

# CA

magazine

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September 2012

www.camagazine.com



# THE TOP TEN tech issues

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## Tech trends and security

Our annual IT package exposes new issues and shows how to keep your email confidential

We live in a time when technology pervades every aspect of our lives. We encounter technology at work, we encounter it at home in the purchases we make for our enjoyment and the toys we get for our children. So it's no surprise that readers wait for our September technology issue with bated breath.

Every year, the CICA's Information Management and Technology Advisory Committee examines emerging technology trends that impact business in general and accounting in particular. The result is the much-anticipated staple, the "Top ten tech issues." This year, IMTAC identifies the top three issues as: 1) Bring your own device — many businesses now allow employees to bring their own technology, such as Macs, to the office for work. This saves costs, but raises concerns about security. 2) Tablets and mobile computing — these allow you to have your own computer with you wherever you are. 3) Cloud computing — the provision of computational resources on demand via a computer network. Cloud computing allows business technology to be flexible, though it creates privacy and security risks. Read all about it on p. 20.



How many times have you sent an email and wished you could get it back because you either said something you did not want to say or you sent it to the wrong person? Our second IT story tackles this sort of problem: in "Safe and secure," p. 28, CA-IT Dwayne Bragonier describes and explains methods to send confidential business information securely over email. It's the sort of information that every business user of email will value.

In this issue, we also have regulars on standards, "Are checklists killing our profession?" p. 38; taxation, "A view from the bridge," p. 40; fraud, "When the birdies go tweet, tweet, tweet," p. 46; and assurance, "Good governance," p. 49.

Regular columnist Marcel Côté discusses obesity and carbohydrates in Outlook. As usual he is controversial: should we eschew carbs and reintroduce fat into our diets as some specialists recommend? See "Obesity, carbs and the Red Cross," p. 56.

Jim Carroll, our columnist for Netwatch, asks readers not to underestimate the Internet and announces that this month's column is his last for CAmagazine. I would like to thank him for the wonderful columns he has written in the 11 years he has been contributing to the magazine.

Which brings me to an important matter: in our next issue (October) CAmagazine will undergo some editorial changes. Some departments and pages will no longer be part of the magazine, while new ones will take their place. This is part of an ongoing process to bring you, our readers, the best possible information experience that we can. We hope the changes will be to your liking.

Okey Chigbo, Editor

### upfront

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Take a flight of fancy to your dream home with Alain Gougeon. The CA turned real estate broker has created an original service for his clients, whom he takes up in his Cessna 180 to show remote waterside properties in the Montreal and Ottawa regions

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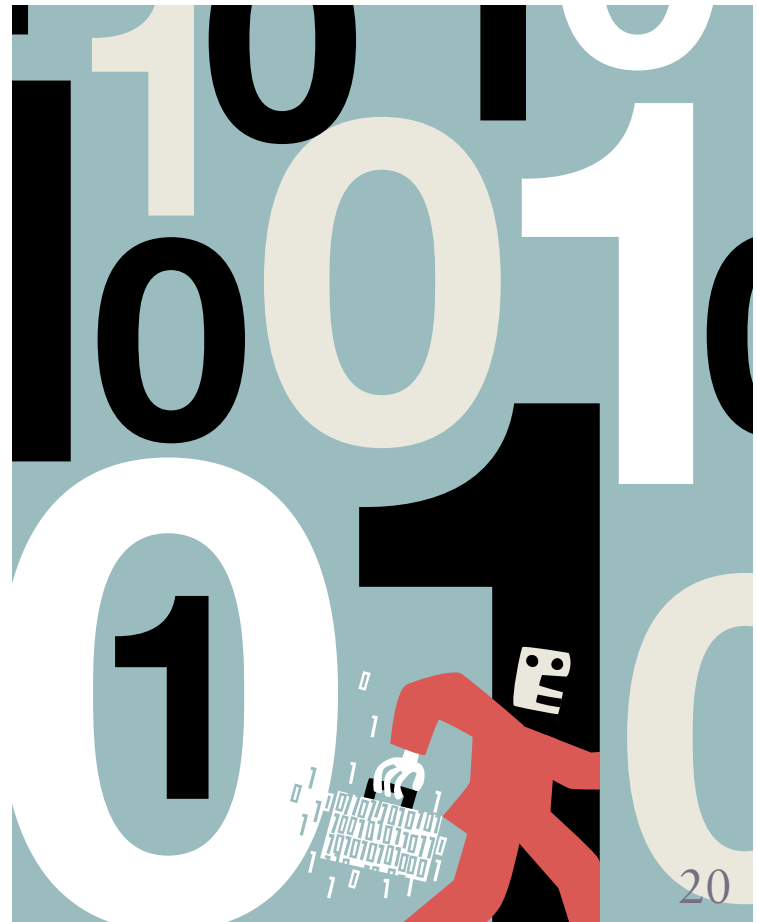
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On an annual basis the CICA's Information Management and Technology Advisory Committee consults with CAs to find out what their greatest technology concerns are. Here is the roundup of the priorities facing the profession in 2012

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Most of us accept email as a reliable form of communication with clients. But it isn't always secure and anyone sending personal information is legally responsible for its retention and transmission. What policies should your firm adopt to address this problem?

BY DWAYNE BRAGONIER

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# UP FRONT

News, people, briefs, trends + tips

## Come fly with me

Looking for that lovely remote property on a lake or on a river, lost in the Laurentian Mountains? Call Alain Gougeon. He'll take you there — in fact, he'll fly you there.

For two years now, the Laval, Que.-based CA turned real estate broker has been showing clients properties by air in his Cessna 180. "People who want to find a waterfront house in the country can visit whole regions in the air and compare between many choices," he says. Once potential buyers zero in on a specific area, they can proceed to make a purchase offer.

Prices for the waterside homes Gougeon explores in the Laurentians, Lanaudière, the Ottawa River region and the Eastern Townships start at \$300,000 and easily run up to \$1 million and more. Why not simply drive through the areas? "You can drive around many lakes, but you'll often never see the lake itself because the properties don't give you access to it," he says. "From a plane you can see in one afternoon what would take a lot longer to visit by car."

The career switch did not happen in a straight line for Gougeon, 49, who founded and ran a food-distribution firm in Laval for 18 years. "The large retail chains were becoming increasingly demanding, forcing us to renew our contract every year," he recalls. So he sold everything and set out to determine his true passion. He had worked in construction, understood numbers, liked properties, loved nature and flew his own plane for more than 20 years. "I told myself that if I combined all that, I could create an original service."

In 2010, he started offering complimentary air services to potential clients and real estate agents, living off his savings for the first 18 months. In the meantime, he trained as a real estate broker and learned everything

related to his craft: environmental issues and restrictions, septic installations near water and the specific characteristics of hundreds of lakes in the region.

Now that he's a certified broker, Gougeon is busy growing his business through advertising and referrals. "Being a real estate agent is lonely work," he says. "I have to build up a client base like everybody else." But word will get around. After all, not just anyone will fly you to your dream home.



**Wingin' it:** Alain Gougeon wanted a new career, so he took what he liked — flying, nature, properties — and improvised. Now he's literally a high-flying real estate broker

### Résumé

- 1988** joins Raymond Chabot Martin Paré, Laval
- 1988** obtains CA designation (Que.)
- 1991** opens food-distribution firm in Laval
- 2010** begins showing properties by air
- 2012** becomes certified real estate broker

Yan Barcelo

PIERRE CHARBONNEAU



## BUSINESS GETS ON BOARD WITH SOCIAL MEDIA

Canadian executives are beginning to wake up to the importance of social media, according to a recent Environics survey for the Queen's School of Business. Among the 400 Canadian business leaders polled, 72% are investing the same or more in social media in 2012 compared with last year and almost four in 10 (39%) believe the use of social media is no longer an option, but a necessity. About one-third also say having social media experience is at least as important as speaking a second language (36%) and having international work experience (32%) when recruiting new employees.

While most organizations surveyed use social media, many are missing out on the benefits it has to offer. The most prevalent benefit executives see in social media is increasing brand awareness; however, only a minority (39%) cite this as a benefit. Even fewer use social media for other key benefits, including recruiting talent, gaining a deeper understanding of customers, getting new business and networking.

### Benefits of social media



Source: Queen's School of Business, 2012

A separate 2012 report from digital business analytics firm ComScore indicates that 94% of Canadians use social media, spending an average of eight hours a month on social networks. While Canadian executives are moving in the right direction with respect to social media, they are encouraged to further investigate the opportunities presented.

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



### ASK AN EXPERT

#### I WANT TO THANK AN EMPLOYER WHO INTERVIEWED ME — SHOULD I EMAIL OR CALL?

**When it comes to thank-yous, the message is typically more important than the medium. In an Accountemps survey of hiring managers, 87% said email is appropriate for expressing thanks after an interview, and 81% said phone calls are okay. Social media and texting, however, are not condoned by the majority of hiring managers. Here are a few tips for crafting a professional post-interview thank-you:**

**Don't delay.** Follow up with a thank-you within 24 hours so you are still top of mind.

**Be specific.** Reference particular points from the conversation. For example, if the employer mentioned the position calls for strong knowledge of Excel, highlight the advanced training you took on the program.

**Restate your value.** Recap the qualities that make you a strong fit for the role and convey your enthusiasm for the opportunity. Clarify any unanswered questions and address concerns expressed by the interviewer.

**Don't ramble.** Keep your message to a paragraph or two, or a few minutes on the phone. Anything longer could make you seem unfocused.

**Ask for a second opinion.** A trusted friend or colleague should read over your written thank-you note to help spot any typos or unclear language before you hit send or mail it.

