviation industry, as well as to meet the global demands of municipal infrastructure.

According to Bourque's controller, Rick MacMichael, the company's contract manufacturing division has been operating on SYSPRO software since 2005. Custom Fabrication, however, was for many years run on a software package designed for construction and services management. In June, 2008, custom fabrication divested itself of its former software and implemented SYSPRO, bringing the entire company on-line with an integrated enterprise resource planning (ERP) solution.

MacMichael and his colleagues turned to SYSPRO after hearing the software's virtues extolled by competitors in New Brunswick. "We contacted SYSPRO, and after watching a demonstration, it seemed that their ERP was able to meet all our requirements. In addition, it was within our price range."

To ensure that the SYSPRO implementation went smoothly, Bourque dedicated

one full-time body and two helpers to work with SYSPRO. "There was a representative from SYSPRO here for a couple of weeks to help with the conversion," says MacMichael, "after which we were assisted by phone and by e-mail. Nothing is ever as smooth as you hope, but our downtime was minimal."

With SYSPRO up and running, the Custom Fabrication division is now in the process of fine-tuning its operations. "Old habits can be hard to break," says MacMichael, "but switching to SYSPRO is motivating us to improve our business practices. We're taking a look at our protocols and procedures, and at the way we do our transaction cycles. Ultimately, I think that SYSPRO will lead us into better business practices than we've had before. As you might expect, some of our workers were not keen on making the transition, but now, even they'll admit that we're getting more out of SYSPRO than we were from our old software. It's all just a matter of training and experience."

According to MacMichael, one of SYSPRO's biggest draws was the ease with which it records and reports information. "I'm able to get much more information than before," says MacMichael. "In addition, the reports are outputted in a user-friendly format. The old system was canned—it did not allow all data points for reporting, and you were only allowed to report on any 14 of them in one report. With SYSPRO we can pull down hundreds of data points, and there's an easy way to put them into Excel."

In the final analysis, the efficiency of an ERP is measured by its effect on the bottom line. "Contract manufacturing has target times in which to produce its products," says MacMichael. "In the past, we were running at 78 percent—it took us more time to produce a product than our budget allowed. Now, with SYSPRO's assistance, we're running at over 125 percent. That means that SYSPRO is helping us produce our products under budget, and that shows up in terms of profit."

For more information about Bourque Industrial please visit www.bourqueindustrial.com.

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Netwatch

BY JIM CARROLL

YOUR GUIDE TO BUSINESS & ACCOUNTING ON THE INTERNET

Can CAs help save the world?

There's no doubt that one of the biggest issues facing the planet and its inhabitants in the coming decades is how we treat the dual challenges of energy and the environment. For years, I've been advising my clients about one of the biggest trends related to these two issues: the rapid emergence of an intelligent energy infrastructure. It's happening now — all around you — and the implications are pretty huge in terms of economic growth. The big question is, what role can accountants play as this infrastructure builds?

From a high level, the trend unfolding is that we will be able to more directly and individually control how we use energy resources, giving each of us ways to reduce our own environmental footprint.

We're seeing small steps already today: for example, I just bought the new IP Thermostat app for my iPhone; it provides instant access to the two Internet-enabled Proliphix thermostats in my home and ski chalet/cottage. (I could link to my thermostats before via a web page, but IP Thermostat makes it seamless and fast.) The technology allows me to actively manage my energy consumption and better manage my environmental footprint. A world in which hundreds of millions of people are doing the same thing would put a serious dent into heating and air-conditioning usage.

Such devices are just a small example of a number of major trends that will lead to more of this type of connectivity becoming mainstream. For example, major industrial players are adding intelligence to the next generation of commercial, industrial and residential heating, ventilation and air-conditioning equipment, to allow for remote monitoring, management and rapid response to out-of-norm operations. The advent of the "smart grid" — an electrical system that operates on a more efficient, cost-effective basis through the use of information technology — is another example. It's not all hype; Cisco recently suggested that the connectivity component of energy infrastructure will be worth more than US\$100 billion over five years. That's some serious spending.

So what does this have to do with accountants? Quite

a bit, if we consider the new role of analytics, in that such connectivity will allow consumers and users to better understand their usage, and allow more intelligent demand.

The Positive Energy initiative, for example, encourages hydro utilities to send out electrical bills that compare your usage to that of your neighbours. If you're efficient, you get some smiley faces on your bill. If not, you get some images that would encourage you to do better. It's a unique, simple idea, and yet it provides a glimpse into where we can go in the future if we allow people to take a more analytical, deeper view of how they use energy, and hence, impact the environment.

Imagine that as we build this intelligent, connected energy system we can provide tools allowing consumers to further manage their household energy use. For example, software tools could allow them to query an energy provider for details on how well their fridge was operating compared to neighbourhood norms, how much they could save by purchasing a more efficient microwave, or how much money they are losing by postponing that oil change on their 10-year-old hyper-connected car.

We know that everything around us is beginning to plug into the cloud. There might be unique opportunities for accountants to consider how we can maximize the potential for insight as this occurs. After all, we're the masters of information insight.

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

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Work in process

BY MICHAEL BURNS

USING TECHNOLOGY TO IMPROVE THE WAY YOU DO BUSINESS

Enterprise software survey 2009

As we present the 11th instalment of our annual *CAMagazine* software survey, it's interesting to look back and see just how far we have evolved.

When we ran our first survey, many people were unfamiliar with enterprise resource planning and vendors were just beginning to target their ERP products to middle-market companies. Now midsized companies are well served, as are their smaller and larger counterparts. New vendors continue to appear and new functionality continues to be released. We also expand each year on what we include in the survey. This time, for example, you will find a section on human resources. We have also included professional services automation vendors. PSA is really just ERP for professional services organizations. For this year's full survey chart, go to www.camagazine.com/ERPSurvey09.

As always, we have segregated the ERP products into tiers based on product cost and customer revenue and employees. This is a convenient, albeit imperfect, means of differentiation. Be cautious if you're trying to calculate the costs for a system, since these numbers are just averages.

This year we asked vendors about the main factors that led to successful or not-so-successful implementations. For SAP, success was largely a function of buy-in from senior management. "The most successful implementations include strong oversight and commitment from the customers' senior executive team," it said. "When senior executives understand the overall project plan and goals and participate in high-level steering committee meetings, they can better empower their teams and help overcome obstacles to the project's success quickly and effectively, leading to projects that are implemented on time, on budget and on scope."

The role of a steering committee can differ across organizations, but it's vital that larger companies have one. At the very least, it should provide guidance and support.

Syspro called for "a clear strategy established upfront and firmly anchored in the business objectives the ERP project [was] to enable." The point is that success is more than just being on time, on budget and on scope.

Strategy starts with an understanding of business objectives and critical success factors. A CSF is what an organization must do well in order to be successful and it should be aligned with business objectives. If a business process/system supports the CSF, it can be deemed effective. Key performance indicators measure the extent to

Criteria	Tier 1	Tier 2	Tier 3
Customer revenue	>\$200M	\$10M-\$200M	<\$10M
Customer employees	>500	50-500	<50
Licence fees	>\$300K	\$50K-\$300K	<\$50K

which CSFs are achieved. The KPI is especially important when implementing a new system or improving business processes. The KPI goal will let you know whether you've been successful with the system implementation and will act as a motivator throughout the process. By linking achievement of CSFs to the implementation, the new system has the potential to significantly improve business processes and contribute to an organization's success.

Important as it is, strategy must be accompanied by a good method for achieving the intended goals. As Sage put it, "Successful implementations apply formal project management methodology." The larger companies typically have trained project managers on board. But small and midsized companies have a tendency to treat project management as a form of bureaucracy. A good project manager can have a significant positive impact on the success of an implementation project, helping to manage not only scope and timing but also budget.

The project plan is one of the key documents in the implementation of an ERP system. It should include time, resources and dependencies between tasks. Employees working on the project should have the opportunity to offer feedback on the plan before it is made official. At the

beginning of an implementation, there are many unknowns. The plan should be fairly accurate in the design phase, but the subsequent phases will be rough guesses until the design is known.

Not surprisingly, implementations that were not so successful often lacked the very elements that made for a good implementation. Epicor cited “overambitious implementation plans that are underresourced,” as well as “poor communication, misaligned expectations and resistance to change (lack of change management processes).” According to Deltek, “In the vast majority of cases, implementations that bog down do so because the customer has not had the right number of committed, knowledgeable resources allocated to the implementation project.”

There have been some big improvements in software since last year. With SAP, you can pick and deploy the functions you need without upgrading your solution. Exact Software’s Globe product now includes North American sales tax compliance. Syspro has caught up with some other vendors by offering interface customization and built-in KPIs, which are “ready to use out-of-the-box.” Sage now includes customer relationship management in its core ERP offering at no additional charge. But Epicor seems to have made the biggest leap with what it calls the “convergence of nine ERP products into one global configu-

erable ERP platform.” Both Oracle and Microsoft had announced plans to do the same thing but Epicor beat them to the punch. Deltek’s enhancements in Vision 6.0 include support for multiple languages (such as French) and adoption of Microsoft SQL Reporting Services.

When asked about planned enhancements over the next couple of years, vendors had plenty to say: more workflow, web applications, business intelligence and cloud-based services (the vendors provide the infrastructure and services over the Internet). With all the improvements we have witnessed over the past 11 years, you would think it would also be easier to implement ERP systems. Unfortunately we still hear about failures. Usually, technology is not the culprit; it’s the processes used to select and implement the systems.

The analysis in the charts on camagazine.com is based on the vendors’ responses. Although we tried to correct any obvious errors, we cannot validate every line item.

Michael Burns, MBA, CA •IT, is president of 180 Systems (www.180systems.com), which provides independent consulting services, including business process review, system selection and business case development. Contact 416-485-2200; mburns@180systems.com

it takes one to know one



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(strategic search partners)

Canadian auditing standards now available in the *Handbook* for preview

Uniformity, clarity and quality are the big drivers behind Canada's new auditing and quality control standards.

As of December 15, 2009, a new standard called Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance Engagements, or CSQC 1, will come into effect for all assurance engagements in Canada.

In total, 36 final international standards on auditing will be adopted as Canadian auditing standards (CASs) for audits of financial statements for periods ending on or after December 14, 2010.

However, the new quality control standard comes into effect first and introduces a robust quality control system standard that will benefit public accounting firms by allowing them to demonstrate a strong commitment to quality.

The adoption of CSQC 1, which only applies to assurance engagements, provides clients and users of financial statements increased confidence in Canadian audits and other assurance engagements. It also gives Canadian firms a framework to further promote an internal culture of excellence.

There are a few key differences between CSQC 1 and the existing standard, GSF-QC. For example, engagement reviews must be substantially completed prior to the audit report date. Another new rule is that the monitoring team assigned to review the file as part of a cyclical monitoring inspection can't have been part of the engagement team or the engagement quality control reviewer.

To help Canadian auditors and other users prepare, the Canadian Auditing and Assurance Standards Board has made

available the new auditing and quality control standards, which will be effective later this year and next. The *CICA Handbook — Assurance* is available through Knotia.

Firms must act now to ensure they have the processes, procedures and documentation in place to meet the quality control requirements. Learn more about how to get started in the transition to CASs, including CSQC 1, at www.cica.ca/cas.

New website for CA training offices

A new website for CA training offices (CATOs) launched by Canada's chartered accountants will be of interest to CA firms and other organizations wanting to become CATOs. This site offers comprehensive information on the profession's national standards for practical experience and links to specific provincial institute/ordre information.

Opportunities to train CA students have broadened considerably in most of Canada. For example, outside Quebec, corporations and government sector organizations can now train CA students and CA firms can expand student training into areas such as taxation, business advisory services and/or assurance and compilation engagements. Currently in Quebec, CA training can be provided only in CA firms and only in audit and assurance.

Since assessment for the new nontraditional career path is based on competencies and not chargeable hours, it greatly expands the number of firms eligible to train CA students. Getting approval to train CA students is straightforward, and provincial institute staff is available to help. To learn about CA student training, visit www.CATOadvantage.ca.

IFRS – ARE YOU IN CATCH-UP MODE?

Planning to adopt international financial reporting standards, but don't know where to start? Take a look at the Accounting Standards Board (AcSB) paper called IFRSs: Guide for Procrastinators. It provides concise and practical advice for people who are not sure how or where to begin their preparation. "This paper will be a big help for people who, for a variety of reasons, have put IFRS preparation on the back burner," says Gord Beal, project leader for the CICA's IFRS implementation support strategy. "Each circumstance is unique of course, but ideally, IFRS adopters should be moving beyond the assessment and planning phases and toward the implementation stage."

The last quarter of 2009 is an important period in the IFRS time-

line. Adopters need to start collecting comparative information the year prior to their adoption to ensure they have the appropriate information for their opening IFRS balance sheet. That means a company whose fiscal year ends December 31, 2011, needs to start collecting information in accordance with IFRSs on January 1, 2010.

The AcSB has also updated its publication that outlines which IFRSs can be safely studied and planned for now. "Which IFRSs are expected to apply for Canadian changeover in 2011?" is available for download at the CICA's IFRS website. Visit www.cica.ca/IFRS for IFRS resources, including guides and comparisons, sample financial statements, checklists and other practical planning and implementation tools.

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

RECENTLY ISSUED PRONOUNCEMENTS

CICA Handbook – Accounting	Date issued†
Accounting Changes, Section 1506 (revised)	June 2009
Financial Instruments amendments to:	June 2009
— Section 3855 regarding effective interest rate and embedded derivatives	
— Section 3861 regarding application	
— Section 3862 regarding fair value measurement disclosure requirements	
Amendments to Section 3855 regarding:	
— embedded derivatives on reclassification of financial assets	August 2009
— impairment of financial assets	August 2009
EIC Abstracts	
Application of Section 3465 to Mutual Fund Trusts, Real Estate Investment Trusts, Royalty Trusts and Income Trusts, EIC-107 (revised)	July 8, 2009

CICA Handbook – Assurance (Part I)	
Preface to the CICA Handbook – Assurance	
Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements, CSQC 1	
Canadian Auditing Standards	
Retained Sections and Guidelines	



RECENTLY ISSUED DOCUMENTS FOR COMMENT (to August 31, 2009)

Accounting	Comment deadline
EDI Fair Value Measurement	September 28, 2009*
EDI Financial Instruments: Classification and Measurement	September 14, 2009*
ED Pension Plans	October 31, 2009
Public Sector	
SOP Entity Level Financial Statements	September 28, 2009
ED Financial Instruments	December 11, 2009
ED Financial Reporting by Certain Government Organizations	August 7, 2009
rED Government Transfers	September 15, 2009

Legend

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

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

* Stated date reflects the comment deadline set by the International Accounting Standards Board (IASB).

The information published above reflects best estimates at press time. Please visit our website for the most recent information.

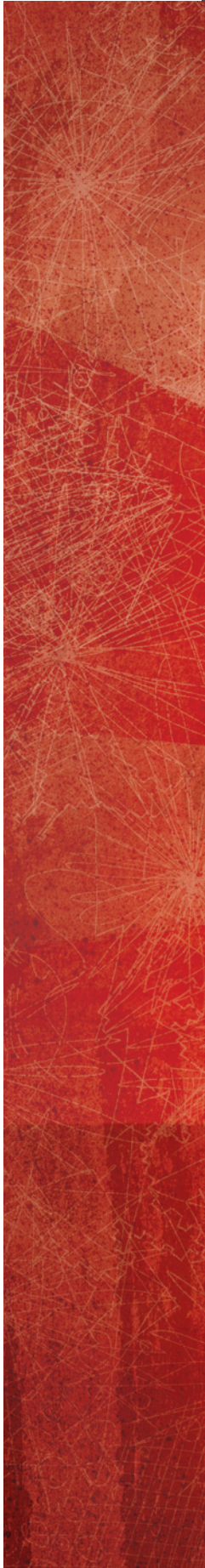
ITAC annually consults with the profession to learn what its greatest concerns are. Here's a roundup of priorities facing CAs this year

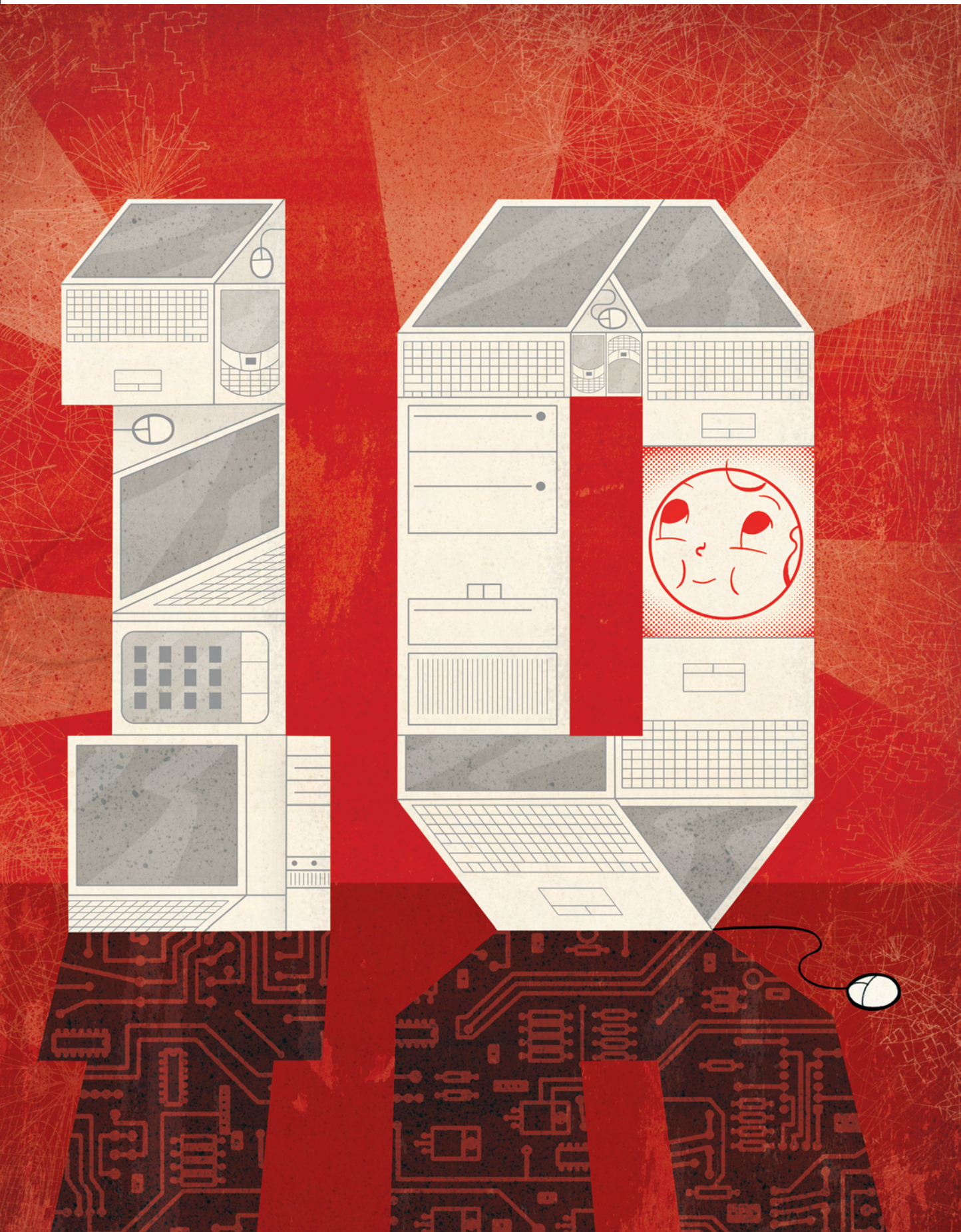
By Gerald Trites

The top ten IT issues

A LOT HAS CHANGED OVER THE PAST YEAR. When the CICA Information Technology Advisory Committee (ITAC) did its last survey of top IT issues, the economy was thriving, the stock market was high and boomers were busy planning their retirement. Now, one year later, the economy is suffering the greatest slump since the Great Depression, the stock market has lost a third of its value and some boomers have postponed their retirement — that is, if they haven't been forced into it.

illustration by RYAN SNOOK





Respondents reiterated their belief that there is a need for encryption to protect against loss or theft of data, whether it is moving or not. However, there was concern that existing encryption systems may not be trustworthy or stable enough to be relied on

While the issues that topped last year's list — a shortage of IT skills, privacy and outsourcing — are still of concern, privacy and outsourcing didn't even make the top 10 this year. They were edged out by such items as the impact of the recession, new regulatory requirements and the role of Web 2.0 applications in organizational systems. This year the recession was the top item on the list.

1. Maintaining adequate controls during the recession

Maintaining an adequate and effective control framework in times of economic constraint is a challenge for companies when they are downsizing. They have fewer employees to execute controls properly and support an adequate segregation of duties.

As one respondent put it: "I believe that firms, in making their downsizing decisions, are not adequately considering the impact their staffing decisions are having on their corporate governance. Layoffs not only cause a segregation of duties issue but remaining employees sometimes do not understand the importance, or detail, of controls associated with the new business functions coming under their responsibility."

Companies are also reducing spending and postponing investment in infrastructure, including IT projects. This adds the risk of a lack of funds for previously approved projects, projects in progress, or new projects identified as priorities for maintaining an adequate and effective control framework. The higher risk

creates a new challenge — it becomes even more important for companies to perform appropriate risk assessments to determine how to allocate their limited funds to mitigate risks and achieve their business objectives.

2. Maintaining security over moving data

The number of small portable devices such as laptops, smart-phones and BlackBerrys continues to grow within organizations, making it difficult to maintain proper security over data on the move. In addition there are USB memory sticks or integrated wireless device media cards that are not encrypted or even password protected. Now, USB sticks can contain executable programs, becoming essentially a computer on a stick.

These devices lead to an easy movability of data that quickly passes through various control environments. Also, it raises the risks associated with the same data residing in several locations, perhaps even inappropriate ones. Some organizations, for example, hold private personal data, with multiple copies kept in various parts of the system, complicating compliance with privacy laws. The press is rife with reports of lost laptops and BlackBerrys containing private customer data.

Economic constraints mean that some companies do not have the internal resources to integrate their systems or properly protect the data. Secure storage techniques and encryption of data for mobile devices are often not being implemented, which

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The top IT issues

1. Maintaining adequate controls during the recession
2. Maintaining security over moving data
3. Lack of effective IT governance
4. Coping with information overload
5. Impact of IFRS on information systems
6. Green computing
7. Security requirements of the Payment Card Industry (PCI)
8. Malicious activity by laid-off employees
9. The role of Web 2.0 applications in organizational information systems
10. Shortage of IT skills

adds risk in the organization. At a minimum, employees need to be educated on the need for passwords on portable devices.

Respondents reiterated their belief that there is a need for encryption to protect against the loss or theft of data, whether it is moving or not. However, there was some concern that existing encryption systems may not be trustworthy or stable enough to be relied on. There have been instances of companies encrypting their data and then not being able to decrypt it for later use.

ITAC has recently issued a white paper on Data Centric Security, which addresses the issues around forming a security policy that focuses on the data itself, whether at rest or in motion, and emphasizes the encryption of data.

Several respondents expressed concern about loss of unprotected data. One put it this way: “I believe the theft of data will have a major impact on whether the public will have the trust to do business with organizations. This will result in a greater number of requests for assurance reports for businesses doing business with other organizations and individuals questioning what data is collected by their retailers and how it is being stored and used.”

3. Lack of effective IT governance

IT governance was issue number four last year. The concerns stated this year include:

- lack of effective IT governance activities;
- poor alignment of IT with organizational strategy; and
- limited awareness of IT issues at the board level.

All these concerns indicate a need for an IT committee of the board of directors, which some companies have but most do not. Boards are aware of the importance of IT to business. They know an IT failure can seriously damage the business, its reputation and even earnings. But, according to respondents, they are not aware of the IT issues that need to be addressed, including those that bear on the organization’s ability to meet its overall governance responsibilities.

The profile of IT issues needs to be increased at the board level so organizations can focus on deriving value from IT, as opposed to simply controlling it as a support function. There needs to be greater awareness that IT drives value, that it is of

strategic importance and that IT strategy needs to be lined up with organizational strategy.

There has been one exception to this lack of strategic alignment. “During these economic times it has certainly been a main priority for companies to improve on IT efficiencies and ensure that IT aligns with the overall cost reduction initiatives of the organization,” says one respondent.

4. Coping with information overload

The various means of communication — e-mail, BlackBerry, smartphones — were mentioned by several respondents as creating information overload. Numerous comments were made about this “condition of modern life,” which is “killing people’s personal lives.” The issue was characterized as “significant” and “important.”

The point was made that sorting and filtering all this information takes time and reduces employee productivity. In addition, much of the information coming through these channels is not needed to run the business.

Information overload results in distractions that prevent people from focusing on the tasks at hand. Time is wasted as people are forced to refocus their concentration after being distracted by another piece of information. In some cases, it results in people becoming selective about the sources they pay attention to, simply ignoring others.

Numerous respondents spoke strongly about the issue of information overload, complaining about constant e-mails, office communications, BlackBerry Messenger and social media such as Facebook and LinkedIn, even TV and newspapers, all overloading information paths.

One respondent, however, took issue with these concerns. In his words, information overload is “a bogus issue. Yes it is true, but since a strategy to systematically coordinate various platforms into one via the Internet-enabled wireless devices has generally not been taken, everyone will ‘cope’ with overload as opposed to better using social networking Internet protocols and tools within the corporate structure. [For example, why do we still use e-mail today?] Look at the Internet generation — it uses Facebook for every manner of data management and communication (supplemented of course by texting) and it is truly, amazingly efficient.

“Green is hot.” Awareness of green computing issues is very high on the priority list for many respondents. Green computing encompasses not only basic awareness of green IT, but specifically energy consumption, disposal of equipment and printing policies

And yet boomers still ‘cope’ with information overload because they are using five different tools/systems to communicate, rather than one — like a secure Facebook.”

The comment has a lot of merit. We do have too many channels of communication open all the time. We are constantly bombarded with information, much of which is irrelevant. We do need to find ways to integrate our communication flows. Looking for ideas to the generation that grew up with all this seems a logical approach to consider.

5. Impact of IFRS on information systems

In one sense it should be no surprise that international financial reporting standards (IFRS) convergence would make the top 10 this year. After all, the deadline is less than two years away. On the other hand, it may be a surprise to some, because

IFRS convergence is often not thought of as an IT issue. However it is because IFRS requires companies to obtain and track information that has not been in their accounts before. This would include, for example, information on market values for property, plant and equipment; sufficient information to track asset revaluations under IFRS; information to track discount rates; information to support different methods of income recognition, etc. The IT implications include capturing and processing the additional information, changes in business processes to implement and execute the new information requirements and consequent changes in the control environment for the data and business processes. ITAC has provided some guidance on this crucial issue in the form of podcasts, which can be downloaded from its website at www.cica.ca/itac.

Some companies have already dealt with IFRS. Others are



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starting to think about it. Some will implement new systems that incorporate the new functionality. Others will, unfortunately, make use of spreadsheets, in effect keeping two sets of books, and because of the spreadsheets, one set will lack adequate controls and pose a higher risk of error.

Concern was expressed that IFRS is being severely underestimated and treated as a simple accounting change by some. For most respondents, it is a high-priority matter. For one, however, the comment was, "Who cares? It affects mainly large public companies."

True. And it's something people often forget. Most companies in Canada are non-publicly accountable and will have the option of adopting a simpler form of GAAP as recently set forth by the Accounting Standards Board.

6. Green computing

"Green is hot!" says one respondent. Awareness of green computing issues is very high on the priority list for many respondents and their companies.

Green computing encompasses not only basic awareness of green IT, but more specifically energy consumption, disposal of equipment and printing policies. "Companies are keen to catch up with the green trend," says one respondent, "especially as new recruits [and the next generations] have green thinking as a core value, and will consider that when evaluating a company." That means companies must work green values into their daily activities, including IT purchases and disposals, printing policies and power usage.

A significant problem with green computing is that while many companies are aware of the issues, many do not know what to do about them. Practitioners who responded say many clients are asking for advice about addressing the issues.