Max Messmer is chairman of staffing service Accountemps ([www.accountemps.com](http://www.accountemps.com)) and author of *Job Hunting For Dummies*

By Tamar Satov



## Enforce etiquette to end bad email

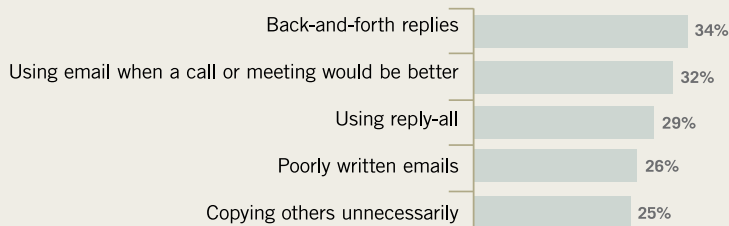
Managers typically spend 100 hours — or 2.5 work weeks — a year on irrelevant email, and they want their organizations to do something about it, finds a 2012 study entitled “Enough already! Stop bad email.” But trends to ban or limit work email are not the answer, say the majority of US workers polled for the study.

Of the 1,300 survey respondents, only 11% of executives, 20% of managers and 13% of employees say limiting email outside of normal business hours would curb the flow of irrelevant messages, and even fewer think eliminating off-hour emails or limiting email during business hours would make a difference.

“We’ve seen companies around the world experimenting with email blackouts or time-outs,” says David Grossman, founder and CEO of Chicago-based communications consultancy The Grossman Group, which released the study. “Yet our research shows it’s email misbehaviours that need to be addressed.” (See chart.)

Indeed, about six in 10 executives (61%) and managers (55%) say workplace policies that address email etiquette would be very effective in reducing the overwhelming volume of irrelevant emails at their organization.

### Greatest email misbehaviours



Source: The Grossman Group, 2012

## What salary equals success?

For the vast majority of workers, success is not a six-figure word. Three-quarters of employees polled by US recruiter CareerBuilder say they’d feel successful earning less than US\$100K, 28% say they’d need US\$50K to US\$70K, while 23% say success comes with a salary less than US\$50K. One in 10 would need to pull in US\$150K or more to feel successful.

Of course success, like beauty, is in the eye of the beholder. Workers in IT (48%), sales (38%) and financial services (37%) are most likely to equate success with a six-figure salary, while men (32%) are far more likely than women (17%) to do so.

“The ability to make a difference, a sense of accomplishment and work-life balance [often] eclipse the size of a paycheque in what matters most to workers,” says Rosemary Haefner, vice-president of human resources for CareerBuilder.

## HANGING UP ON TELEFILE

Canadians can no longer file their taxes over the phone. Canada Revenue Agency is scrapping Telefile, with use of the service declining, on average, 10% per year. About 1.2% — or roughly 300,000 — of all tax returns are filed through Telefile, while nearly two-thirds of Canadians filed their returns electronically this year.

## MOMS BRING MORE TO WORK

Parenting skills provide an edge in the workplace, say 95% of global female executives polled by the Korn/Ferry Institute. The top child-rearing skills cited were motivating and inspiring others, learning agility and confidence. Even so, more than half the respondents believe having kids has hindered their career growth.

## HOW TO GET AHEAD?

Hollywood isn’t the only place where who you know matters. According to a survey by HR firm Right Management, 44% of North American workers say who you know is what counts at their organization, followed by job performance (39%) and job tenure (4%). Another 13% don’t know as it’s never been made clear to them.

SETH

# #NUMBERS Game

**The trials of Job** In a 2012 survey, 9% of Canadians admitted they couldn't help interacting with their cellular devices during a job interview. Really? More fun facts on job interviews:

**1** Average length in hours of a job interview, according to a 2007 survey of Canadian managers. Most examiners say they make a positive or negative assessment of a candidate within 12 minutes.

**9 to 11** Time in the morning candidates are most likely to find success with a job interview. A 2003 poll of Canadian executives found the worst times to interview are between 11 a.m. and 1 p.m. and after 5 p.m.

**25** Percent of major Toronto employers that used psychological testing during the interview process in 1981. Sample question: "I deserve punishment for my sins." Yes or no.

**68** Percent of managers listing "shifty eyes" as No. 1 among behaviours least likely to secure a job during an interview. "Not



smiling" was listed by 45%, while 37% mentioned poor posture in the 2010 survey.

**2000** Year French cosmetics giant L'Oréal launched an Internet business-strategy game where top performers would receive offers of work. By 2005, an estimated 18% of firms used job-simulation technology to hire.

**10,000** Online visitors per month to Royal Bank of Canada's brand new virtual job board in 1996. Number of positions

posted in late October of that year: 12.

**7427466391** Answer to a math question posted on a billboard in Silicon Valley in 2004 that, if solved, eventually led math virtuosos to a Google Labs hiring site. No company name appeared on the roadside ad. Steve Brearton

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# Going Concern



**TED SHERRITT, CA**  
**PRESIDENT & CEO**  
**FLOFORM COUNTERTOPS**

**COMPANY PROFILE:** Founded in 1961 in Winnipeg, Floform Countertops was initially an add-on for an already thriving

cabinet and construction business run by Frank and John Dyck. Its name was derived from the then cutting-edge post-form laminate technology that Floform would help pioneer in countertops throughout Manitoba. Today, still focused solely on countertops, the manufacturer and distributor has 575 employees and 11 locations spanning western Canada and the northwestern US. With annual revenue of \$75 million in 2011, it has managed double-digit growth in Canada every year for the past decade.

**HOT FACTOR:** Last year, Floform became the first in its industry to rank among Deloitte's 50 best managed companies in Canada — a feat president and CEO Ted

Sherritt attributes to a general respect for all employees and a roster of managers who run each location like a small business. In 2008, the company acquired Seattle-based countertop maker Fine Line Pacific and the company plans to continue expanding through acquisition opportunities in the market.

**COOL PROJECTS:** With a stone countertop division that boasts some of the most advanced digital technology in the business, the company will keep growing this sector as well as showcasing other innovative glass, stainless steel and copper products debuting in the market this year.

**IN HIS OWN WORDS:** "We're successful because of our employees and my job is to find really competent people who fit our philosophy. We look for 12 to 14 key competencies in our staff and humour is one of them. If you're spending 10 hours a day at work, you better be enjoying what you do." Rosalind Stefanac

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# Netwatch

BY JIM CARROLL

YOUR GUIDE TO BUSINESS & ACCOUNTING ON THE INTERNET

## Don't underestimate the Internet

**A**s the Grateful Dead once sang, “What a long, strange trip it’s been.” Just more than 11 years ago this column made its debut, closing with what now seems a most appropriate comment:

“Internet time takes a long time.”

That piece appeared in the summer of 2001, in the midst of the post-dot-com era of doom-and-gloom. With dot-com stocks having crashed to Earth, many people wondered if the Internet was but a flash in the pan and its importance to society and business vastly overstated. Given the frenetic pace of change today, such attitudes look, shall we say, rather silly in retrospect?

A few months later, my long-running technology column in the *Globe and Mail* was cancelled; some brilliant editor was convinced technology had run its course. But it wasn't long before we saw the appearance of YouTube, Facebook, Twitter and technology platforms that would provide the basis for national revolutions, political upheaval and more change than we could have ever imagined.

So it is with this technology, which has a history of being undervalued. As a new CA in the Halifax office of Thorne Riddell in 1982, I had just discovered email and other systems — all of which would soon morph into the Internet. Back then, no one wanted to hear about this strange new world, particularly my fellow CAs. I was often advised to quit fretting about this “computer stuff” and stop “throwing away a perfectly good accounting career.” Then in 1993, a friend and I happened to write a little book called the *Canadian Internet Handbook*. When it became a national bestseller, I found myself spending a great deal of time at conferences throughout North America, putting into perspective the business, social and personal impact of this new technology.

Today, I'm not focused on the Internet itself — instead, I've journeyed into a fascinating career as a global futurist and innovation expert. I marvel at a client list that includes the PGA, Disney and NASA. (I'm still in shock about the time I was asked to motivate a room of astronauts, mission-control experts and launch directors to

return to thinking aggressively about the future.)

My chameleon-like career as a CA has continued to evolve as I have learned to relentlessly adjust my skills, roles and capabilities. That's why, after more than 100 Netwatch columns for *CAMagazine*, it's time to move on. Having experienced the Internet revolution for 20-plus years, though, I suspect many people will continue to discount its influence into the future. So let me leave you with three points I've stated in the past that still bear relevance:

1. The impact of the Internet will continue to be bigger than anyone imagines. Ten years from now, we'll marvel that we didn't foresee the effect that the Net would have throughout the period 2012-2022.

2. The technology of the Internet will continue to evolve at a furious pace and will continue to destroy and reinvent entire industries. Today, the entertainment and telecom industries are undergoing a substantial shift; tomorrow countless other sectors, ranging from automotive to resources to healthcare, will be completely transformed as a wave of hyperconnectivity envelops our planet.

3. The next generation changes everything. My sons, now 17 and 19, have never known a world without the Internet. As they and every member of their generation enter the workforce, they will re-engineer and reshape the world according to the globally collaborative mindset they've grown up with.

I don't think any of us truly appreciates the depth of the impact of the Internet that is yet to come. At the end of the day, it is never a good idea to discount the significance of this little tool we have.

Jim Carroll, FCA, is a well-known speaker, author and columnist

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# Work in process

BY MICHAEL BURNS

USING TECHNOLOGY TO IMPROVE THE WAY YOU DO BUSINESS

## ERP software survey 2012

**B**ack in 1998, when we ran the first *CAMagazine* enterprise resource management survey, most readers had no clue what ERP was all about.