Power management remains a perplexing issue. It would be good if all systems could be shut down when usage is at a minimum, such as overnight. But normally this is not feasible, because people use their systems remotely at all hours. Also, many corporations operate in several time zones and can't find a common time to shut down systems. On the other hand, a detailed analysis of system usage could result in identification of specific subsystems that could be shut down at times. This is a process that many companies have not yet taken up.

The point was made that green computing will be more heavily regulated by governments in the future. Some prov-

inces already have regulations on computer equipment disposal. But companies need to gain an understanding of these regulations and have them incorporated into their business processes. Change in this area is needed — real change. As one respondent put it, "This is an increasing risk area, however organizations are not changing their risk profiles and scenarios. Historical trends are not going to be good models for the future due to changes in climate and aging power systems."

7. Security requirements of the Payment Card Industry (PCI)

A new issue arose this year when PCI mandated increased security requirements for merchants, card issuers and card acquirers requiring self-assessments for handling credit and deb-

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it cards. There are significant compliance costs involved with these rules and not all merchants have the budget to comply.

Moreover, the implications of the PCI requirements are not well understood by organizations. Their willingness to accept credit cards is driven by business needs and they normally do not perform a comprehensive risk and control analysis.

Several practitioners mentioned they have been working with clients on these matters, and that clients are having difficulty addressing the PCI requirements.

8. Malicious activity by laid-off employees

An issue as old as time but one bound to pop up in a recession is that of increased malicious activity by disgruntled or recently laid-off employees.

At least managements have experience in dealing with this issue. The long-established approach is to lay off employees at the end of the day, disconnect their system access privileges when they are in their exit interview and then escort them from the building. It is a somewhat humiliating approach for the employees, but one that many companies have discovered from experience to be necessary, especially in higher risk situations involving personnel with powerful system privileges and intricate system knowledge.

Practitioners who responded claim to have seen malicious activity “occur at many client sites.”

9. The role of Web 2.0 applications in organizational information systems

Web 2.0 focuses on the Internet as a means of human interaction. It includes social networking, wikis, blogs, etc. Social networking, in particular, has raised a set of perplexing issues. Some companies see the benefits of social networking for improving communications within the company, and essentially forming communities to deal with particular business areas, needs and projects. The issue is whether and how social networking fits into an organization's information systems and culture.

The emerging need is clear. As one respondent put it, “Web 2.0 applications are common in the social/personal/cultural aspects of people's lives. However, there seems to be a disconnect with the technology available in the work environ-

ment, as companies are slower to adopt these technologies. Companies slower to adopt new technology and integrate it into their culture may be at a disadvantage when recruiting employees or eliciting new ideas from current employees, and may also lose out on ways to effectively leverage or share ideas from employees.”

The view was put forward that social networking in companies has the potential to “utterly transform organizations today,” enabling collaboration, reducing or eliminating silos and streamlining communications. While revolutionary for many companies, some respondents feel that social networking is an approach that would be a natural for the Internet generation, perhaps an expectation.

Some respondents are concerned about content management in social networking systems. They feel content could be ad-hoc material representing the individual's views and not those of the company. This may be a sign of what one respondent referred to as an intergenerational clash between boomers who are the experienced decision-makers and young people starting out who are finely attuned to the use of Internet-based communications, with some boomers hanging on to the old world of closed, corporate-controlled communications and the younger folk being used to wide-open tell-it-like-it-is interaction. This respondent feels the two generations have much to offer each other — experience from the older one and new and better means of communication and ways of working from the younger one. He hopes corporate directions can be worked out collaboratively so as to make best use of the contributions of both groups.

10. The shortage of IT skills

The recession has exacerbated the IT skills shortage that has been an issue for the past few years. Some boomers have retired (forced or voluntary) or have been laid off, and some respondents mention watching important IT skills go out the door with them. Although the generation coming in has significant Internet skills, it generally does not have an appreciation of IT issues in an organizational and managerial context. As a result, companies are losing IT skills and having difficulty replacing them. Respondents

also mentioned that many organizations are laying off the most expensive staff, the employees with the highest skill level.

The importance of this issue will grow over the next decade as more retirements take place. Even an economic rebound will not necessarily be the salvation, because then there is a risk that companies will lose their most talented professionals on the upswing of the economy.

The training of our new CAs is not helping with this issue. As one respondent put it, “IT is not the forte of new CAs.” And another said, “Many CAs don't know that much about technology, increasing the risk of misunderstanding technological risks.” And another respondent put it more bluntly: “We only use experienced CAs.”

This seems to indicate that our educational policies with regard to technology are cutting our new CAs out of an important part of their potential market.

Gerald Trites, FCA, CA-CISA/IT, is an Information Systems consultant, writer and researcher. He is a member of and consultant for ITAC

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It is a struggle for companies to turn the huge amounts of data they produce into the sort of information that is useful at the right time

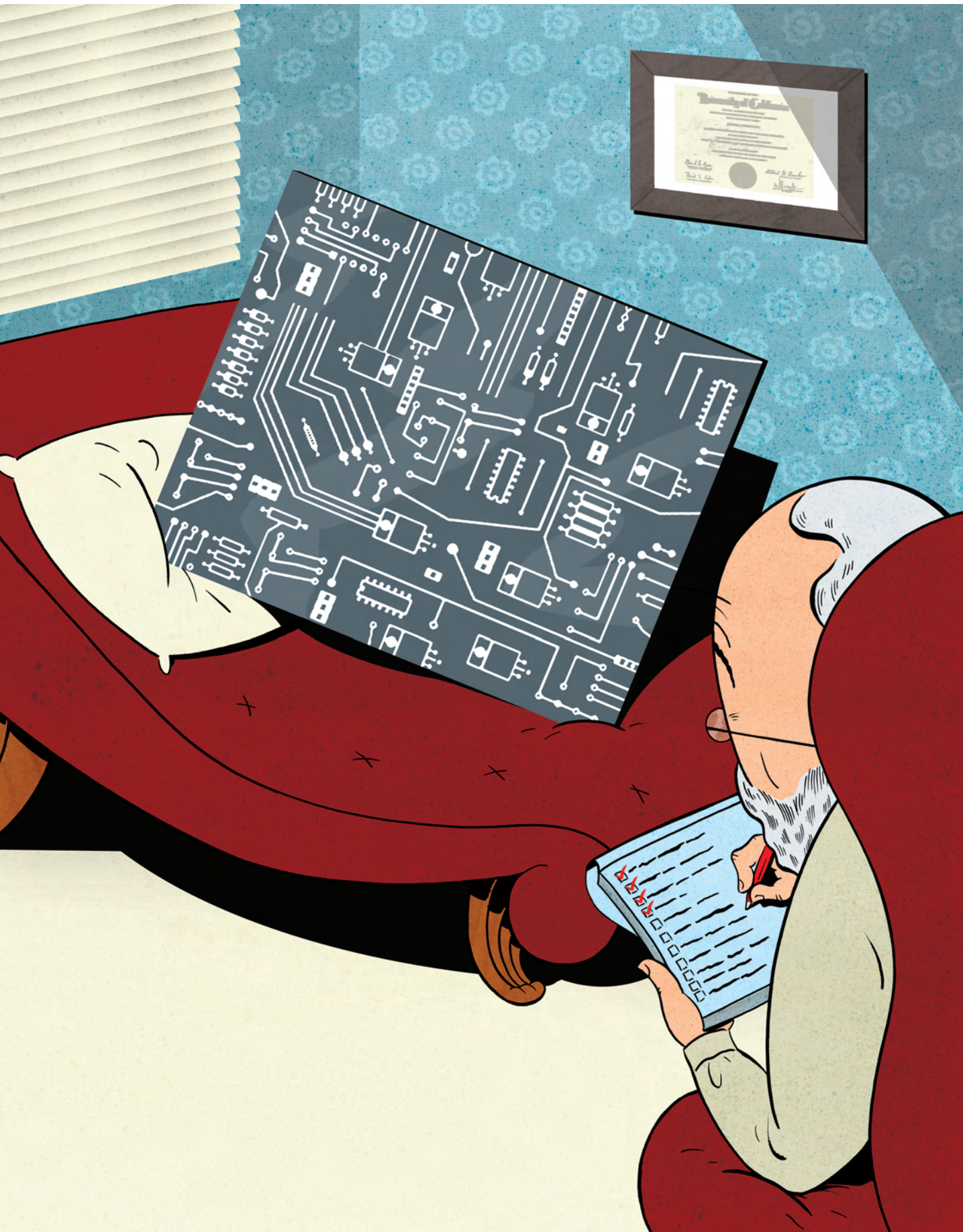
By Nat D'Ercole

Making sense of **IT** all

We live in an age when vast seas of information can drown any enterprise. Lost revenue, poorly managed expenses, lost confidence, compliance problems and customer dissatisfaction are some of the outcomes of this information overload. In the face of such pressures, governance over enterprise information assets is no longer a luxury — it is a necessity. To support decision-making, companies today need to produce relevant, flexible and insightful information.

illustration by RYAN SNOOK





Over the past four decades, businesses have invested heavily in enterprise resource planning (ERP) systems to improve many aspects of their operations. These systems help companies operate more efficiently, but they generate enormous amounts of information along the way and companies are struggling to harness it in meaningful ways. In “Look closer, look further,” a 2007 global Deloitte study on the business case for improving information quality, only 41% of the 443 senior finance and IT executives surveyed reported that their company “consistently produces the desired quality of information needed to support management decisions.”

Despite investments in ERP software, companies find it difficult to get consistent performance-oriented information at the right time and at the right level of detail to support fact-based and timely decision-making across the organization.

Why do companies struggle to utilize the vast amounts of data within their source systems to generate enterprise-wide performance management information? Is this just a technology problem? What are the business implications of not having a common strategy and technology platform to support performance

management processes such as budgeting, forecasting, financial consolidation and reporting, management reporting and analysis and performance measurement? How are organizations addressing these issues and what lessons have they learned?

Whether we are in a bullish economy or in an economic downturn, organizations need just-in-time enterprise information to continuously optimize their economic model and business practices

management processes such as budgeting, forecasting, financial consolidation and reporting, management reporting and analysis and performance measurement? How are organizations addressing these issues and what lessons have they learned?

The traditional approach to information management relies on spreadsheets and number-crunching, which makes it unreliable, time-consuming and expensive. A professional services firm with 50 regional accountants provides a good example of this. Each accountant has his or her way of extracting information from the firm’s systems in order to produce a variety of reports including financial statements, budgets and forecasts in Excel. In total, 50 accountants produce and maintain more than 50 spreadsheet workbooks that are stored in private e-rooms, file servers and even notebooks. To compound the situation, more than 40 business development managers report on their sales pipeline using their own Excel templates; more than 20 part-time scheduling coordinators pull information from the firm’s ERP and scheduling systems to produce weekly utilization results and forecasts; and many other reporting stewards produce Excel and PowerPoint industry and client revenue reports from the firm’s business intelligence information warehouse.

The lack of high-quality and organizationally integrated performance management information to support decision-making is not isolated to an industry, a size of business or the commercial or public sector. Organizations need to improve the utility of performance management information to enable greater transparency and flexibility; they need a common busi-

ness language to measure, analyze and communicate business results, complete forecasts, perform sensitivity analysis and to manage risks throughout the organization in an efficient and effective manner.

A mid-market company in the pharmaceutical industry uses access databases and spreadsheets for budgeting. When the spreadsheets are aggregated for plan review, however, the firm loses sight of the drivers and assumptions used for planning purposes. The company has no ability to compare budget inputs across the enterprise to assess the reasonableness of the plan, the alignment of the plan with strategic initiatives or even to make adjustments to the plan without having to go back to the source spreadsheet and planner.

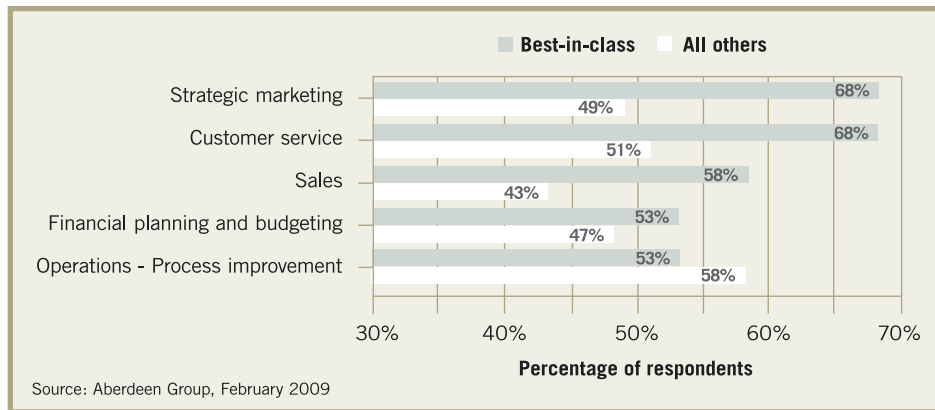
A mid-market automotive supplier can’t easily produce a financial and management consolidation with the ability to analyze and reconcile results by region, cost centre and detail GL account.

A large public media and entertainment company struggles to attract and retain top talent in its finance department because the majority of the staff’s time is spent compiling in-

formation rather than analyzing it. Consider an organization that needs to report its financial statements using IFRS and Canadian or US GAAP. Collecting all the information to produce statements and notes can be a daunting and inefficient process prone to version control, workflow and keying errors if handled through spreadsheets. Furthermore, the transparency of the information is limited, which decreases its usefulness for analysis and audit purposes.

Not only does the cost of handling all this information add up, but in a marketplace where significant change occurs, the ability to make decisions based on the latest marketplace and organizational information rather than by gut feel will differentiate the best-in-class from the average and below-average performers. Whether we are in a bullish economy or in a downturn, organizations need just-in-time enterprise information to continuously optimize their economic model and business practices.

Today, designated accountants and business professionals want friendly tools and improved processes to do their job efficiently and effectively. They want seamless access to data and the ability to model the data without relying on IT. In a world where the Internet provides us with immediate gratification, people, especially future business leaders, have become accustomed to getting responses to questions with the click of a mouse. The tolerance for manual handling of data through disconnected spreadsheets and databases (and their long cycle times to piece data together accurately, completely and according to organizational data standards) will get lower as business



velocity increases and competitive forces change. A company that has inventoried its disconnected spreadsheets and SQL and Access databases more than once has done it one time too many.

How are organizations solving the information access, quality and utility problem? What support do organizations need to solve the problem right the first time? This is not a new problem: organizations have tackled it over and over in the past decade. The only difference is that they have tackled the problem in silos, with a focus on functional/departmental information quality and utility as opposed to enterprise-level quality, with a focus on enterprise performance management information utility.

What does best-in-class look like? In two recent surveys by Aberdeen Group, firms enjoying best-in-class performance shared several characteristics:

- 72% have the ability to reforecast as market conditions change;
- 92% have established enterprise-wide collaboration from the top down and across departments/divisions during the planning process;
- 70% have the visibility that allows them to drill down to successive levels of detail and 60% have the ability to perform multidimensional roll-ups; and



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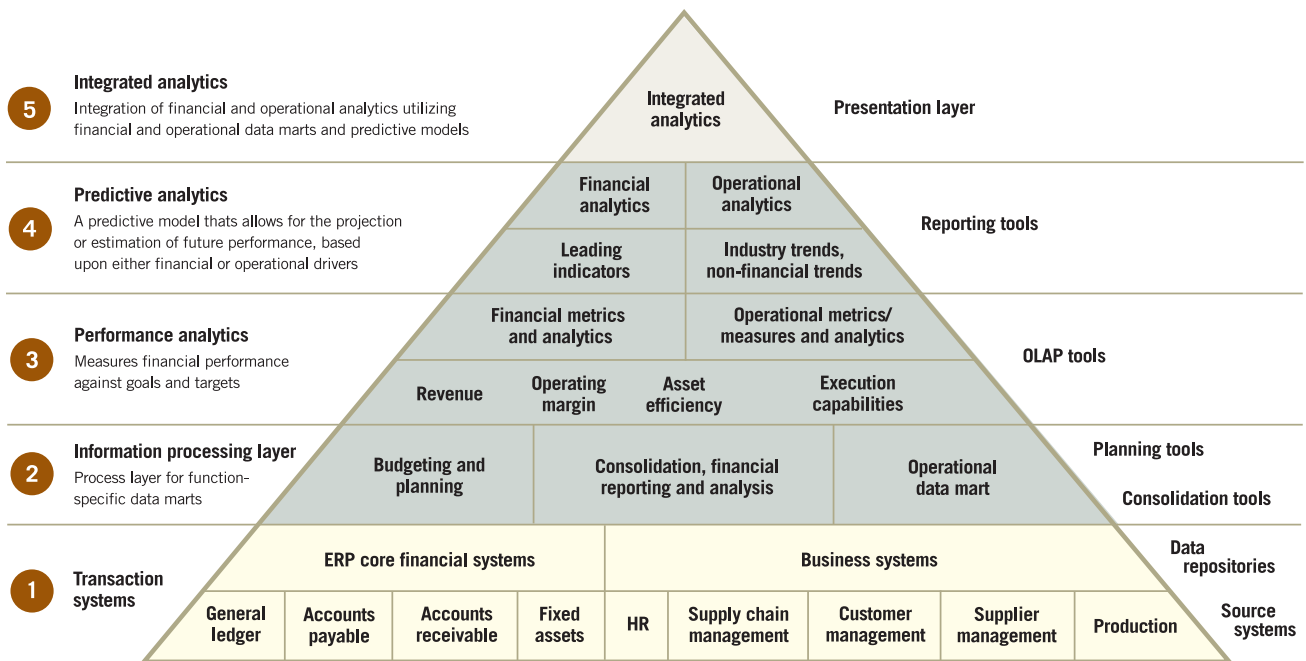
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• best-in-class companies are applying collaborative (business intelligence) techniques to more areas of the company to better leverage the knowledge and experience of their key decision-makers (please see chart on page 31).

It is important to note from this chart that best-in-class companies are no longer focused only on business intelligence that supports operations process improvement initiatives; they have started to integrate other strategic areas such as marketing, customer service, sales, financial planning and budgeting. This validates what is happening in companies that have started to integrate performance management information across the enterprise, thereby realizing greater performance management information utility from their enterprise data and business intelligence assets.

When companies try to solve information utility problems in silos, they face higher technology software and support costs and a plethora of information management issues, which include:

- suboptimal enterprise business language for comparative reporting and management analysis;
- suboptimal and ineffective data scrubbing or cleansing processes based upon “departmentally authored” or “uncertified enterprise” data quality standards;
- over-reliance on e-mails, phone calls and hall discussions on top-side entries that lack sufficient detail to support management reporting requirements;
- difficulty aligning/reconciling GAAP financial statements with GAAP management reporting statements;
- critical indicators and dashboards are not readily available to senior management to support decision-making; and
- critical analytical processes get little attention from finance and business analysts due to limited bandwidth.

By solving the performance management information utility problem at the enterprise level, the firm not only takes hard costs out of the system but also builds a strategic asset and gains competitive advantage through:

- the alignment of key performance indicators across the enterprise and the ability to focus the organization on what matters based on the facts;
- the ability to integrate new acquisitions on established enterprise-wide standards;
- the ability to model the business and strategic alternatives using the best available information within and external to the enterprise;
- the ability to forecast and model market dynamics as needed and on a timely basis;
- the ability to report enterprise-wide using a common business language; and
- the ability to consolidate financial and management results quickly (adhering to multi-GAAP standards) and spend more time on business analysis.

Clearly this is not just a technology problem. Looking at three industry examples, we can assert that the most successful path forward is grounded in:

1. enterprise-wide business and IT sponsorship, culture, business case and vision for improved performance management information utility;
2. a flexible information platform and underlying data architecture that supports incremental performance management information utility;
3. an 18-month to three-year enterprise-wide performance management road map with projects that drive incremental business benefits as the program ripples throughout the organization;
4. internal know-how in the areas of integrated performance management and business intelligence and the ability to partner with trusted service providers to close gaps with internal skills, bandwidth or methodologies; this includes all phases of a project's life cycle from business case to system selection, conceptual design, implementation, realization and on-going competency development and standards development in incremental/phased roll-outs; and

5. a strong project management discipline in executing performance management projects and a strong focus on change management including on-going selling of new capabilities and examples of realized business benefits.

First, an organization needs to acknowledge that it has information quality challenges that impede its ability to be agile and responsive to the market and support fact-based decision-making processes. This can be done by surveying the senior finance and business leaders in an organization and asking what their top three challenges are in leading the business (you should be surprised if “connecting and analyzing data” is not one of the issues). Second, an organization needs to develop a cross-functional/cross-divisional business case and vision to improve its performance management information utility. The more senior and the more cross-functional the support for improved enterprise-wide performance management information utility, the stronger the business case and the more successful an organization will be in delivering the vision.

In departmental information management initiatives, organizations do really well in developing a cost-benefit analysis factoring those visible elements such as improved operating efficiencies, improved departmental information, revenue enhancement or improved cost control and the related IT costs for software, hardware, maintenance and implementation. However, few organizations consider a wider array of costs and business benefits when making decisions in information management initiatives.

In the “Look closer, look further” survey, 60% of respondents said their organization consistently produced the desired quality of information when making business decisions if five or more of the following factors were considered in the business case:

- the IT project’s contribution to operating cost savings;
- the operating or regulatory risk added or mitigated by the project;
- the project’s contribution to revenue growth;
- the strategic, operating or risk impact of not implementing the system;
- improvements in timeliness, accuracy or reliability of operating information;
- the impact on financial reporting and disclosures;
- the impact on performance monitoring;
- customer retention or satisfaction; and
- improvements in information for forecasting and business planning.

In the survey, Michael Tao, then Visa USA’s senior vice-president of finance, says, “Internal information systems were an area of under-investment for us for a while. The goal was to leapfrog a lot of the evolutionary steps that some other companies may have gone through and catch up quickly. We put in a data architecture that allows us to get to information very quickly, store one version of our key data, and give people faster access to the information they need. It also allows us to adopt a more forward-looking planning process.”



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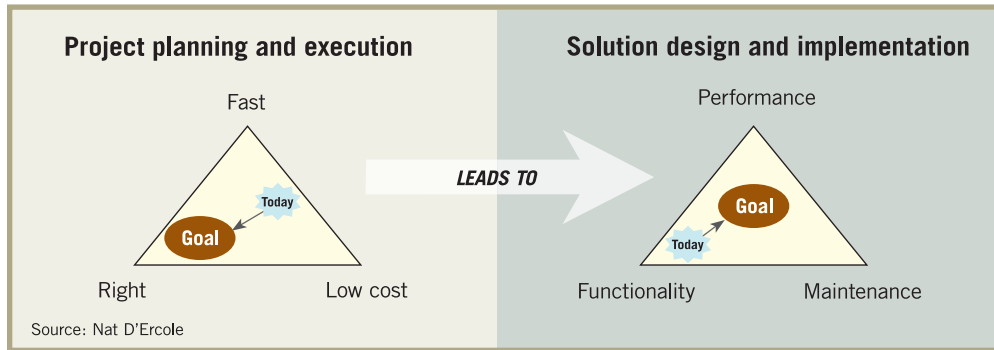
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One of the keys to making all this happen, Tao says, was a directive from Visa USA's then CFO, R. Neil Williams, that improving the company's information system had become the organization's top objective for that year. "There was a small group of us who believed very strongly that this was essential to our future," Tao recalls. "In the back of our minds we knew we were at risk because we couldn't see some things that were happening in the business; we didn't have the information available. That was a great concern to our CFO and several of the people who report to him. We also knew we needed to shore up our budgeting, forecasting and financial planning capabilities and get the right level of internal controls in place, in order to comply with the Sarbanes-Oxley Act. And we knew we needed to do all this quickly." To overcome internal resistance to the new system, the company lobbied opinion leaders and sought to give key people a role in helping to design how the system would be implemented.

In an example in the professional services industry, the finance, human resources, IT and marketplace leadership sponsored a road map for improved performance management information utility across the firm. The business case for this included greater planning standardization, improved top-down transparency to budget and forecast details across the firm, including control over common assumptions, alignment with HR compensation guidance and greater overall agility and confidence in responding to market conditions. The road map included more than 10 projects spanning three years. The first set of projects included a business requirements document, a conceptual design for each requirement to enable the business to visualize the requirements, a data model, standardization of disparate processes and templates, and the selection and implementation of the new tool for finance and HR to support management reporting, budgeting and forecasting. The firm backfilled critical finance resources, partnered with a trusted service provider and established a project team of 40 IT, HR and finance resources (on a part-time basis) from across the country. The solution was viewed as one developed by the business for the business. This was important to the CFO in order to achieve change management objectives.

In another example, a Canadian casino developed an 18-month road map to improve its performance management information utility. The road map included sponsorship from the finance, IT, slots and tables, non-gaming and marketing departments. The casino did not have experienced internal resources to structure, deliver or manage projects. However, a key mandate from the

CFO and CEO was to grow the resources internally and to become best-in-class. As a result, the casino dedicated finance and systems resources to work with external service providers to establish a common information platform and technology infrastructure to deliver slots and tables dashboards to senior management. Once this project was complete, the road map extended to the finance department with a new budgeting solution to replace fragile spreadsheet models. Each subsequent project continued to deliver on the vision of an integrated information foundation across the enterprise.

In each example, the organizations were successful because they were able to get enterprise-wide support or sponsorship for their information management initiatives. They also dedicated resources on a part-time or full-time basis as needed to work with external integrators or service providers. Finally, the business took ownership of the vision, the road map and the resulting solution.

Gartner, a leading information technology advisory and research firm, defines corporate performance management as an umbrella term that describes the methodologies, metrics, processes and systems used to monitor and manage an enterprise's business performance. Performance management technology applications include the suite of functionality that enables:

- strategy management to support high-level business planning to evaluate the impact of different strategic alternatives;
- planning, budgeting and forecasting to support enterprise-wide modelling, development and reporting on the plan/forecast and top-down scenario planning;
- ABC costing and scenario analysis to support ABC cost methodologies, profitability modelling and optimization;
- financial consolidation and reporting to support single or multi-GAAP financial consolidation, financial reporting, notes to financial statements and XBRL tagging for submission of financial statements to regulatory bodies;
- scorecarding and dashboards to support monitoring of key performance indicators with drill-down into details;
- management reporting to support variance or cause of change analysis;
- data analytics to support data mining and finding valuable relationships in vast amounts of data; and
- governance, risk and compliance to support monitoring of key organizational risks and compliance with standards.

These applications leverage or may even be integrated into an organization's source systems (including ERP, supply chain,



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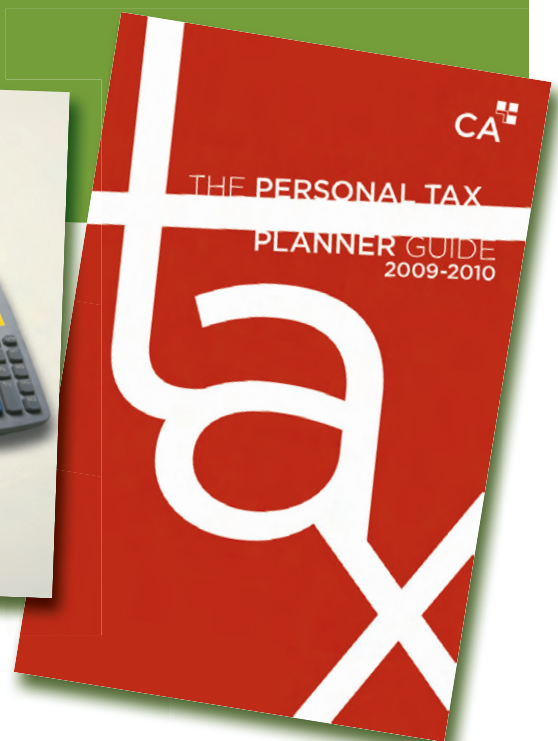
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customer relationship management systems and other front-office or back-office systems) and provide business leaders and business managers/analysts with valuable insights into business performance and business risks. These capabilities cannot be implemented overnight, however, and require a vision, enterprise-wide sponsorship and a road map.

The chart on page 32 illustrates these capabilities, starting with source systems and moving towards integrated analytics or enterprise-oriented performance management information utility.