Now it would be hard to find one who doesn't

know something about it. In fact, CAs are often the decision-makers for ERP. Vendors have also come to recognize the survey as a major source of information about their products. That is probably why our survey chart has grown from just a handful of systems in the beginning to an eye-popping 88 today. This number includes everything from small, relatively unknown companies to large, well-known vendors. Small companies typically specialize in a vertical industry and have a way of distinguishing themselves from the major vendors.

The survey results are available in the form of a PDF as well as an interactive chart that allows you to compare up to four

systems at a time. You can also ask 180 Systems to select the top 10 ERP systems that meet your requirements based on percentage-fit calculations. For all these options, visit [www.camagazine.com/ERPSurvey12](http://www.camagazine.com/ERPSurvey12).

This year we have added more functionality to the survey, including questions about ease of use, multiple companies, workflow, mobile applications, cloud readiness, browser support, dashboards, online analytical processing, back-order fulfillment, available to promise, multisite production, customer relationship management and ecommerce.

As always, we have segregated the ERP products into tiers based on customer revenue and employees and product cost. This is a convenient, albeit not perfect, means of differentiation. Be cautious if you're trying to calculate the costs for a system, since these numbers are just averages.

For the past 12 years it has been a buyer's market for ERP systems. But today business has picked up and vendors feel less compelled to sweeten their deals. I consider

ERP vendors to be a bellwether for the economy because organizations usually don't invest in their systems unless things are going well and they are confident about the future. So what's good for the ERP vendors is good for all of us.

As in 2011, cloud computing is a high-flyer on the list of ERP trends. In fact, one vendor recently told me that companies are now more interested in acquiring software via the cloud than in buying licences and having the solution installed on site.

For ERP systems, there are two types of cloud formations. With the first, often referred to as software as a service (SaaS), multiple customers share the same servers

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

using multitenant architecture. This makes it easier for vendors to manage customers because they just need to update the software once for all the customers sharing the same servers. The second formation is more like a private cloud, where the vendor has your ERP application on a server that it manages/hosts for you. You can also add other applications, such as Microsoft Office, to the server. The difference can be quite confusing, and so can the terminology. My solution is to refer to these two options as shared cloud networks (SCN) and private cloud networks (PCN).

Most ERP vendors are now offering either SCN or PCN solutions. PCN has some advantages in that the ERP software does not need to be rewritten for SaaS and multitenant architecture. Also, the software can be customized for specific needs. However, SCN has (or should have) a cost advantage: it is a lot easier to maintain one instance of the software for all customers than to cater to each one individually.

Mobile applications are still gathering momentum.



## For the past 12 years it has been a buyer's market for ERP systems. But today business has picked up and vendors feel less compelled to sweeten their deals

It won't be very long before you will be able to use your mobile device for many ERP functions. Mobile devices are actually powerful computers and the younger generation can enter information into them just as fast as the older generation can enter information into desktops or laptops. This does not mean the computer will be going away, because we all prefer to use large screens when we are working. In fact, two screens are now a must for many of us. Having a dual monitor is probably the least expensive method you can find to increase employee productivity.

The biggest change in ERP over the years has probably been in ease of use. ERP systems are a lot friendlier than ever before. But it's unlikely they will ever be really simple to use. The whole point of ERP systems is to automate business processes across most, if not all, departments in an organization. And organizations have complex processes.

ERP failures still happen, albeit a lot less than they did in the past. Sometimes the system is not implemented on time, on budget or, most importantly, fails to meet objectives. In these cases, it's usually people rather than systems that are at fault. So although it's important to consult the survey for features and functions, make sure you know the people who will be implementing your ERP system. Using a proper/best practice methodology will go a long way toward limiting potential problems. It's also a good idea to have clearly defined metrics to determine whether the investment was a success.

Michael Burns, MBA, CA-IT, is president of 180 Systems ([www.180systems.com](http://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](mailto:mburns@180systems.com)

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## Unification update: developments heat up over the summer

**P**rogress continued on uniting the Canadian accounting profession under the new Canadian chartered professional accountant (CPA) designation during the summer months. Some key developments are outlined below. For the most timely updates on the progress of unification, visit [www.CPACanada.ca](http://www.CPACanada.ca).

### Work to commence on national CPA Canada body

At meetings held during the summer, the CA and CMA national and provincial leadership and national boards gave approval for CICA and CMA Canada to start work to establish CPA Canada as the national body for the unified profession.

With this significant step forward, work can begin to establish a national organization to support provincial bodies that have unified and those that will unify under the CPA banner. A priority for CPA Canada will be full development of the CPA certification program. The program will be in place for delivery in parts of Canada by fall 2013, with the first CPA exams offered in fall 2015. The structure and governance model for the new organization will be the other priorities.

### The Hon. Michael Kirby speaks out in favour of unification

“Fragmentation among professional accountants is an outdated luxury that Canada can no longer afford in an era of mobile capital and competitive markets,” says former senator the Hon. Michael Kirby in a special to the *Financial Post* in June 2012. One of several prominent Canadians to speak out in favour of unification, Kirby believes that a strong, credible accounting profession is fundamental to the integrity of Canada’s financial regulatory system. “It’s more important than ever to ensure that Canada’s interests are clearly reflected in the multilateral process that determines the standards that will apply in Canada,” said Kirby. “Unification would help ensure that these standards are appropriate for Canadian market needs.” Kirby’s complete commentary can be found at: <http://cpacanada.ca/blog/2012/06/26/opinion-piece-in-the-financial-post-let-ca-cma-and-cga-give-way-to-cpa/>.

### Nova Scotia’s CAs and CMAs release merger proposal

The council of the Institute of Chartered Accountants of

Nova Scotia and the board of CMA Nova Scotia have issued a provincial merger proposal to their members in support of the eight principles outlined in the January 2012 Unification Framework and the new CPA certification program. For more information, visit [www.CPACanada.ca](http://www.CPACanada.ca).

### Meeting with Manitoba government

CA Manitoba and CMA Manitoba met with the Minister of Finance and Minister of Entrepreneurship, Training and Trade to discuss a report on member consultations regarding a merger and the next steps required to develop legislation to create CPA MB. The government expressed willingness to help establish a proposed legislative framework. Prior to enacting new legislation, the government would also consider draft legislation developed in other provinces.

### ICAO reaffirms commitment to unification

ICAO’s newly appointed chair confirmed that the institute remains part of the national unification discussions and will continue its efforts to support the adoption of the CPA designation for Ontario. “Despite the current absence of CGA Ontario and CMA Ontario in the discussions, the ICAO remains very much part of the national unification process and discussions,” said chair Robert Scullion, FCA, in a letter to ICAO members. “We continue to believe that unification would ultimately benefit all accountants, better protect the public interest and strengthen the future of accounting in Canada.” ICAO members account for almost half of the professional accountants working in the province.

### More provincial bodies show support for unification

While Quebec has led the way by consolidating its accounting professionals under one entity, member advisory votes by a number of participating bodies in other parts of Canada indicate strong support for unification, including British Columbia, Alberta, Prince Edward Island, Newfoundland and Labrador and Manitoba. In addition, feedback obtained through a member questionnaire and at town hall meetings held by the Institute of Chartered Accountants of Saskatchewan indicates there is also support for unification in that province. For more details of the provincial vote results, visit [www.CPACanada.ca](http://www.CPACanada.ca).

### Follow unification progress on interactive CPA Canada map

To provide a clear picture of the status of unification talks in each province, CPA Canada has made its home-page map interactive. Visitors can obtain an up-to-date cross-country overview of unification progress by scrolling over the provinces on the map at [www.CPACanada.ca](http://www.CPACanada.ca).

### New CPA certification program video

A critical part of the discussions regarding the unification of the Canadian accounting profession involves the development of a

new CPA certification program. Tashia Batstone, ICANL CEO and co-chair of the CPA certification steering committee, discussed key components of the CPA certification model, timing and transition at the June 2012 CAAA conference. To view the video, visit <http://cpacanada.ca/blog/2012/06/22/new-video-presentation-on-the-cpa-certification-program/>.

Updates of the diagram of potential implementation of the CPA professional education program, as well as of the CPA certification program FAQs are also available on the CPA Canada website.

## Many Canadians appear vulnerable to interest-rate hikes: CICA survey

A national survey commissioned by the CICA finds that almost half of the respondents (48%) would be challenged to keep up with mortgage or debt payments following a significant rise in interest rates.

Among that group of respondents, 29% would encounter serious problems making payments if rates were to rise 2% or less. Another 29% believe a rate increase of 3% to 4% would be challenging.

The survey also found that nearly four in 10 of all respondents believe they will still be paying off debt after they turn 65.

“Many Canadians have little room for error when it comes to their finances and that scenario won’t be changing overnight,” said Kevin Dancey, FCA, CICA president and CEO. “This is why the CICA firmly believes that helping Canadians develop financial knowledge is critical to Canada’s ongoing economic strength and prosperity.”

The survey found that groups most worried about rate hikes are women, younger adults and those who lack confidence in their financial skills.

There also were some interesting findings around retirement savings: of those 55 or older, 43% reported they have not saved enough for their retirement, and nearly four in 10 think they will have to work past age 65 to make ends meet.

The CICA Canadian Finance Study 2012 was conducted by Harris Decima. Its results assist the CICA in determining ways it can continue to play an active role in helping Canadians learn more about

personal finances. The CICA recently published *A Parent’s Guide to Raising Money-Smart Kids*, a book designed to put parents at ease when preparing their children for important financial decisions. Additional resources are available through a CICA website dedicated to financial literacy ([www.financialdecisionsmatter.com](http://www.financialdecisionsmatter.com)).