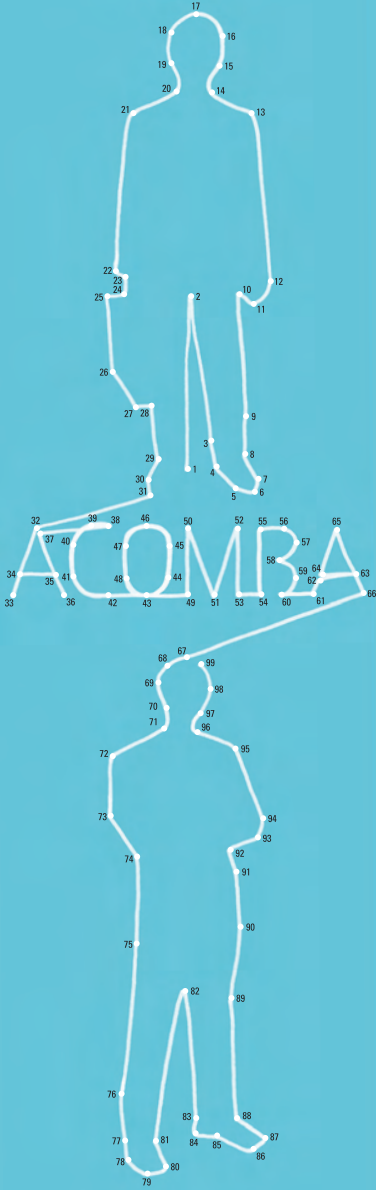
If you have recently experienced a performance management technology selection, the experience can be overwhelming and draining. This is especially true if you don't have a vision and road map of where you want to go and what you are looking for in a technology solution and vendor partnership. The best-in-class vendors attempt to differentiate themselves based on one of several factors:

- breadth and depth functionality of their performance management application suite;
- integration of their solution with the ERP system;
- unified database for planning, budgeting, forecasting, consolidations and reporting; and
- industry experience and industry data models or blueprints.

Although one or more of these differentiators will be important, many companies fail to include critical evaluation functionality that takes into consideration key business process requirements:

- the ability to produce real-time reporting at select points in a business process while scaling the solution to a broad user base; this applies to operational reporting, management reporting and the budgeting process;
- the ability to handle large data volumes or data models in a cost-effective manner that meets both end user and IT needs;
- the ability to meet a planner's real-time modelling cycle time (from input of drivers to output of key performance indicators and metrics);
- the ability to meet the data access security requirements of your organization's end users in a cost-effective manner; and
- the ability to produce high-quality financial and management information through built-in preventive and detective data integrity controls.

These additional requirements apply to businesses of all sizes in any industry in the commercial or public sector. They are fundamental to understanding the overall cost of ownership and end user satisfaction with the tool. It is not enough to put these requirements into a request for proposal. Short-list your two top vendors early and ask them to invest time to prove that their solution meets all material aspects of your business process requirements; don't focus on application functionality. A critical first step is to understand the business process requirements, the reporting and planning cycle time requirements and the overall data volume and end user system con-



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currency requirements. Next, enable the business to visualize and confirm its requirements in the tool of choice by completing a conceptual design. From here, you will have enough information to set expectations with your top two vendors competing for your business. Vendors will invest the time if they know they can win your business. Don't rush into a decision if you have not completed due diligence, even if it is the end of a vendor's fiscal year or quarter.

Another common setback with organizations that have taken initial steps to deliver their first project is that senior executives ask to deliver the project quickly and at a reasonable cost. Keep in mind this does not necessarily mean "done right the first time." The first project must establish a foundation of flexible data and technology that can support incremental initiatives. Understand the pros and cons and the risk and value equation of your design decisions. A focus on implementing functionality can easily result in a solution that does not perform or a solution that cannot be easily maintained (please see chart on page 35). Understand the impact to the business processes that your business community defined as part of the requirements phase and the impact to downstream projects in your road map that need to leverage your information and technology platform.

Managing information to drive competitive advantage and to become more nimble in the market is a top priority for organizations. A road map, strong cross-functional/divisional sponsorship and a solid set of business process requirements focused on enterprise-wide performance management information utility are essential components of your performance management journey. These three essential elements should set you off in the right direction, give you a way to communicate expectations to key stakeholders and get you asking the right questions as you prepare for the challenges ahead.

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Refinancing for deduction

A Supreme Court ruling on interest deductions has some in the tax community breathing a sigh of relief



In a much-anticipated decision, the Supreme Court of Canada dismissed the appeals of Earl and Jordanna Lipson in the case of *Lipson et al v. the Queen*, 2009 SCC 1. The court held that the general anti-avoidance rule (GAAR) applied to Mr. Lipson's use of the spousal rollover rules to create reverse attribution of expenses attributable to borrowings by his spouse. However, the court made it clear that its decision did not place a limitation on the deduction of interest where a taxpayer rearranges his or her affairs to finance personal assets with equity and income-earning assets with debt. This aspect of the decision is welcome and has the tax community breathing a collective sigh of relief.

In *Singleton v. The Queen*, 2001 DTC 5533 (SCC), the taxpayer successfully restructured his financial affairs to obtain an interest deduction for borrowed funds that could be technically traced to an income-earning use but were borrowed as part of a series of transactions that had as its ultimate purpose the purchase of a personal residence. The Supreme Court held that, absent a sham or specific provision in the Income Tax Act to the contrary,

the economic realities of a transaction can't be used to recharacterize a taxpayer's bona fide legal relationships.

Singleton, however, was a pre-GAAR case. The Supreme Court's decision in *Lipson* was widely anticipated because it addresses the issue of whether the GAAR applies to "Singleton-like" refinancing transactions.

The facts in *Lipson* are straightforward. The wife, Jordanna Lipson, borrowed approximately \$560,000 and used the loan proceeds to purchase shares of the family investment company from her husband. The \$560,000 was used by the Lipsons to purchase a home on a joint ownership basis. The Lipsons then, as co-covenantors, borrowed \$560,000, secured by a mortgage on their home. The loan proceeds were used to repay Mrs. Lipson's original loan. Because the share sale was between spouses, and Mr. Lipson did not elect out of the subsection 73(1) spousal rollover, Mr. Lipson's proceeds of sale (and Mrs. Lipson's cost) were deemed to be the original cost of the shares.

In addition, because Mr. Lipson did not elect otherwise, the income attribution rules in subsections 74.1(1) and 74.2(1) of the Income Tax Act applied, so that any gain or loss, and any income or loss realized by Mrs. Lipson in respect of the shares, would be attributed back to Mr.

Lipson. Therefore, in effect, Mr. Lipson both reported the dividend income from the shares and deducted the interest expense, and any net loss was used to offset other income. Mr. Lipson took the position that the interest deduction was justified on the basis of subsection 20(3): interest on borrowed money used to repay a loan made for an eligible purpose. The Minister disagreed and reassessed to deny the interest deduction to Mr. Lipson. Mr. Lipson appealed to the Tax Court of Canada.

The sole issue at trial was whether the transactions involved in the case, which were admitted to be avoidance transactions within the meaning of subsection 245(3) of the act, resulted in abusive tax avoidance within s. 245(4). Chief Justice Bowman of the tax court held that each of subsections 20(1)(c), 20(3), 73(1) and 74.1(1) had been frustrated or defeated by the overall purpose and result of the transactions, since none of the relevant provisions contemplated making interest on money used to buy a personal residence deductible. In denying Mr. Lipson's appeal, Justice Bowman described the case as an "obvious example of abusive tax avoidance" and "the very sort of contrived transaction" at which the GAAR was aimed.

The tax court decision was appealed to the Federal Court of Appeal. Mr. Lipson argued that Justice Bowman had erred by improperly importing into the subsection 245(4) analysis the concepts of economic purpose and reality, and by conducting the abuse and misuse analysis in light of the overall purpose of the Lipsons in borrowing money to buy the home rather than by reference to the transactions as they actually took place and the legal relationships that were actually created. The panel of three Federal Court of Appeal judges dismissed Mr. Lipson's appeal. Justice Noël stated that Justice Bowman was entitled in undertaking his subsection 245(4) analysis to give substantial weight to what he found to be the ultimate purpose of the series of transactions. The Federal Court of Appeal could see no basis for interfering with the tax court decision.

The appeal court decision cast doubt on the CRA's assessing practices as outlined in Interpretation Bulletin IT-533, paragraph 15, which specifically accepts the result in Singleton and states that a "taxpayer may restructure borrowings and the ownership of assets to meet the direct use test." For this reason, there was great interest in the Supreme Court's decision in Lipson.

Justice LeBel, in writing for the majority, endorsed the approach to the GAAR previously taken by the Supreme Court in *Canada Trustco Mortgage Co. v. Canada*, 2005 SCC 54, [2005] 2 S.C.R. 601. Since the taxpayer conceded that the transactions were "avoidance transactions" as defined in subsection 245(3), the only issue was whether the transactions resulted in abusive tax avoidance within the meaning of subsection 245(4). The court stated that the burden is on the Minister to prove on the "balance of probabilities" that the avoidance transaction results in misuse or abuse within the meaning of subsection 245(4).

The first analytical step, according to Justice LeBel, is to conduct a unified textual, contextual and purposive analysis of the provisions giving rise to the tax benefit in order to determine their essential object, spirit and purpose. This involves identify-

ing which provision is associated with each tax benefit. Here, the tax benefit of interest deductibility is associated with para. 20(1)(c) and subsection 20(3), and the tax benefit arising out of the use of the attribution rules by the taxpayer to reduce his income is associated with subsections 73(1) and 74.1(1). The purpose of para. 20(1)(c) is to "encourage the accumulation of capital which would produce taxable income." Subsection 20(3) was enacted to make it clear that interest that's deductible doesn't cease to be deductible because the original loan was refinanced. According to Justice LeBel, the purpose of subsection 73(1) is to facilitate interspousal transfers of property without triggering immediate tax consequences. Finally, the purpose of attribution rules in sections 74.1 to 74.5 is "to prevent spouses [and other related persons] from reducing tax by taking advantage of their non-arm's-length status when transferring property between themselves."

Following its decisions in *Canada Trustco*, the next step in the analysis was a determination of whether the avoidance transaction frustrates the object, spirit or purpose of the relevant provisions. Justice LeBel found that the entire series of transactions could be considered in order to determine whether the individual transactions misused or abused one or more of the provisions of the act. Each transaction must be viewed in the

In denying Lipson's appeal, Justice Bowman described the case as an "obvious example of abusive tax avoidance"

context of the series. Justice LeBel also found that the focus of the subsection 245(4) analysis was the "overall result" of the transactions rather than their "overall purpose."

Based on the foregoing, Justice LeBel concluded that the Minister had failed to establish that the purpose of para. 20(1)(c) and subsection 20(3) had been misused and abused. In his view, the series of transactions did not become problematic until the taxpayer and his wife made use of subsections 73(1) and 74.1(1). According to the majority, to allow subsection 74.1(1) to be used to reduce the taxpayer's income tax from what it would have been without the transfer to his wife would frustrate the purpose of the attribution rules.

Singleton was distinguished on the basis that neither the GAAR nor section 74.1 was at issue in that case. Subsection 245(5) gives the court authority to determine the tax consequences as is reasonable in the circumstances to deny the tax benefits resulting from the transactions. In this case, Justice LeBel disallowed the attribution of the interest deduction to Mr. Lipson, thus leaving the interest deduction in the hands of Mrs. Lipson. In so doing, Justice LeBel split the net loss, which section 74.1(1) otherwise attributed back to Mr. Lipson into its revenue and expense components, and permitted only the attribution of the revenue component — the dividends on the transferred shares.

Two dissenting judgments were written, one by Justice Binnie (with which Justice Deschamps concurred) and one by Justice Rothstein. According to Justice Binnie, the Minister had failed to satisfy the onus of proving misuse or abuse of the attribution rules. He said, "It cannot be right that whenever a lower-income

spouse borrows money to purchase shares from a higher-income spouse, there is an abuse of the spousal attribution rules unless the transferring spouse opts out of ss. 73(1) and 74.1(1), and thereby forfeits a tax benefit clearly available under the Act.”

Justice Rothstein took a different approach from the majority and Justice Binnie. He dismissed the appeal on the basis that there was a specific anti-avoidance rule that the minister could have applied — subsection 74.5(11) — and the Minister’s failure to invoke that provision was “fatal” to the GAAR reassessment.

From a broad perspective, the Lipson case may be considered a victory for taxpayers in general, if not for Mr. Lipson, because it makes it clear that debt structuring and restructuring is acceptable under GAAR even if the ultimate purpose is to match debt with eligible uses and equity with ineligible uses even if this is accomplished through non-arm’s-length transactions. Whereas the reasons of the lower courts cast significant doubt on the very validity of the interest deduction arising from the series of transactions in question, the Supreme Court’s decision does not adopt those reasons; rather, it rests upon the view that only the transfer of the interest deduction by virtue of the attribution rules is a result that constitutes abusive tax avoidance.

In terms of the interpretation of GAAR, Justice LeBel endorsed the approach to the GAAR previously taken by the Supreme Court in *Canada Trustco*. He further confirmed that it is the result of the entire series of transactions, as opposed to their purpose, that

is to be considered in determining whether any step in the series is abusive in the context of the subsection 245(4) analysis.

There are other potential implications to the Lipson decision (space doesn’t permit a detailed discussion here). Some commentators have expressed concern that the majority decision has reduced the onus on the Crown of establishing an abuse of a “clear and unambiguous policy” to an abuse “on a balance of probabilities” (LeBel, J. para. 21). It is the writer’s view that the majority in Lipson was not trying to distance itself from the decision or reasoning in *Canada Trustco*, but simply referring to the normal burden of proof that applies in civil cases. This view appears to be sustained by the GAAR decisions of the lower courts subsequent to Lipson. See, for example, *The Queen v. Landrus*, 2009 FCA 113; *Lehigh Cement Limited v. The Queen*, 2009 TCC 237; *Copthorne Holdings Ltd. v. The Queen*, 2009 FCA 163; and *Collins & Aikman Products Co. et al v. The Queen*, 2009 TCC 299.

There is also a concern that the CRA will be encouraged by the decision to become more aggressive in challenging transactions that it views as abusing the attribution rules, particularly those involving reverse attribution planning. Time will tell.