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# News from the profession

A SUMMARY OF CURRENT CICA PROJECTS AND INITIATIVES

## Implementing standards in the public sector

Over the past couple of years, many organizations within the broader public sector have been transitioning to the *CICA Public Sector Accounting (PSA) Handbook*. These include many types of organizations, such as school boards, hospitals, colleges and universities.

In addition, the Public Sector Accounting Board (PSAB) is undertaking a fundamental review of its conceptual framework.

The results of this review potentially have far-reaching effects on both existing and future standards. These effects are likely to apply to governments and their organizations using the *PSA Handbook*.

Keeping up to date with current developments can be difficult in these times of change. PSAB is also updating its strategic plan, which will affect its direction for the next three years. Staying informed of these developments will enable you to anticipate future requirements.

To assist you, the CICA has designed a special agenda

for its 2012 Public Sector and Not-for-Profit Conference (October 10-11, 2012, Ottawa Convention Centre).

The agenda is built for both seasoned public sector financial professionals and those managing through the transition to PSAB standards.

The conference includes high-level keynote addresses and updates, as well as many in-depth technical updates, panel discussions on many important and controversial issues and a two-hour workshop-style session, *Managing the Transition to PSAB*.

Keynote addresses and updates will be presented by Don Drummond (former senior vice-president and chief economist at TD Bank Financial Group); Hon. Blaine Higgs (Minister of Finance, New Brunswick); Michael Ferguson (Auditor General of Canada); Ron Salole (vice-president, standards, CICA); and Rod Monette (chair, PSAB).

For the full agenda and registration information please visit the conference website, [www.cpd.cica.ca/PublicSector](http://www.cpd.cica.ca/PublicSector).

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## CICA framework urges boards to be more assertive in risk oversight

**B**oards should take a more active and direct role in the oversight of enterprise risk, according to a special framework prepared for the CICA.

Enterprise risk management focuses on how much uncertainty a company is willing to accept as it strives to grow. The need for enhanced board oversight comes with an economy that remains unsettled in the aftermath of the financial crisis.

The CICA's A Framework for Board Oversight of Enterprise Risk is unique in that it focuses specifically on the board's role in terms of risk. It goes beyond principles to provide valuable guidance and tools to help directors discharge their responsibilities. The framework was authored by John Caldwell, CA, drawing on his extensive experience as a corporate director and CEO.

"Boards are encouraged to take a more holistic approach to risk by understanding an organization's vulnerabilities and the interrelationships and interdependencies between risks," Caldwell said.

The framework provides a practical approach for boards to

address risk. The goal is to help directors:

- better identify and address critical risks;
- understand how risks are interconnected;
- recognize the potential compounding effect of risks should unfavourable events occur at the same time; and
- develop appropriate risk tolerance and risk appetite levels.

"Risk management and board oversight should not be strictly premised on risk avoidance," stressed Caldwell. "Every organization is exposed to and takes risks daily. Effective risk management involves balancing risks and rewards ultimately to improve performance and shareholder value."

Caldwell added there is no single implementation model for risk oversight because of the unique circumstances of each organization and its board of directors. Each board must determine its own appropriate execution methodology.

The framework was commissioned by the CICA's Risk Oversight and Governance Board and is available online ([www.cica.ca/riskoversight](http://www.cica.ca/riskoversight)).

# Standards digest Want to be kept informed? Log on to [www.frascanada.ca/subscribe](http://www.frascanada.ca/subscribe)

## RECENTLY ISSUED PRONOUNCEMENTS

<b>CICA Handbook – Accounting</b>	<b>Date issued<sup>†</sup></b>
<b>Part I</b>	
Annual Improvements 2009—2011 Cycle	August 2012
Amendments to IFRS 10, IFRS 11 and IFRS 12 Regarding Transition Guidance	September 2012
<b>Part IV</b>	
Amendments Regarding Fair Value Disclosures	July 2012
<b>CICA Handbook – Assurance</b>	
Amendments to the Preface	September 2012
Amendments Regarding Authority of Guidelines	September 2012
CAS 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment (Revised)	August 2012
CAS 610, Using the Work of Internal Auditors (Revised)	August 2012
CSAE 3410, Assurance Engagements on Greenhouse Gas Statements	September 2012
Withdrawal of AuG-19, AuG-32 and AuG-39	August 2012

## RECENTLY ISSUED DOCUMENTS FOR COMMENT (to August 31, 2012)

	<b>Comment deadline</b>
<b>Accounting</b>	
EDI Annual Improvements to IFRSs 2010—2012 Cycle	September 5, 2012
ED Discontinued Operations	October 31, 2012
ITC IASB and IFRS Interpretations Committee Due Process Handbook	September 5, 2012
DII Levies Charged by Public Authorities on Entities that Operate in a Specific Market	September 5, 2012
ITC Post-implementation Review of IFRS 8 Operating Segments	November 16, 2012
DII Put Options Written on Non-Controlling Interests	October 1, 2012
<b>Auditing and Assurance</b>	
ED Auditor's Consent to the Use of a Report of the Auditor Included in an Offering Document	September 14, 2012
ITC IAASB Plan for a Post-Implementation Review of the Clarified International Standards on Auditing	September 7, 2012
ITC Improving the Auditor's Report	August 31, 2012
<b>Public Sector</b>	
ED Financial Instruments: Income on Externally Restricted Assets	October 16, 2012
ED Related Party Transactions	October 26, 2012
ED Use of Appropriations	October 26, 2012

### Legend

DII – IASB Draft Interpretation  
EDI – Exposure Draft based on IFRSs

ED – Exposure Draft  
ITC – Invitation to Comment

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

Every year IMTAC surveys chartered accountants to learn what the profession's greatest IT concerns are. And here's what it found

By Robert Parker

# THE TOP TEN tech issues

## **BUSINESSES CONSTANTLY REASSESS THEIR METHODS**

and approaches but are often unaware of new and emerging technology trends that can have an impact on those methods and approaches. Failure to recognize and adopt a new technology may put a business at a competitive disadvantage, result in additional costs or affect employee morale. However, adopting comes with its own set of business and technology risks.

This year CICA's Information Management and Technology Advisory Committee identifies current technology trends, considers their impact on business and the opportunities they present. It also considers the risks of adoption and suggests strategies to mitigate those risks, which vary amongst

illustrations by LASSE SKARBOVICK



different industries and businesses. Accordingly businesses need to weigh the benefits of adoption.

### 1. Bring your own device

Traditionally, businesses considered information technology a service they owned and provided through their infrastructure. However, consumerization is changing that. Employees, contractors and customers want to interact with businesses using their own technology, how they want, when they want. Businesses more comfortable with traditional ways may be missing out on significant employee satisfaction and market opportunities.

The benefits of BYOD include happier and more productive employees, reduced costs in acquiring and maintaining devices and software and the ability to contact employees any time. For example, when Cisco Systems Inc. allowed its employees to bring in their Macs, which employees paid for and serviced, the company's costs went down 25% and user satisfaction went up 200%.

However, the use of different platforms, operating systems and versions of personal productivity software and ensuring that employee and contractor devices are appropriately secured and protected present support challenges, additional costs and increased risks. Employees and contractors who own, maintain and control their devices should adhere to the organization's policies and procedures dealing with the protection of the devices and the business data they contain. But employees may lack concern or knowledge about security and privacy when using their devices for business purposes.

Businesses must realize that the users' equipment is theirs and they are not under the same degree of direct business control, resulting in new issues of security and control, contractual relationships, legislative and industry compliance and employee adherence to corporate policies and procedures. Organizations may be hard pressed to ensure the protection and use of these personally owned devices meet their current control standards. Furthermore, there may be a lack of legal and moral clarity regarding how far the enterprise can go to enforce its standards of control over devices it does not own.

Organizations contemplating a BYOD strategy should develop comprehensive policies and procedures for the use of such devices. They could include specifics for the protection, use, storage, maintenance, archiving and destruction of organization information. Organizations should also consider providing appropriate support and best-practice security guidance to employees to help them identify and resolve problems with their personal technology used for business purposes.

### 2. Tablets and mobile computing

Such devices offer the advantage of always having your computer with you. While the gains in flexibility are rewarding, their use increases security and privacy risks. For example, you can flip on your tablet, scan and email an article to a colleague. Within seconds it appears in that person's email inbox. While a great advantage, the risk is that the article could have easily been proprietary corporate information.

A 2012 survey in *Information Week* reported that 44% of respondents provide support for employees' personal tablets and

35% of road warriors prefer tablets over laptops. Looking to the future, the same survey found that 31% will create customer facing apps specifically for tablets and 26% indicated that a significant number of customer interactions will come via tablets. However, as impressive as these figures are, only 23% said they will provide at least 10% of employees who normally have desktops or laptops with tablets. Another 23% indicated that tablets will be a nonevent for their organization. Further, organizations are slow to develop policies and procedures on the use of tablets or to train staff in their appropriate use—20% agreed with the statement "We have no idea what our tablet policy should be."

There are, however, innovative uses of tablet technology. For example, Royal Caribbean is putting an iPad in every stateroom of one ship with an app to remotely delete any photos a guest may have forgotten to erase. One fabric vendor uses iPads to photograph damaged incoming shipments at the dock and has locked down the tablets to only accept certain apps.

The downside to the tablet is that it's easily lost or stolen.

The benefits of BYOD include happier and more productive employees, reduced costs in maintaining devices and the ability to contact employees any time

Confidential data is then susceptible to unauthorized disclosure. There may be increased risk of processing transactions from fraudulent sources using stolen credentials of employees or customers. Also, because these devices are used for personal purposes and often used to access unknown sites or to download personal apps and files, they may become infected with malware that could invade company systems.

### 3. Cloud computing

Defined by The National Institute of Standards and Technology as "the provision of computational resources on demand via a computer network," cloud computing's advantages are flexibility and scalability. However, it creates risks in security, privacy, availability and continuity. Surveys show that businesses are turning to the cloud as a means of accelerating the rollout of functionality to support business units while saving money. Cloud computing is delivered using Internet protocol and is usually classified according to the type of service:

- *Software as a service* (SaaS) provides application software that can be contracted on a time or usage basis. SaaS facilitates deployment of applications without the cost and complexity of buying and maintaining the software.
- *Platform as a service* (PaaS) provides a computing platform such as a server, storage or computer. Platforms let developers write applications that can run in the cloud or use services provided by the cloud.
- *Infrastructure as a service* (IaaS) provides a platform, network and storage facilities. Rather than purchasing servers, software,



data-centre space or network equipment, clients buy those as a fully outsourced service. Suppliers typically bill such services on a utility computing basis; the amount of resources consumed, and therefore the cost, typically reflects the level of activity.

Cloud computing can also be classified according to the user community it serves.

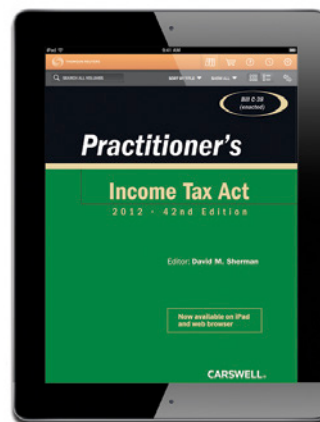
- *Public cloud* is one in which a service provider makes resources available to the general public over the Internet. Its services may be free or on a pay-per-usage model.
- *Community cloud* shares resources among organizations belonging to a specific community with common concerns (security, compliance, jurisdiction, etc.).
- *Private cloud* is infrastructure operated solely for a single organization, whether managed internally or by a third party and hosted internally or externally.
- *Hybrid cloud* comprises two or more types of clouds (private, community or public) operating in the same environment.

While cloud computing may have many benefits, it comes with a financial and a business cost in terms of:

- privacy — additional care to ensure that cloud providers protect the privacy of information processed or stored in the cloud;
- compliance — legislation, regulation and industry requirements such as those of the payment-card industry may preclude the use of cloud services, may restrict the type of cloud that can be employed or require specific security techniques be implemented;
- legal — such issues as trademark infringement, security concerns and the sharing of proprietary data resources may arise;
- security — a contentious issue that may be delaying adoption of cloud computing, due in large part to the private and public sectors' unease about the external management of services and concerns over co-mingling of proprietary data among multiple users. Solutions vary from cryptography, particularly public key infrastructure, to the use of multiple cloud providers, and legal support;
- sustainability — of the financial and technological models of the cloud providers;
- abuse — the cloud service provider is a big target for organized crime hackers due to the concentration of data from many customers. Individuals posing as legitimate customers can purchase cloud computing services for nefarious purposes. In 2009, a banking Trojan illegally used the popular Amazon service as a command and control channel that issued software updates and malicious instructions to PCs that infected them with malware. Businesses don't want to be inadvertently connected or associated with such activities.

According to an *Information Week* analytics survey, the drivers to adopting a SaaS model were speed to implementation, 3.9 (out of a maximum rating of 5); saving on capital expenditures, 3.5; and savings on operating expenses, 3.4.

Managers must be cognizant of the cloud's risks, including not knowing where data is stored; whether data is adequately protected; whether the service provider may subcontract to another party who may lack the controls of the original contracting party; or whether the third-party vendor may change or upgrade the software, forcing the business into expensive changes, upgrades and conversions.



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#### 4. Mobile apps

Many businesses are exploring the use of apps as part of their technology solutions. By most accounts there are more than 500,000 apps available for mobile devices. Most are developed by independent organizations and while many are subject to review by the mobile device manufacturer, users should be cognizant of their responsibility to ensure the proprietary quality and integrity of the application prior to adopting it for use within their organization. Many apps are designed for personal use, others have a more business focus. However, when apps are downloaded and integrated into a business process, the degree of reliance placed on them must be considered. How much due diligence, oversight and control considerations would you associate with a 99¢ app, let alone a free one?

Exercise caution when using apps in a business context.

#### 5. Social networks

The use of social networks for business purposes has become a major communication technique for many companies. A Deloitte survey of more than 400 companies indicated the following major business objectives for the use of social networks: generate more word of mouth, 38%; increase customer loyalty, 34%; increase product or brand awareness, 30%; bring outside ideas into the organization, 29%; improve customer support quality, 27%; reduce customer support costs, 16%; and reduce customer acquisition costs, 15%.

To effectively implement and manage the business use of social networks, corporate policies supported with appropriate procedures are needed. Businesses are currently struggling with issues of how deep within the organization social networks should be allowed to penetrate and which ones they should focus on — Facebook, LinkedIn, Twitter or YouTube.

Social networks have spawned innovative techniques for law enforcement. Following the 2011 Stanley Cup riots in Vancouver, police published photos and video clips of rioters and opened social network accounts to allow outraged citizens to identify and out the perpetrators, giving rise to the term “neighbourhood watch on steroids.” (See Fraud, p. 46.)

Risks to business include inappropriate sharing of corporate

information, including information on clients and customers, and employees posting opinions that may not be those of the corporation. Businesses are also exposed to increased threats of malware and other forms of cyber attacks.

#### 6. Radio frequency identification and near-field communications

Radio frequency identification (RFID) is a wireless, noncontact system that uses radio-frequency electromagnetic fields to transfer data from a tag attached to an object to a scanner, for the purposes of automatic identification and tracking. Some tags do not require a battery and are powered by the electromagnetic fields used to read them. Others use a local power source and emit radio frequencies. The RFID tag contains electronically stored information that can be read from several metres away. Unlike bar or quick response (a two-dimensional bar code) codes, the tag does not need to be within the line of sight of the reader and may be embedded in the tracked object. RFID tags are used in the retail, automotive and pharmaceutical sectors, as well as with livestock and pets where the tags, about twice the size of a grain of rice, may be injected. Uses range from point-of-sale terminals to tracking progress and location.

Near-field communications (NFC) is a set of standards for smartphones and similar devices to establish radio communication between devices by placing them in close proximity, usually no more than a few centimetres apart. Present and anticipated applications include contactless payment systems, similar to those used in some credit cards, electronic smartcards and bank client cards, data exchange, ticketing systems for public transport and simplified setup of more complex communications such as Wi-Fi. NFC-enabled devices can also act as electronic identity documents and keycards. Because NFC has a short range and supports encryption, it may be more suitable for business applications than less-private RFID systems.

But there are risks to using RFID and NFC. Although the communication range of NFC is limited to a few centimetres, the signal for the wireless data transfer can be picked up with antennas. While it is difficult to modify the data and still have it meaningful, it is relatively easy to destroy data with an RFID jammer. A

lost NFC card or a mobile phone can give the finder access, particularly if the card is acting as a single-factor authenticating device. Mobile phones may be protected by a PIN code. Protecting against use after loss or theft requires an extended security concept that includes more than one physically independent authentication factor.

While applications may use higher-layer encryption such as SSL to establish a secure channel, ensuring security for NFC data requires the cooperation of device providers, businesses and customers.

From a business perspective a secure environment needs to be created, one in which customers can protect their RFID-

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enabled devices and data using a combination of techniques such as passwords, tokens, keypad locks and encryption, as well as antivirus software and other solutions to prevent spyware and malware from infecting transacting parties.

### 7. Big data and business intelligence tools

Organizations are finding that traditional data-management tools are insufficient to handle the large volumes of data collected from various sources (e.g. social media, call-centre records, sensor data, data from mobile devices).

Companies need to collect, aggregate and analyze data to make better business decisions. There are business intelligence tools and methodologies coming that will make the task doable. These tools can analyze large volumes of data in short time frames and in a cost-efficient way.

In addressing the challenges of large amounts of data, companies need to know what data they have and how it can be effectively stored and subsequently accessed. Concepts such as data-classification schemes, taxonomies and the use of metadata should be considered. As the volume of data swells, there will be a greater need for storage and commensurate increases in storage costs.

### 8. Security

Security is a perennial topic in the top 10 technology issues. It encompasses the mechanisms that protect an organization's IT systems and data from unauthorized access, use, disclosure, manipulation or destruction. Over the years, major vendors have made improvements in remediating identified software vulnerabilities and building more effective security into application and system software. New identity and access management products have come to market to improve access control through electronic authentication and permission management (granting, roll changes, revocation).

Organizations have benefited from this maturity so that some management groups feel confident they can maintain the security of their technology environments. The problem is that the technology environment is not stable. It is a dynamic environment that must evolve to meet the changes of technology, user expectations and business needs.