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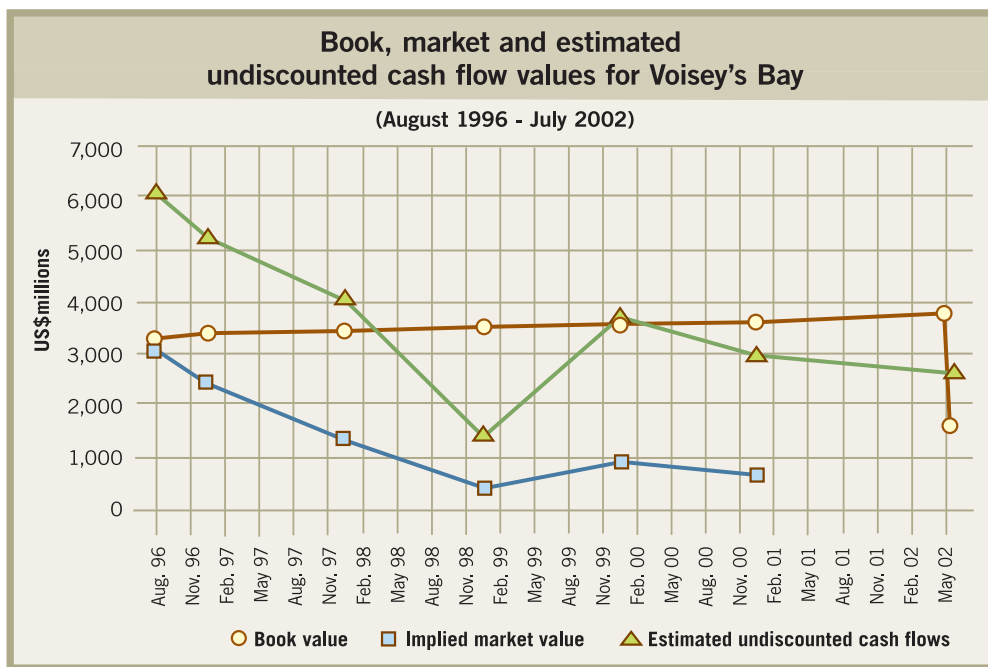
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Impairments and discretion

An analysis of Inco's writedown of Voisey's Bay and management's discretion to determine the timing and amount



Accounting writedowns help ensure that companies do not report asset values on their balance sheets that exceed the assets' probable future economic benefits. Despite that relatively clear principle, writedowns and impairments generate controversy. At one extreme, companies retain inflated asset values on their balance sheets to create an illusion of financial strength, while at the opposite extreme companies take big baths to reduce future reported costs and increase future earnings. Both these extremes represent poor financial reporting, and accounting standards attempt to constrain both behaviours. Analysis of Inco Ltd.'s valuation and reporting decisions for its Voisey's Bay (VB) nickel mine from 1996 through 2002 provides some interesting findings about how management discretion can distort asset valuations.¹

Inco Ltd. completed the US\$3.4 billion purchase of

mineral rights to a major nickel deposit near Voisey's Bay, Labrador, in August 1996. Inco carried the VB asset on its books at cost through years of nickel price declines and negotiation delays that threatened the viability of the project. Finally, in July 2002, at the successful completion of negotiations allowing production to commence, Inco wrote down VB by US\$1.5 billion, equal to 44% of VB's and 16% of Inco's total pre-writedown asset value.

As part of the 1996 purchase, Inco issued a tracking stock representing a 25% interest in the VB deposit. This tracking stock (N.VB) traded in Toronto and New York from September 1996 until December 2000. The market values provided by this stock, along with information about mineral quantities, commodity prices and industry extraction costs, are exploited to develop a detailed cash flow valuation model of VB. This model allows for an assessment of Inco's book valuation decisions under GAAP.

Briefly, GAAP in Canada and the US during 1996 to 2002 required companies to assess held-for-use assets for im-

pairment when changes in conditions indicated the carrying value might not be recoverable from undiscounted cash flows. The relevant standards during 1996 to 2002 were *CICA Handbook* §3060 [1990] and §3061 [2001] in Canada, and FAS 121 [1995] and FAS 144 [2001] in the US. Two major differences between the two countries' standards during this time were that Canada included financing costs in its undiscounted cash flow calculation while the US did not, and Canada wrote down impaired assets to net recoverable value (equivalent to undiscounted cash flows) while the US wrote down impaired assets to fair value (equivalent to discounted cash flows). In April 2003, Canada issued *Handbook* §3063, converging its standard with FAS 144. Our research examines the changes in conditions indicating potential impairment and the carrying value relative to estimates of undiscounted cash flows.

Two major changes in conditions affected VB's value between 1997 and 2000: a steep decline in nickel prices and resistance from the provincial government. When Inco purchased VB, nickel was trading at more than US\$7,500 a tonne, a relative high. Soon afterward, nickel prices fell, reaching a low of US\$4,250 a tonne in December 1998. The price recovered to about US\$6,500 a tonne by late 2000 when Inco retired the VB tracking stock, and stayed at that level through July 2002, when Inco wrote down VB. Between 1997 and 2000, Inco's negotiations with the Newfoundland and Labrador government ran into difficulties. The province demanded long-term job creation in processing as well as extraction, while Inco hoped to use excess capacity in its Ontario and Manitoba processing facilities to keep its costs down. Negotiations broke off entirely in January 2000 and remained halted for more than a year, during which Inco reduced its Newfoundland office staff from 23 to three people.

Both the nickel price decline and the government's demands for job creation represented changes in conditions that could have prompted Inco to review its valuation of VB for impairment. The equity market value of the N.VB tracking stock quickly reflected both factors, offering Inco a third potential prompt to assess for impairment. Inco's annual reports from 1997 onward contain wording similar to the following, from the 2000 annual report (p. 41): "Evaluation of the future cash flows from major development projects such as ... Voisey's Bay ... entails a number of assumptions. ... Inherent in these assumptions are significant risks and uncertainties. In the Company's view, based on assumptions which it believes to be reasonable, a reduction in the carrying value ... is not required at this time." The wording suggests that Inco assessed VB for impairment, and found it unimpaired.

We evaluate Inco's assessment of VB during 1997 to 2001, knowing that Inco found the asset impaired in July 2002, when nickel traded at about US\$6,500 a tonne and the province agreed that Inco could begin extraction. If the project was impaired under those circumstances, we believe it must also have been impaired at two earlier balance sheet dates. In December 2000, nickel also traded around US\$6,500 per tonne, but negotiations

with the province were at a standstill, with no prospect of moving the project forward. In December 1998, negotiations with the province were lagging but still moving, while nickel was trading at US\$4,250 per tonne.

To evaluate Inco's reporting decision under GAAP, we estimate undiscounted cash flows from VB. We do this by creating a cash flow valuation model using commodity prices from the London Metals Exchange (LME), Inco's estimates of ore quantities and grades and a combination of industry, government and company sources for mining, processing and tax costs. We validate our cash flow model by comparing it against the price of the N.VB shares in the years before they were redeemed. Inco's projections of its facilities' capacity allow us to predict the time pattern of extraction. We compute an internal rate of return that sets our estimated discounted future cash flows equal to the N.VB price. From 1997 to 2000 (when Inco retired N.VB shares), we estimate discount rates between 6.9% and 9.9%, roughly 300 basis points above the long-term US Treasury bond rate at the same dates, in reasonable accord with equity valuation models.

Our cash flow estimates err somewhat in management's favour. We do not change our estimate of the project's capital

The nickel price decline and the demands for job creation represented changes in conditions that could have prompted Inco to review its valuation for impairment

costs until 2002 when Inco revised its projection, despite our belief that investors could anticipate as early as 1999 that the provincial negotiations, if they allowed the project to proceed at all, would result in higher costs. We also exclude debt service costs from our undiscounted cash flows, despite the fact that Canadian GAAP allowed them. Higher capital costs or debt service costs would reduce cash flows, increasing the likelihood of finding VB impaired.

Having found discounted cash flows from our model reasonably in accord with market values for VB, we turn to the GAAP criterion of undiscounted cash flow, using the same model. The chart on page 43 shows estimates of undiscounted cash flow, along with Inco's reported book value and the market value implied by the N.VB shares. Our estimates of undiscounted cash flow fall below Inco's carrying value at the 1998 and 2000 year-ends. Changes in forward commodity prices primarily drive the changes in the model's estimates, including the recovery to just above book value at 1999 year-end.

The 1999 recovery of undiscounted cash flows above book value illustrates how volatile prices affect impairments. Assets exposed to significant volatility, as VB is exposed to nickel prices, are more likely to require writedowns. Canadian and US GAAP prohibit reversals of previous impairments if values subsequently increase, exacerbating the problem. Managers may be reluctant to record timely impairments if they hope that prices will rebound, even though current GAAP rejects the idea that managers can assess permanent impairment.

We further scrutinize management's valuation in December 2000, when Inco retired the N.V.B shares in a forced exchange valued at approximately US\$7.10 a share. To justify the redemption price, Inco management used a fairness opinion from investment bank N M Rothschild & Sons. While Inco's November 28, 2000, proxy statement does not include an estimate of total undiscounted cash flow, it does state that Rothschild used discounted cash flow among other methods and it includes many of Rothschild's parameter inputs. We compare these against our own model inputs to assess the impact on undiscounted cash flow.

Rothschild uses discount rates between 7% and 9%. In comparison, our imputed discount rate for December 2000 is 9.3%, indicating that Rothschild would have needed lower undiscounted cash flow than ours, all else equal, to arrive at the redemption value. Rothschild assumed commodity prices similar to those we use from the LME. When we put Rothschild's price estimates into our model, we obtain a lower estimate of undiscounted cash flows. Rothschild assumed lower total production over the life of the mine, again indicating its undiscounted cash flows would be lower than ours. All indications point to Inco having access to a valuation at the end of 2000 showing that book value exceeded undiscounted cash flow by US\$499 million or more.

In summary, using market prices and our valuation model, we find that (1) Inco's reported book value for VB was between 100% and 500% more than its market value for the entire period of December 1997 to December 2000; and (2) if the asset was impaired in July 2002, then almost surely it was impaired in December 1998 and December 2000.

Management's reluctance to write down VB may seem puzzling. Prior research supports that CEOs involved with an acquisition avoid acknowledging overpayments, and that new CEOs often establish lower asset values to improve future reported earnings.² We conjecture, though we cannot prove, that the VB reporting decisions may relate to management succession. The 2002 writedown occurred soon after Scott Hand replaced Michael Sopko as Inco CEO and chair and brought in CFO Farokh Hakimi from outside Inco. Sopko was the CEO at the time Inco acquired VB, and while Hand was involved as Inco president, he may not have felt the same attachment to the project.

This case illustrates managers' discretion to determine the timing and amount of writedowns. The relative wealth of information in this case about commodity prices, mineral quantities and the tracking stock for the VB asset would, we believe, tend to curb management's discretion. In more typical cases where corporations write down collections of assets for which little independent market information exists, we expect that managerial discretion is harder to detect.

Our analysis indicates that auditors

and regulators may not be sufficient to curtail excess management discretion. Investors, however, had little difficulty incorporating the impairment into their valuation of the asset, presumably using public sources similar to ours. Standard-setters increasingly require fair value measurement within GAAP. Few observers question the relevance and reliability of fair value measurement for items such as the N.V.B shares, trading in an active market. These properties are in doubt, however, when managers estimate value using undisclosed parameters and assumptions, as Inco management did when estimating VB cash flows.

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- ¹ Details of this research appear in: Andrew S. Hilton and Patricia C. O'Brien, "Inco Ltd.: Market Value, Fair Value, and Management Discretion." *Journal of Accounting Research* Volume 47 (1), March 2009, pp. 179-211.
² Jennifer Francis, J. Douglas Hanna and Linda Vincent, "Causes

Research shows that CEOs involved with an acquisition avoid acknowledging overpayments and new CEOs set lower asset values to improve future reported earnings

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Business intelligence for the SME

As smaller firms face competition and grow, it's imperative they make good decisions based on even better information

When asked what business intelligence (BI) tools are used to measure their organizational performance, the common response by entrepreneurs might include Excel spreadsheets, report writers and canned reports. BI can be defined as the ability to extract actionable insight from data available to the organization, both internal and external, for the purposes of supporting decision-making and improving corporate performance.

Small and medium-sized enterprises (SMEs) are mostly owner-managed, entrepreneurial companies. And for many entrepreneurs, decision support tools tend to be a combination of static historical reports, analysis spreadsheets and gut feel, which is fine while an organization is small and easily managed on this basis.

However, as smaller companies grow or face stiffer

competition, the need to make good decisions based on meaningful information quickly becomes an imperative. Succession planning adds to the importance of being a well-managed company, and being able to prove it. This is where detailed reports, summaries that are not drillable and spreadsheets can fall short. Spreadsheets in particular are potentially dangerous tools.

Alex Resnick, CA, president of management consulting and software firm The Catalytics Group Inc., points out the dangers of relying exclusively on information contained in traditional reports. Reports often contain information relating to a particular transaction type, such as sales revenue and related costs. These reports typically ignore other factors that might affect the interpretation of the reported data, such as number of customers acquired and lost during the period under analysis.

Typically the barriers to adoption of BI are cost and complexity. Costs include software tools and services,

as well as people and time costs. The SME faces additional hurdles, such as tighter budgets, less sophistication and organizational knowledge, technology hurdles and fewer people, meaning less time to spend on planning and analysis.

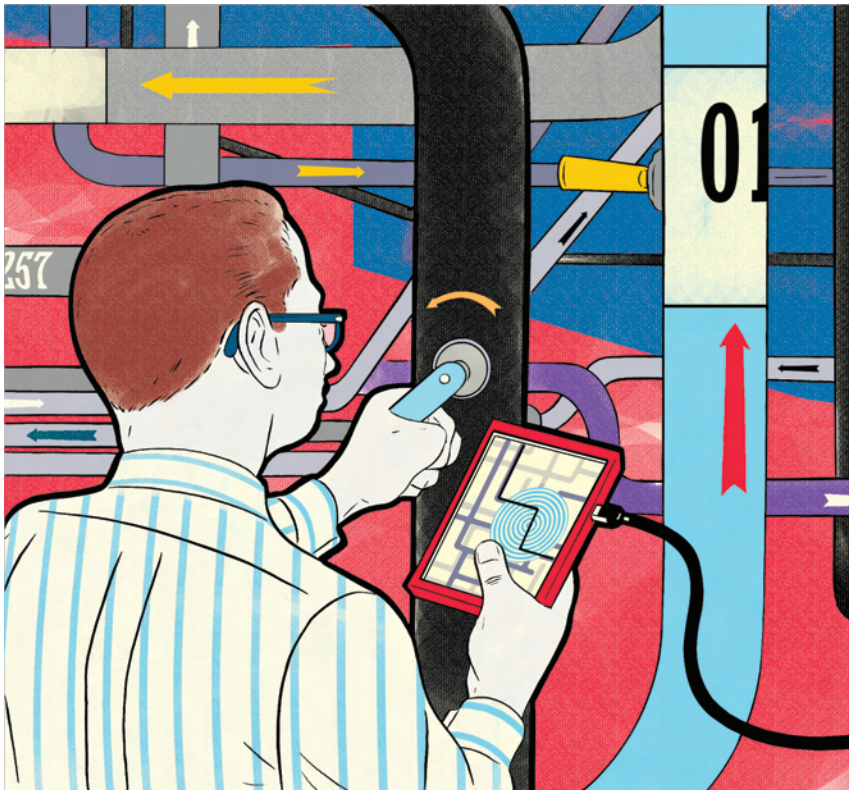
The potential benefits include insight from data, improved decision-making and risk mitigation.

The factors involved in the implementation of a BI solution can be broken into four areas:

- information (the data available to the organization),
- technology,
- intelligence and
- implementation.

Information/data

The SME faces many of the same BI challenges as larger organizations, and some additional ones to boot. The smaller you are, the less data you are likely to have access to. In terms of internal data, a basic entry-level



accounting program stores substantially less information than a higher-end enterprise resource planning (ERP) system. And externally, in the context of industry-specific or competitor data, there's not much out there on small businesses.

Most SMEs do manage supplementary key business data, frequently in the form of spreadsheets, contact manager databases, payroll systems and other home-grown databases. These can potentially be harnessed to provide the BI backbone, provided the data is reliable and accurate. In many cases, data outside the accounting or ERP system is not subject to the same controls and may provide more red herrings than pearls of wisdom.

Technology

BI software tools include scorecards, dashboards, analytics, data mining and reports with drill downs. The available software solutions delivering these toolsets used to be beyond the financial reach of the typical SME.

In recent years, however, there have been a number of alternatives priced more aggressively, bringing the technology for a comprehensive BI implementation into the reach of the SME. Some of these tools are available online, using the software as a service model. Others use the traditional licensing model.

Michael Burns, a CA and *CAMagazine* columnist, writes frequently about BI. He states that some mid-range ERP systems are adding dashboards that are configurable, with drill downs, frequently at little or no additional cost. Burns says he is seeing more affordable online query and browser-based tools emerging.

But is this being effectively communicated? If the perception among those in the IT industry is that the cost of technology is no longer a barrier to BI for the SME, that view is not necessarily shared by end users. Beth Crawford, CMA, controller for Toppits Foods Ltd. in Vaughan, Ont., has been working on a project to implement a comprehensive BI solution for some time. "It's hard to find a cost-effective platform that is affordable now, but that you can grow with," she says.

And then, of course, there is the ubiquitous spreadsheet. Packages such as Excel are undoubtedly valuable and powerful tools, and many companies have mined their ERP and other data by live-linking spreadsheets to data sources, using pivot tables, conditional formatting, graphs and charts, and other built-in analysis tools. But it is important to understand the limitations and the dangers. The flexibility of a spreadsheet is at the expense of controls, thus you can enter (or edit) any formula anywhere. We have all seen a complex spreadsheet with one incorrect (but unnoticed) formula or reference that materially alters the entire picture. Because of the absence of controls and structure, though, how would you know? And these spreadsheets are usually built and maintained by one person. If that person leaves the company, someone else will have to unravel the logic in order to maintain and update it. For key business analysis, a more structured software tool is simply more reliable and maintainable — and nowadays, affordable.

Intelligence

The single most important aspect of any BI project is the determination of what needs to be measured, and how to measure. Burns says a BI project has to begin with an organization accurately defining its critical success factors (CSFs), which he defines as "what the organization must do to be successful." For each CSF, the trick is to determine the metrics that are appropriate to measure how the organization is doing and alert the appropriate level of management and employees to exceptions or problem areas. Those metrics will then form the underpinning of the architecture of the BI solution: the elements that are measured and displayed on dashboards and analytics.

One might think the definition of CSFs and the consequent metrics are easier for the SME because:

- the entrepreneur knows the business inside out and therefore knows what's important and
- there are fewer issues to worry about in a smaller business, so the SME can use a simpler set of metrics.

But dig a little deeper and it's soon apparent that the opposite is true. Most entrepreneurs are experts in one aspect of the business, not all. The owner with a sales bent may carry pertinent

In recent years there have been some alternatives priced more aggressively, bringing the technology for comprehensive BI implementation into the reach of SMEs

sales and margin analysis data in his or her head, but would not necessarily be able to factor in cash-flow considerations. Conversely, the engineer who started a successful business will understand what's critical in the product design and production areas, but will he or she know what salespeople have to do really well to succeed?

And in some cases the SME faces the same problem as larger companies: too much data. Crawford says the amount of data available from the ERP system in the form of reports and data extracts sometimes makes it hard to avoid being overwhelmed with data, making it difficult to focus on what's truly important. This highlights the importance of taking a strategic view in defining CSFs. Few entrepreneurs have been trained to think and plan in a truly strategic fashion, so this is a stretch for the average SME.

SMEs often have no one trained in financial matters, but they need someone with financial experience to ask the right questions. Entrepreneurs are not used to managing (or being managed) by metrics, unlike managers at larger companies.

Consequently, the typical SME needs outside help defining CSFs and the relevant metrics. Where do they turn? Frequently the vendor of their BI solution (or ERP solution) is the first resource. The good news about this approach is that the vendor will know how its software works, will have experience doing this exercise with other customers and will likely know how to interact with the available data. This will only be helpful, however, where the vendor is experienced in the same industry as

the SME, and even then only for CSFs and metrics that conform to best practices for the industry.

A safer option may be an experienced BI consultant who can draw relevant information out of the entrepreneur, employees, competitors, vendors and customers, and then document the requirements in an actionable format. Ideally this would be completed before any decision is made on the actual software tools, to avoid any bias in the intelligence phase based on limitations or features of already selected software. Of course, engaging an outside expert will add a layer of cost to the project, but this cost differential should be evaluated against the project's success.

I know this from experience. As a CA•IT running a software company, I assumed I knew what to measure and how we were doing on these measures. A few years ago, as the company grew, we appointed an external advisory board. With the board, we quickly identified a couple of CSFs not previously considered, and the benefits of measuring just these two items and being able to take action based on the measures have paid back the cost of implementing the advisory board many times over.

As Burns says, "You would want to reduce the risks by starting with an understanding of the CSFs of the organization and the metrics that measure whether or not CSFs are being achieved."

Implementation

Implementing a BI solution should ultimately be the simplest

part if the upfront work on intelligence and tool selection has been successfully carried out. Creating and or mapping the data store, dashboard design, report building, drill-down definition and software configuration are obvious steps in implementing a BI solution. The key step sometimes overlooked or sidestepped is the design and dissemination of a communications strategy.

"An element frequently missing is the communication piece, explaining to the users what the analytics mean, how to interpret them, and what actions to take, for example, when an indicator is red, yellow or green," says Resnick. For the SME this becomes even more important, specifically in terms of documentation, because employees frequently wear multiple hats, and when someone leaves, their replacement needs to know those same things.

Over the next several years we will see an increasing number of SMEs adopt BI technology solutions with mixed results. Those that focus on the intelligence in BI will derive positive and measurable benefits. Those that don't run the risk of making poor decisions based on accurate but inappropriate data.

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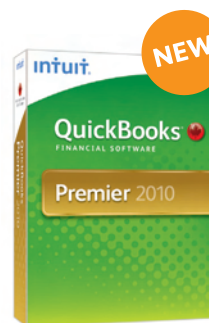
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Municipalities on the move

As of the start of this year, Canadian municipal financial reporting is now on a full accrual basis of accounting

The year 2009 will go down as a year to remember in the history of municipal financial reporting in Canada. Less than 10 years ago, municipalities were reporting on what some called an “unconsolidated, modified cash basis of accounting,” which excluded certain organizations under their control, included items such as debt principal repayments in expenditures and excluded a number of liabilities and their tangible capital assets. As of January 1, 2009, using the Public Sector Accounting Board’s (PSAB) standards, municipalities will be reporting on a consolidated basis, using a full accrual basis of accounting and presenting that information in a common set of financial statements.

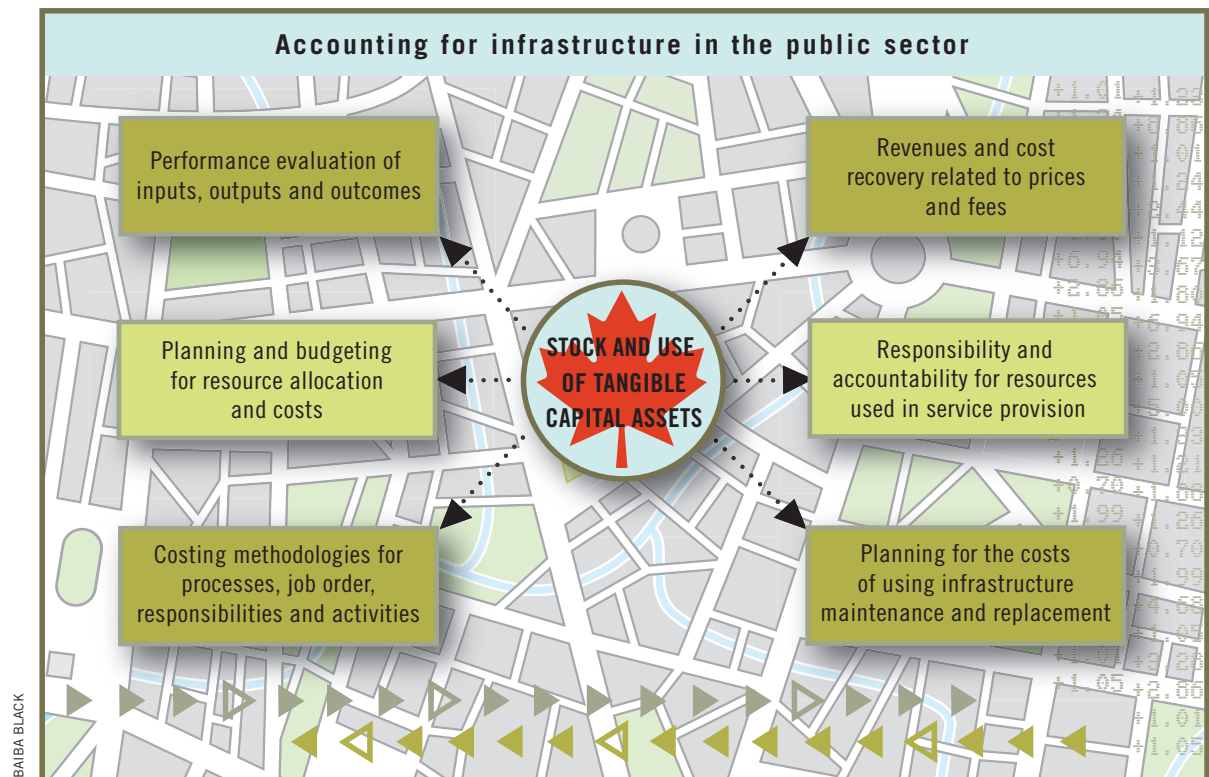
Thanks to all involved, the migrating of municipalities to a full accrual basis of accounting was remarkably successful.

Background

Municipal accounting and financial reporting historically had their roots in provincial legislation and regulation. Provincial legislation set out the guiding principles for how a municipality prepared its budget, what was to be included in that budget and the resulting financial reporting.

Municipalities typically adopted a fund-based model for budgeting and financial reporting. For a basic municipality, the current or operating fund was used as the foundation for calculating the taxes to be levied for the purposes of generating sufficient sums required by the municipality. From this perspective, a library under control of the municipality was only included in the operating fund to the extent that the municipality needed to fund part of the library’s operations.

Acquisition of capital assets was generally included in a capital fund. The expenditures and the financing



requirements were included and any balance remaining in this fund was considered part of the municipality's financial position. Any contribution from the operating fund was treated as an interfund transfer typically called a "current contribution to capital." Capital assets were either recorded as an accumulation of past expenditures or an equivalent to any outstanding debt that remained. Capital assets were not amortized to operating fund.

While the legislation surrounding the preparation of the budget was worded differently from province to province, the general direction was to ensure that municipalities raised such resources to meet all sums falling due in the period. From that perspective, debt principal repayments were considered expenditures, employee benefits were recorded on a cash basis, and neither the stock nor use of capital assets was accounted for.

Any surplus in the operating fund at the end of the year was transferred to reserve accounts to be used in future periods to offset future revenue requirements. In addition, if a municipality had a prior period surplus or deficit it would need to consider the amount in the next or a following year's budget.

Municipal financial reporting was, however, vastly different from province to province. In some jurisdictions, there were complete sets of financial statements for each of the major funds of the municipality. In others, consolidated financial statements were prepared but they excluded certain organizations, such as some public utilities, for which the individual ministries required separate financial statements. In others, the financial statements focused only on the funds of the municipality and all other organizations that may have been responsible for presented separate financial statements.

Significant liabilities, such as those relating to employee pension plans, were included only in the notes to the financial statements, and the expense reflected the amount of funding required for the current period. Some had recorded assets that were equivalents of the outstanding long-term debt of the municipality, with debt principal repayments being treated as a surrogate for amortization.

Recounting success

The challenge was for municipalities to agree to a common set of financial statements, a common basis of accounting and to have the various departments of municipal affairs endorse the *Public Sector Accounting (PSA) Handbook* as generally accepted accounting principles for municipalities. In a managed and measured approach, PSAB and the municipal community found common ground that included agreement on the financial statements that are to be presented, consolidation and providing definitions for such items as financial assets and liabilities. Because of the nature and extent of the issue underlying accounting for tangible capital assets at the municipal level, addressing this issue was deferred. While there remained a required reconciliation to current practice and fund balances, an important step was complete — reaching agreement on the need for change.