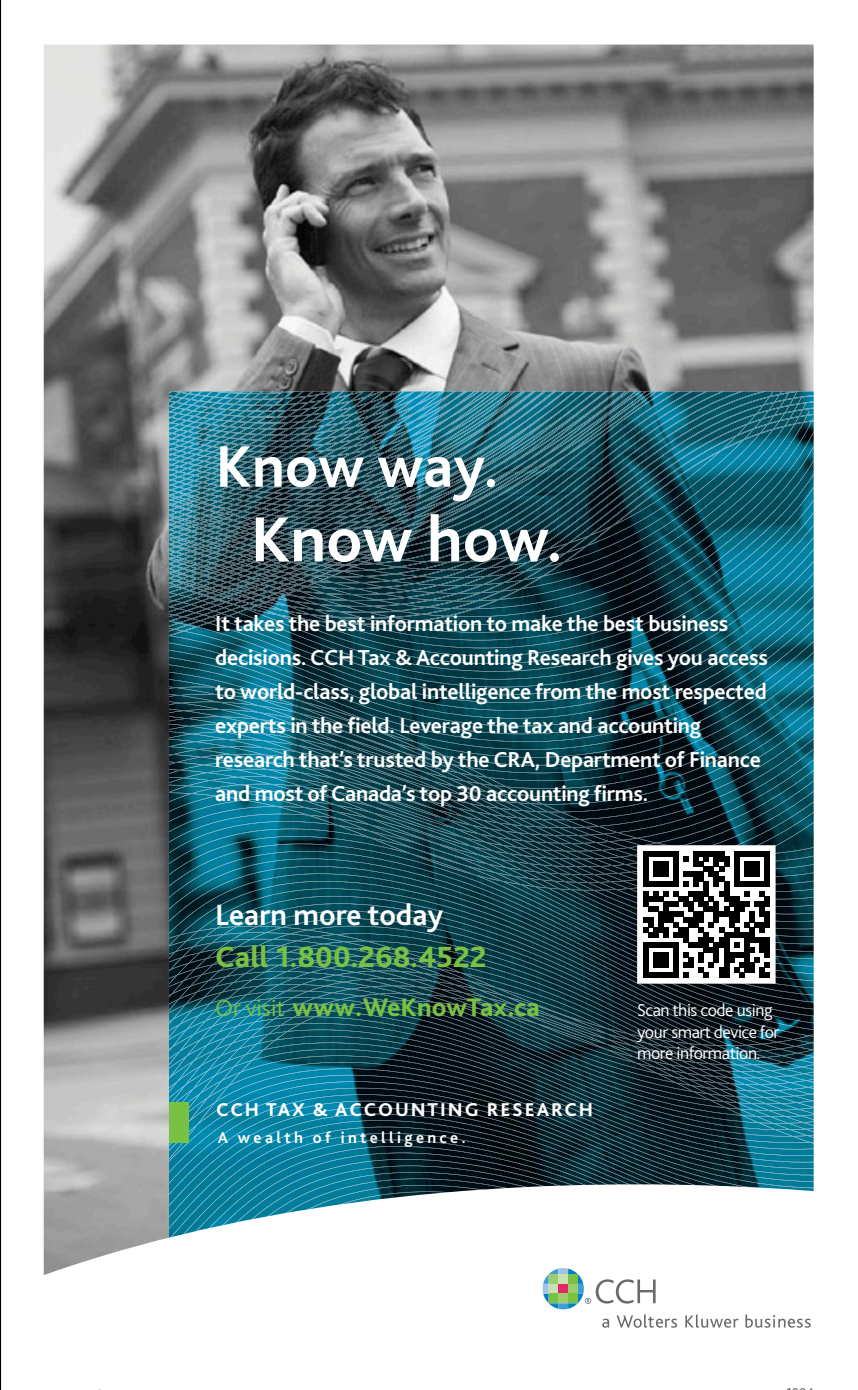
The security challenge today is how to define and enact effective security in a continuously changing technical, business and user environment. The media

regularly reports large-scale thefts of data, breaches of privacy, alleged state-sponsored computer attacks and the role of organized crime in the execution of sophisticated malware.

Today's computer security practices must deal with these and other threats in order to protect the reputations and intellectual capital of organizations, the privacy of their customers and the integrity of their systems.

### 9. IT governance


Governance issues have been in the spotlight because of corporate failures and the 2008 financial crisis. The OECD defines enter-



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prise-wide or corporate governance as the system by which organizations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among various participants: the board, managers, shareholders and other stakeholders. It sets the tone by which the organization is directed and managed. It establishes goals, objectives and the culture and values of the organization and spells out rules and procedures for making decisions on corporate affairs.

It also provides the structure through which the organization's objectives are established and the means of attaining those objectives. It establishes metrics for monitoring key performance and key goal indicators and a process to escalate findings and initiate required changes and improvements.

IT governance is designed to ensure that IT resources are effectively employed in a manner that enhances value and supports the enterprise in achieving its vision and mission.

(IMTAC has published a number of IT governance books as part of its 20 Questions series, including 20 Questions Directors Should Ask About: Information Technology, Major Systems Projects, Outsourcing, IT Security, IT Continuity Planning and Privacy.)

IT governance creates an environment in which the enterprise can effectively exploit the benefits of IT to effectively support the organization in meeting its strategic goals. Unfortunately, many businesses struggle with understanding and governing IT and its processes and activities. As a result they do not achieve the benefits derived from the effective and appropriate uses of IT.

Frequently, IT strategic and annual tactical plans are prepared in isolation from enterprise strategic plans and do not effectively support new and planned enterprise initiatives. They focus on IT operation issues, not strategic issues, where IT could perhaps lead corporate initiatives and enterprise strategies, not follow.

An effective IT governance program will ensure that the enterprise benefits from its IT expenditures, provides enhanced customer experiences, remains competitive within the industry and challenges business practices to create new business models.

## 10. Green computing

IT is a significant user of global resources. According to a 2007 Gartner report, data-centre electricity consumption is almost 0.5% of world electricity production. A McKinsey report showed that between 2000 and 2006 the power consumption of data centres doubled and the average data centre consumes the energy equivalent of 25,000 households. In fact, data centres generate 0.3% of global carbon dioxide emissions, a surprising statistic considering that airlines, which are considered heavy emitters, contribute only 0.6%. Clearly with cap and trade and carbon taxes such as those in British Columbia, there is added incentive to implement green computing, or green IT, initiatives.

Green IT refers to minimizing the impact on the environment of designing, manufacturing, using and disposing of computers, servers and associated peripherals such as monitors, printers, storage devices, and networking and communications systems. The goals are to reduce the use of hazardous materials, maximize energy efficiency during the product's lifetime and promote the

effective recycling of the technology at the end of its useful life.

But green IT is more than just the products and their lifecycle; it is how they are used. Simple procedures can be implemented, such as powering down systems and lights-out processing sites. Green IT also involves rewriting programs to run more efficiently or on implementing new technologies that consume less electricity. It can involve providing more electronic access and self-reporting, techniques used by utilities that allow consumers to view their bills and make payments online. Green initiatives that focus on "low-hanging fruits," especially conservation-based efforts such as energy-efficient devices, power-saving strategies, eliminating excessive use of resources, etc., can yield the dual benefits of protecting the environment and saving money.

Companies are looking to green computing to differentiate their business and attract environmentally conscious clientele. They are asking how they can embrace green technology and save energy, what areas they should consider and what tools and techniques have proven successful. They want tools to track green IT initiatives and, as a benefit, to reduce their power consumption.

## Summary

The 2012 top technology trends reflect to a great extent the changes in society; information availability and the need to understand and effectively use big data; mobility and the need to protect information about individuals and organizations; the environment and how to lessen the impact of information technology on fragile resources; and people and their need to engage in what seems to be almost continual information sharing through social networks.

In *Information Protection and Other Unnatural Acts*, Harry B. DeMaio contends that "protecting information is not natural. On the contrary, it runs counter to many of our deepest urges — intellectual curiosity, the need to communicate, the need to socialize, to trust and be trusted." He further contends that "we are usually suspicious of people and institutions that are secretive." Social networks are becoming an integral part of many businesses in the sharing of information. They also need to be controlled to ensure that businesses, their customers and employees are protected.

Consider the progress made since the introduction of the IBM personal computer in 1981, and compare that technology to today's iPads and the communications infrastructure supporting our use of the web, instant messaging, social media, ecommerce, online gaming and a host of applications that were science fiction a few decades ago.

However, we must continue our vigilance: *SecurityWeek* places the number of malware attacks at 73,000 a day; security firm McAfee places it at a more conservative 60,000. Regardless, businesses continue to be under siege.

Robert Parker, MBA, FCA, CA•CISA, CRISC, CMC, is a retired Deloitte & Touche partner and past international president of ISACA. He currently serves on its Professional Influence and Advocacy Committee and the CICA's Information Management and Technology Advisory Committee

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Email is the communication tool of choice for many CAs. But is it reliable and are you certain your confidential files won't end up in the wrong hands?