Bringing municipalities into the *PSA Handbook* resulted from collaboration among such organizations as the Government Finance Officers Association, Municipal Finance Officers Association, the provincial institutes of chartered accountants and various departments of municipal affairs, which assessed the extent of the changes, created implementation plans and formulated the necessary communications and training activities.

Articles were written, implementation guidance was published and Canada-wide training courses were offered through various associations in numerous locations to ensure the implications of the changes were well known among those affected. This provided a level of assurance to all involved that change was the right thing to do. However, there remained the issue of the provincial legislation or regulation that required municipalities to issue their financial statements in accordance with the policies issued by the various departments of municipal affairs.

Alberta was first off the mark and changed its municipal act requiring municipalities to follow GAAP, which was the *PSA Handbook*. Soon thereafter, other provinces followed suit. By 2009, most provinces had made the change. While various approaches were adopted by individual provinces, i.e., changing

Alberta was first off the mark and changed its municipal act requiring municipalities to follow GAAP, which was the *PSA Handbook*. Soon, other provinces followed suit

the legislation directly or reacting to reports from the municipalities with their recommendations, the change was made. However, one major issue remained outstanding: accounting for tangible capital assets.

Accounting for tangible capital assets

Municipalities are responsible for vast stocks of capital assets in the provision of public goods and services. When the cost of using tangible capital assets is not reported, the costs of a municipality's programs and services are understated, making it difficult to assess affordability. The information required to assess the stewardship responsibilities of the government in its management of those assets is not provided. Not knowing what is owned also makes it difficult to assess the ongoing maintenance and replacement needs of the capital stock at the disposal of the municipality, the cost of services and other important management considerations. For example, the illustration on page 49 was referenced from the CICA's Research Report, *Accounting for Infrastructure in the Public Sector*, 2002.

In 2005, after extensive due process and significant communication activities in collaboration with the various associations, PSAB issued its standards on accounting for tangible capital assets. But there was more. PSAB needed to issue standards to accommodate the inclusion of these amounts in financial position and operations. This change represented a different measure of financial position and results from what municipalities were used to, as fund balances no longer appear except in the notes and

only if the municipality chooses to report such balances.

Municipalities, as a result, faced monumental issues such as having to inventory their tangible capital assets, placing a value on them and developing related capital asset policies that were previously not needed. While these are not new issues facing organizations in Canada, they were new to municipalities and they were significant.

Consider the types and extent of tangible capital assets for which a municipality is responsible. When you awake in the morning, you probably turn off your alarm clock — the electricity has to come from somewhere. Taking a shower means that water has to be supplied and drained away. Whether you drive or take public transit, the municipality has a role in the provision of roads, traffic control or local buses and cross-jurisdictional train services. This is not to ignore the other services a municipality offers, such as police and fire departments, garbage collection and disposal, recreational and cultural facilities and ambulance services. Municipalities are responsible for a significant amount of the tangible capital assets that exist in Canada.

Municipalities agreed that the additional information fostered a common language not only across jurisdictions but within the various disciplines such as finance, engineering and planning. It also improved comparability from period to period and among municipalities, allowed municipalities to better assess the affordability and sustainability of their programs and helped them make resource allocation decisions.

As of January 1, 2009, municipalities will be reporting this information in their financial statements. While reporting information in the financial statements is useful from an accountability perspective, there is more to the issue than just publishing financial statement information. Municipalities will be capturing this financial information in their various systems that can then be used for other purposes such as forming a basis for financial planning. These assets all require future revenue for their ongoing maintenance and replacement needs.

Accounting for and planning future revenue requirements

are critical considerations of any organization, but particularly for public sector assets. Given the nature of public goods and services, these assets are generally maintained and replaced over long periods of time.

A look into the future

The condition of a municipality's tangible capital asset base is directly affected by factors such as the government's maintenance and replacement policies, population changes, past and current use and demand for the service potential embodied in the asset. These factors among others demand that assessments of the condition of tangible capital assets be completed on a regular basis to determine their continuing ability to provide needed public services. The condition of these assets can directly affect the future revenue requirements of a municipality relating to the timing and extent of the resources required.

To that end, a number of municipalities have begun to report publicly on condition assessment findings. The City of Edmonton, for example, provides such reporting. To promote

Reporting information in financial statements is useful from an accountability view, but there's more to the issue than just publishing financial statement information

a consistent national approach to this type of reporting, PSAB has recently issued a recommended practice that encourages all municipalities to begin reporting on the condition of their assets. While the reporting of this information remains voluntary, the recommended practice provides a framework for developing such a report and recommends that certain data be provided, such as a basic rating scale of A, B or C to assist readers in understanding the condition of various classes of assets.

Collaboration, a willingness to change and the benefits arising out of accounting for and reporting tangible capital by municipalities have created momentum among the various disciplines involved in municipal tangible capital assets. There are efforts underway to bring the needs and views of the finance, engineering and planning professions together to begin establishing integrated management plans to provide decision-makers with the information they need to plan, coordinate and assess the needs of the tangible capital assets of a municipality.

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More than a legacy

The accounting profession provides many opportunities for role models and mentors to leave their imprint on others

During the course of anyone's life, he or she will encounter and be influenced by a host of mentors and role models, be they family members, teachers, bosses or coworkers. For chartered accountants, their career paths are often filled with opportunities to learn from mentors and eventually become mentors and role models themselves.

A recent study conducted by Queen's University in Kingston, Ont., "Moving from CA to CFO: A Competency Framework," identifies 38 competencies that CAs were expected to acquire over a career, culminating in becoming a CFO. Not surprisingly, the study found that the most important competencies tend to be soft skills such as personal integrity and ethics, critical thinking, communication, presentation skills, strategic thinking,

decision-making and leadership. The study also examined how these skills are acquired and, in addition to the more obvious formal education and practical experience factors, mentoring was considered a significant influence.

The CA profession is built on the tradition of mentoring — it's an implicit agreement that new hires will be mentored by experienced practitioners. We are part of an apprenticeship system that has always been integral to the ways accounting firms develop and groom staff.

Historically, the hierarchical organization within firms created the mentoring framework — partner to manager, manager to senior, senior to staff. In the past 10 years, most firms have formalized mentoring programs and new hires are paired with experienced staff in order to obtain guidance and advice as their careers progress.

However, it's also worth observing that mentoring is not exclusive to students and new CAs — partners at firms

often have their own mentors and role models. CAs embrace lifelong learning, and not just the formal kind, as they establish associations with those whose judgment and knowledge they respect and value. These associations continue, with many CAs who venture off into industry, the public sector or academia remaining close to their public accounting mentors.

Most firms view mentoring as an important and critical component of their people development. At RSM Richter, for example, new hires are matched with a second-year employee, often from the same university, under the firm's buddy program. The primary purpose of such a relationship is to help the new hire adjust to the culture, working environment and administration processes within the firm. It also provides a UFE buddy to counsel the new hires through to the uniform evaluation. Talent managers are assigned to all levels of staff to counsel on work performance and advise on career-related aspirations.

Periodically, senior partners will hold informal meetings with audit managers to share their knowledge and expertise



SUSANNA DENTI

on client service, networking and business development.

Ernst & Young has similar formalized mentoring relationships for new hires at the firm. Staff is encouraged to have a group of mentors — a board of mentors as it were — who each would have his or her unique contribution to an individual's development.

In order to reward good mentors, E&Y has created a “people point” tool where staff can comment on mentoring and coaching behaviours of partners and colleagues. They have also embraced reverse mentoring, where employees with diverse ethnic backgrounds counsel partners on cultural and behavioural norms.

E&Y also ensures that all staff receive appropriate mentoring via its Career Watch system, which matches managers from under-represented groups in the partner population with mentors in the senior ranks, including the executive committee partners. The firm has also used its mentoring expertise to help in various community projects that would benefit from this process.

At PricewaterhouseCoopers, the firm distinguishes between coaching and mentoring, recognizing that all staff require coaching but that a formal mentoring relationship is a unique one. Staff is encouraged to seek out and establish informal mentoring relationships that match the employee's needs and comfort levels.

PwC ensures that each new hire has a coach and, at the appropriate time in his or her career, a UFE mentor. Part of a coach's responsibility is to ensure that staff understands what success looks like. The firm has coaching programs to train on the processes and nuances of coaching others, including a partner coaching forum.

For women who aspire to the top levels of the firm, PwC has a women-in-leadership mentoring program that gives female staff the opportunity to be matched with a partner mentor.

While mentoring is encouraged, firms acknowledge that mentoring can't be forced. The firms institute formalized matches early in an employee's career but recognize that both mentor and protégé will seek and find his or her own desired and comfortable relationship within the firm.

While mentors are important to CAs, role models are perhaps even more so. The term “mentor” refers to a trusted counsellor, guide, tutor or coach — a relationship agreed upon by both the mentor and the protégé. In contrast, a role model is a person whose behaviour in a particular role is imitated by others. Role modelling isn't optional — we are all role models.

The distinction between role model and mentor is easily blurred as we sometimes interact with our role models. This is by far the most pervasive relationship. Firms go to great efforts to ensure that staff is exposed to many role models in assignments. Leaders within firms see themselves primarily as role models, setting the tone, moral compass and exemplified integrity by which the rest of the organization is governed.

It's arguable that some role models can have a greater transformative impact than mentors. Witness the effect of President Obama on his supporters in the US and around the world.

Consider Richard Branson of Virgin Atlantic Airways, who has stated that Freddie Laker, the pioneering British airline entrepreneur, was his role model. Branson had the opportunity to

meet Laker and received advice that dramatically influenced his business philosophy and ultimately his success. Laker advised Branson to be a little more P.T. Barnum — innovative and fun — when launching his own airline, something Branson had difficulty doing due to his self-admitted introversion. However, the power and influence Laker had as Branson's role model motivated personal change, and today we are all aware of the many accomplishments of the extravagant Branson.

Jim Murray, CEO of Optimal Solutions International and an experienced executive coach and mentor, describes mentoring not as an arranged marriage but rather like a courtship — there must be a mutual attraction with shared benefits leading the participants to want the relationship to succeed. Good mentors see the potential in others that they cannot see in themselves.

Murray offers five pointers for aspiring mentors:

- challenge protégés to exceed their abilities — let them sink or swim, then focus on an instructive debrief;
- role model with integrity the standards and principles you want them to emulate;
- invest the time necessary — most mentors grossly underestimate the time required to do the job;

A mentor is a trusted counsellor, tutor or coach.

A role model is a person whose behaviour in a particular role is imitated by others. Role modelling is not optional

- make all topics discussable — nothing is out-of-bounds, including your own behaviour; and
- recognize that most organizational cultures often prevent people from getting better. So mentorship is sometimes showing people how to intelligently take risks and break the rules.

Murray speaks fondly of his first boss who, unknowingly, was his mentor. “Whenever I had a meeting with him — whether in his office or by chance in the hall — after that meeting, I knew what to do, I wanted to do it, and I felt I could do it,” he says. Good mentors also energize their protégés.

For a CA, contributions made as a role model and mentor may be the most important and meaningful part of his or her eventual legacy. What do we want to be remembered for when we shuffle off into retirement? We start building our reputation the first day of work and it culminates as our legacy the day we leave. Is it safe to say that we all want to leave the world a little bit better off than when we came? Do we want to be fondly remembered as someone who made a difference in someone's career and life?

The CA world provides abundant opportunities to leave a lasting legacy as a role model and mentor. And you are never too old to acquire new role models — even as you retire.

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Rethinking executive compensation

For the past 30 years, to foster a better alignment of the interests of senior management with those of shareholders, a large portion of their variable compensation has been share-based, generally through stock-option plans. Roger Martin, dean of the University of Toronto's Rotman School of Management, is now challenging this principle. According to Martin, shares and options are not good incentives because they encourage executives to rely on short-term strategies and to take excessive risks. Performance-based compensation should be tied solely to a company's actual results, i.e., profit or earnings before interest, taxes, depreciation and amortization (EBITDA), and not to what's happening in the stock market.

Martin's proposal, introduced in his new book, *The Design of Business: Why Design Thinking is the Next Competitive Advantage*, is worthy of serious debate. He uses a football analogy to illustrate his point. What would happen if a quarterback's pay depended on the number of times the team beat bookmakers' expectations — the spread they offer the betting public — and not on the number of games won? If a quarterback beats the spread systematically, bookmakers would increase it, anticipating actual results and levelling the odds for bettors. In the long run, beating the spread wouldn't work as a compensation system, and quarterbacks would fail as often as they won, although it would encourage them to take more chances.

Executives whose variable compensation is stock-based are in a similar situation. Stock prices reflect investors' expectations. Management can surprise the market, but not consistently. So unless the game is fixed, stock options are an unreliable way to reward executive performance.

Stock options are issued at market prices. To benefit from them, the stock price has to increase, which implies that senior managers have to increase investor expectations. Since there is no reason why investors would systematically underestimate the value of a stock, how can management win at this game?

For a while, management can invent a rosy story, wait for share prices to go up and cash out on their options before investors realize they are being fooled. But that would be illegal. Another way is for management to be lucky and benefit from a general rise in stock market value, as experienced from 2002 to 2008. A booming stock market allows executives to pocket huge, often undeserved, profits. That's just luck, but it does work in bearish markets.

Another way to beat investors' expectations is for management to surprise the market by taking on more risks, which often involves betting the farm.

Stock-option plans can also demotivate management when options go under, either because of stock market crashes, as in 2002 and 2008, or when a company reaches

Variable pay plans for senior executives should be tied to their company's performance, not its share price

maturity and its stock peaks. Holders of stock options are then penalized regardless of their actual performance. Managers at companies such as Microsoft and General Electric, whose stock has peaked as investors readjusted their expectations, lost on their options even if earnings kept increasing. When maturity reduces investor expectations about future growth, executive options lose their value, no matter what the executives' input.

Variable compensation plans for senior executives should be tied to the company's actual performance, not its share price, which mainly reflects investor expectations. What should count is the company's actual performance while the executive is in the C-suite. In addition to salary and a short-term bonus based on annual results, a well-defined compensation plan should include a long-term bonus based on the average financial results of the last three to five years. This would help focus management's attention on improving actual performance and steer it from trying to influence stock market speculation.

Marcel Côté is founding partner at SECOR Consulting in Montreal

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