By Dwayne Bragonier

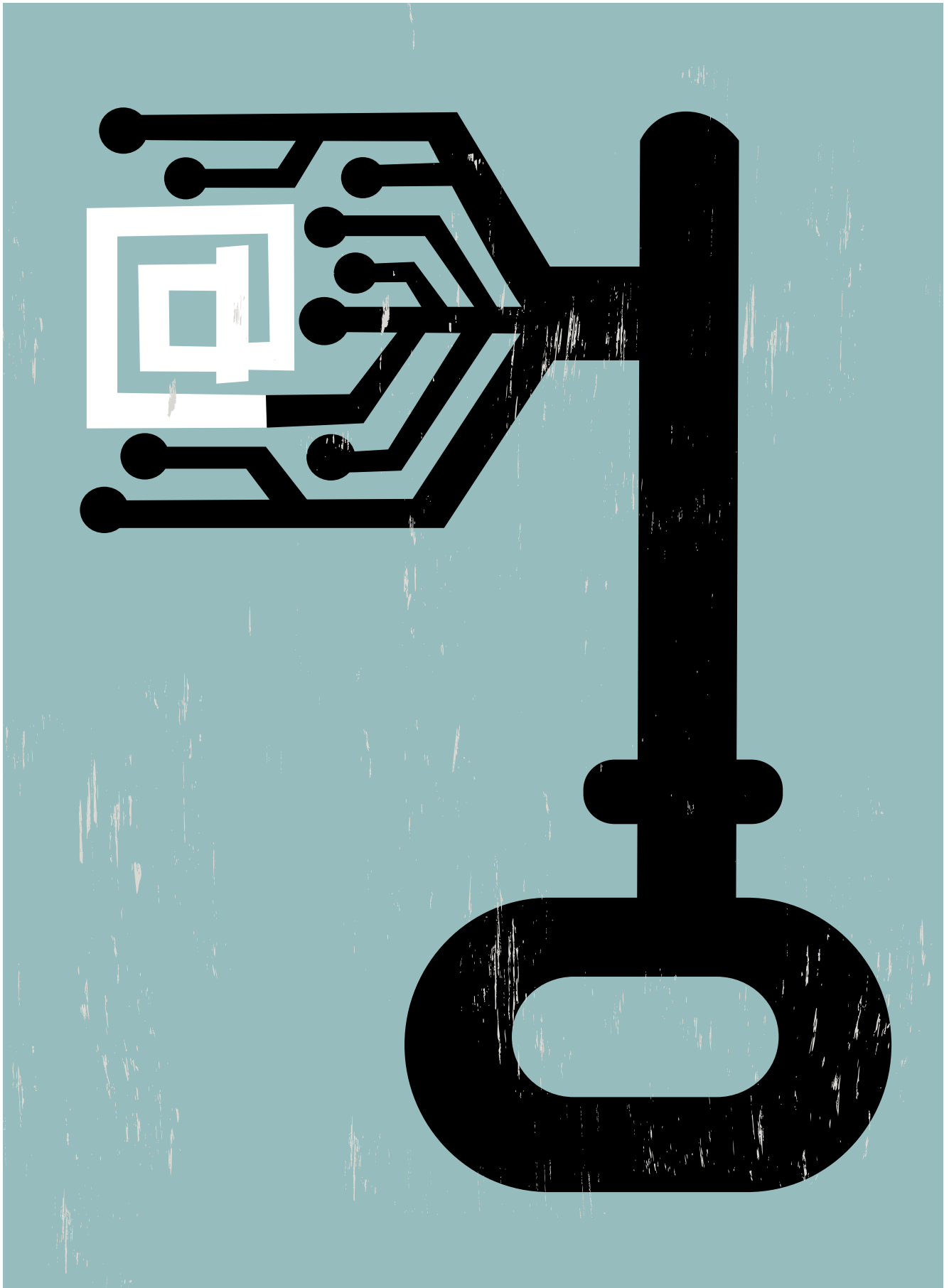


# Safe & SECURE

**“HELP!” PLEADED A USER ON GOOGLE’S GMAIL TECHNICAL** support forum. “Mail directed to me, containing confidential information, got sent to someone else, due to mistyping.” The email SOS continued with “Sorry, I didn’t know anywhere else to post my problem. I don’t want the information to end up in the wrong hands.” The responses from members of the forum were all the same: you’re out of luck. Once data is sent, there’s no way to control or retract it.

Email is an extremely simple and efficient way to communicate. It’s easily the most frequently used service on the Internet, which itself has become the communication channel of choice for just about everyone. And for good reason: it’s convenient. The Internet allows us to send and receive messages anytime, anywhere. And we do, via our smartphones, tablets, notebooks, work desktops

illustrations by LASSE SKARBOVICK



and home devices, which all provide Internet access.

The problem is much of our content is confidential. No matter how simple email or any mode of communication on the Internet becomes, we must apply due diligence to our emails, file transfers and publishing of content on web pages.

To keep information safe, it's important to have a basic understanding of some technical aspects of how information travels over the Internet. Consider this a crash course in the fundamentals of online communication.

### Let's get technical

Communicating over the Internet involves special sets of rules or protocols. The two most common protocols are simple mail transfer protocol (SMTP), used for sending and receiving emails, and hypertext transport protocol (HTTP), used for Internet browsing. (See "How communication works on the Internet," p. 34.)

Both protocols send information in plain text to minimize the complexity of processing and make it easy to share information on the Internet. Plain text is just that: ordinary letters typed by the user requiring no computational processing or

programming. By design, this means anyone who has access to your network can read your communication — including the confidential information.

So far, so good. Now, you've likely been to a website where you need to enter private data, such as credit card numbers or banking information. This is confidential data you do not want to share with anybody. The Internet, however, is a bunch of segments owned by different companies or service providers. This means the data you enter must travel over your Internet service provider's network and other network segments until it arrives at its destination.

To keep that information safe, another set of rules is added to the mix.

### Confidentiality, SSL to the rescue

The secure socket layer (SSL) protocol (or its successor transport layer security [TLS]) is the S in the email protocol SMTPS and in the browser protocol HTTPS. Confidential data can be sent securely over the Internet via SSL.

SSL is based on cryptography, which is basically the science of hiding information. And it probably dates back to the start of human communication.

Sometimes children would try to hide their conversations from parents or others by speaking Pig Latin. In effect, Pig Latin is a rudimentary way to translate the English language. For example: cat = atcay; dog = ogday; and simple = implesay.

It can help explain the basic concepts of cryptography and how SSL works. Start with a simple word, or in tech speak, a string of plain text characters. Our plain text string is "cat."

Next, a mathematical conversion or encryption algorithm is used to hide the word. This conversion process usually includes a key string of random characters. For Pig Latin the encryption algorithm is to remove the beginning consonant of the word and add it to the end of the word. The key string "ay" is added after the consonant.

The result is encrypted text or cipher text. Our Pig Latin plain text is "cat." The encrypted text is "atcay."

Children could hold encrypted conversations because they knew the encryption algorithm and the key string used. As you have likely deduced, Pig Latin may not be the best encryption protocol to use as it applies the same key to encrypt and decrypt the data. This is referred to as symmetric key encryption-decryption. I'm sure when parents wanted, they easily understood conversations.

With cryptography you don't have to use the same key to encrypt and decrypt. You can use one key, a public key, to encrypt the data and another key, a private key, to decrypt the data. This is referred to as asymmetric key

### Privacy: it's the law

In 2004, California enacted one of the first legislative acts that put responsibility on firms that collect and/or transmit personal private information. If the firm is aware of unauthorized access or transmission of unencrypted data — a data breach — by law it is required to notify all possible entities whose data was exposed. The firm could also be responsible for fines and punitive penalties. "Private information" is a broadly defined term, however, examples include a company or individual's name combined with an account number; an account balance; a credit rating; or a home address.

Today almost every jurisdiction in Canada, the US and the EU has enacted or tabled legislation that requires, at a minimum, disclosure of a known material data breach of private information. Some jurisdictions, such as Massachusetts, are enacting far-reaching legislation that makes it mandatory to encrypt private data transmitted across the Internet. What makes Massachusetts' law powerful is that it is based on collecting or transmitting a resident's data. It does not care where you reside, where the intended recipient resides or whether a data breach took place.

So if someone in Ontario emails someone in Ontario about a person or private firm residing in Massachusetts, by that state's law, you will be held legally responsible to encrypt its resident's private data prior to transmission.

In Canada, responsibility for the transmission of private personal information is spread across several acts. There are responsibilities under the Federal Personal Information Protection and Electronic Documents Act and there are provincial acts, such as Alberta's and BC's Personal Information Protection Act.

— DB





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You should not write or send anything via email that you wouldn't say in public. In other words, treat your email content the same as the content you would write on a postcard.

So how can you send confidential information across the Internet?

encryption-decryption — and it makes cracking the encryption code that much harder.

The concept of a public and a private key is similar to when a company sends you a security box to return goods. The box comes with a return address and an attached opened lock, which requires a common, or public, key to lock the box but it cannot unlock it. Once you place items into the security box, you lock it with the public key and return the box to the company. Only the recipient company has the private key to unlock it. In this way, you can be confident that the goods will only be opened by the company that sent you the box.

The asymmetric public-private key makes secure transactions on the Internet simple. However, before you send your credit-card details to a company website, you need assurances that the website is in fact the company it says it is. This assurance is the final stage of the SSL protocol.

An SSL certificate is a type of independent third-party assurance report, such as an audit report or review report issued by a public accountant. The certificate is sent by the company prior to the user sending confidential information. This is similar to the audit report being forwarded in front of a company's financial statements.

The SSL certificate is issued by an independent third-party trusted certification authority that verifies the company's server identity and provides assurance that it is a licensed legitimate company. Each browser maintains a list of trusted certificate providers. Secure data transactions will happen automatically with sites certified by a company on the browser's approved list. When your browser gets a certificate from a provider not on the approved list, the user receives a warning asking if he or she wishes to proceed with the transmission.

So, why aren't all Internet transactions secure?

The main reason is the administrative cost of SSL, primarily due to additional computational time for each transaction and the time and money to administer the web server. The second reason is it contravenes the fundamental philosophy of easy open sharing of information via the World Wide Web. For these reasons, only transfers of confidential data apply the SSL protocols.

### How email works

Let's examine an email that Linda sends to Joe.

When she sends it, the email does not go directly to Joe. It travels along a channel that starts with Linda's email client and goes to Joe's mail server. (See "Email" chart on p. 36.)

An email client is the software used to send the message — think Outlook, for example. For Linda to send her message, her

email client has to connect to and go through her firm's electronic "post office," known as a mail server. Linda's mail server then passes it on. Sometimes it's passed directly to the recipient's (in this case, Joe's) firm's mail server and sometimes it may go through a series of email spam servers or virus protection servers, for example. Linda's message then continues along the channel to Joe's mail server, which then delivers it to Joe on his desktop, laptop, notebook, tablet and/or smartphone.

Just as there is an accepted set of rules when you address a letter, there is a set of protocols to address emails. The recipient's address contains the name of the person and a locator for his or her mail server. For example, joe@locator.com. The email also contains the sender's name (linda@herlocation.com) so the mail server can authenticate the sender.

The only link in the channel that is directly in your, the sender's, control is from your device to your firm's mail server. In the past few years, most mail servers' installation steps encrypt the transmission to and from the mail client by default so the message is sent encrypted from your Outlook to your firm's mail server. This default encryption also encrypts your name and password, which are sent with your email message for authentication by your mail server. In this way, your logon name and password are secure when sent or received by your mail server via Wi-Fi at home, a public location such as Starbucks or a private client site.

However, encrypting email between you and your mail server does not adequately secure the contents of the message along the subsequent links of the communication channel nor does it provide assurance that the person you had intended to send the email to was actually the one who opened and read it.

Everyone has scrolled down a forwarded email to read an appended email that was not addressed to them. In fact, the original sender of the appended email may never have contemplated that anyone else would see the message. Many of us may have had an unpleasant experience with the auto-complete feature used by our email client, where a similar but incorrect recipient's address for the email was inserted by accident.

Both these situations prove that email does not have a reliable audit reporting system. The simple email request to acknowledge receipt can easily be over-ridden and does not normally apply to email that has been forwarded.

There is a saying that you should not write or send anything via email that you wouldn't say in public. In other words, treat email content the same as the content you would write on a postcard.

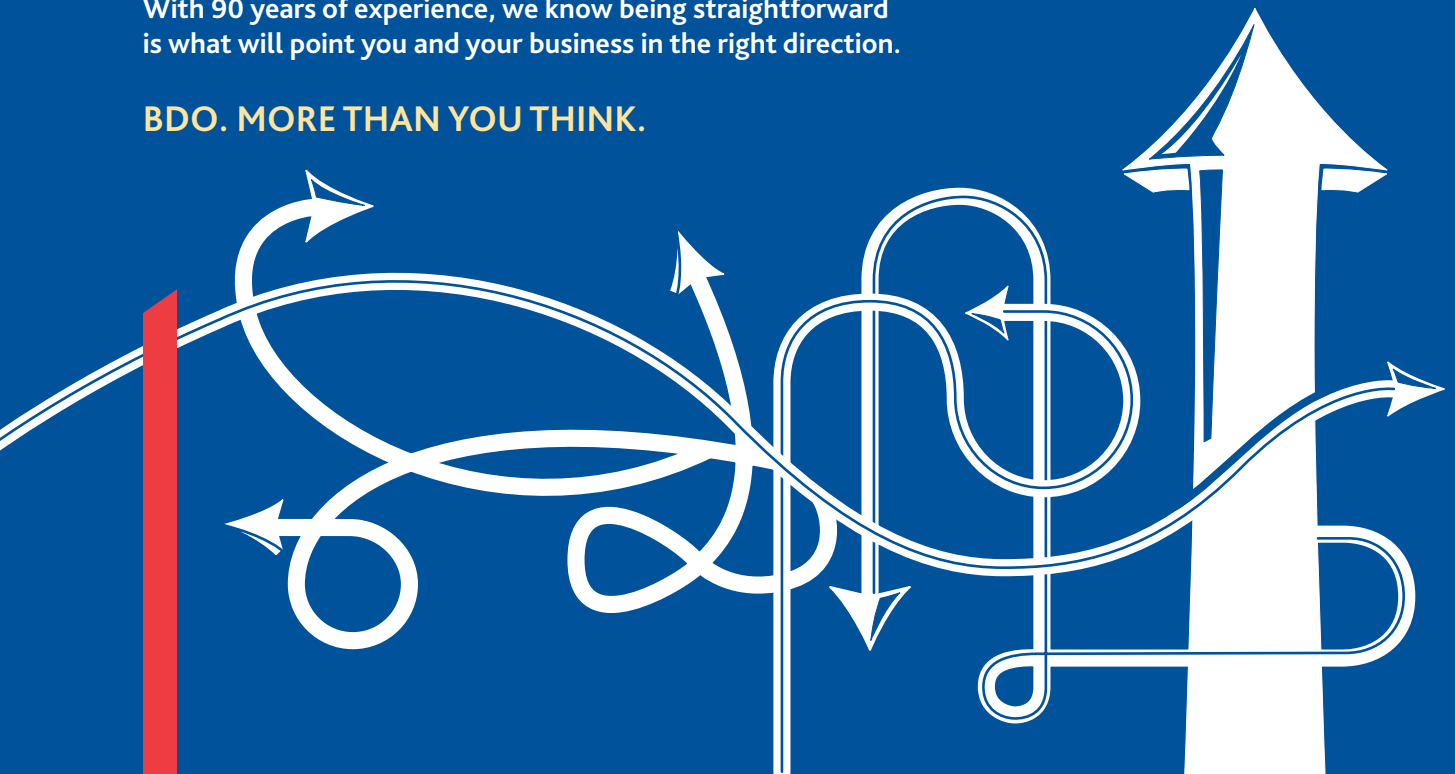
So, if not via email, then how can you send confidential information across the Internet?

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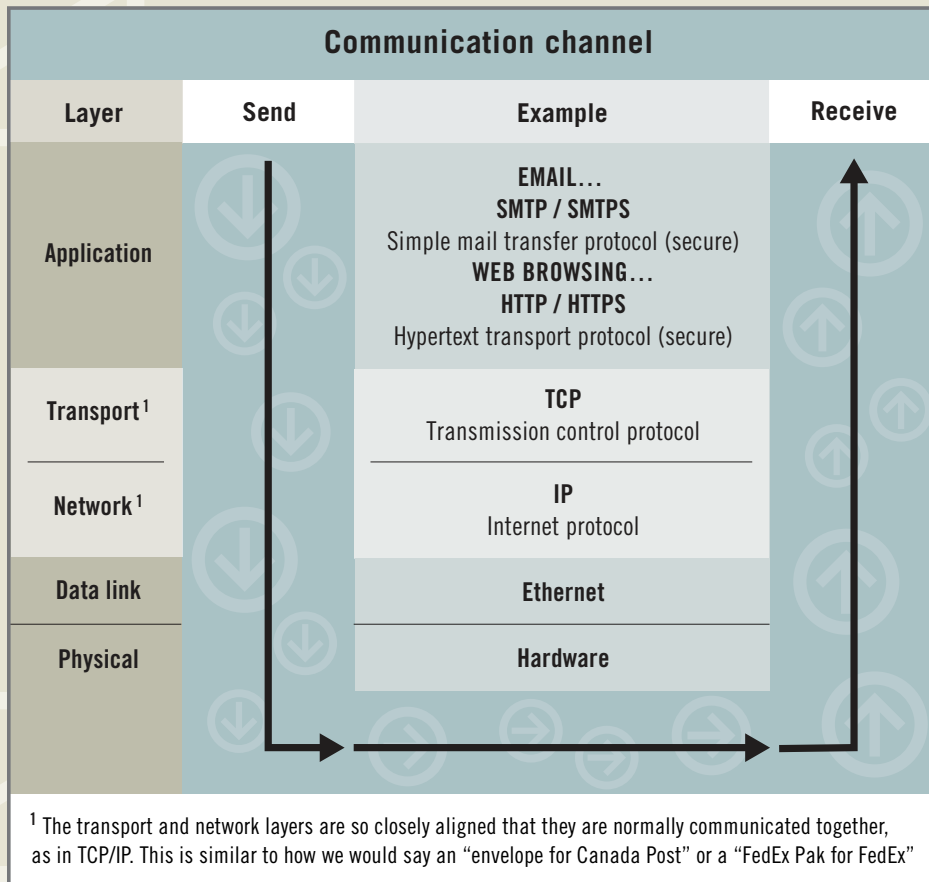
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## How communication works on the Internet

We have a basic understanding of how we communicate using mail or the telephone. There is a tangible logic to both processes. The Internet is anything but tangible and not surprisingly, most of us don't have that same basic understanding. To help make sense of how communication works on the Internet, here is a visual representation and explanation.



**Application layer** A letter is created using English characters structured into words, sentences and paragraphs so our communication can be understood by the recipient. The application layer translates English characters into machine language and applies structured rules to allow data to be communicated to the recipient machine.

**Transport layer** A paper-based letter is put into an envelope in preparation to mail it. Similarly, the transport layer places the data from the application layer into packets for controlled delivery.

**Network layer** To send an envelope, there are various control rules, depending on the delivery method — the post office or a courier service. These rules include where we write the destination address versus the return address and what happens if the envelope is undeliverable. Likewise, the network layer applies the protocols required to ensure that

the packet is properly delivered. It also provides rules for error recovery and flow control between the two ends of the communication channel.

**Data link layer** When an envelope is mailed, the route has many separate segments. First it is picked up by someone at the mailbox, then trucked to a terminal, flown across the country, trucked from a terminal and then delivered to a mailbox. Each link in the delivery channel has protocols to ensure secure delivery. In the same way, the data link layer is responsible for delivering the packet between the two physical ends of any link in the communication channel.

**Physical layer** Much in the same way as ground mail gets delivered to your mailbox, the physical layer is the hardware at the two ends of each link of the communication channel that allows the message to be delivered and received. It can be a computer, mobile device, router or server. — DB

### Portals for secure collaboration

To ensure compliance with both legal regulations (See “Privacy: it’s the law,” p. 30) and best business practices surrounding the transmission and dissemination of confidential information, you need to use a secure portal.

Portals are points of access available through web browsing, or HTTP/HTTPS protocols. They allow user authentication, security rights, activity tracking and reporting, retention policies and folder structure. They can be hosted externally or in-house and are connected to the web. Portals provide access to content that can be uploaded from different sources and they can typically be customized to suit a client’s specific needs.

Secure portals by definition deploy SSL via HTTPS. That means they encrypt content (email, videos, pictures, feeds, etc.) to and from the portal. They also ensure secure content access via user authentication. As a result, secure portals ensure that you are compliant with regulatory obligations and applying best business practices to content with confidential information.

These portals are primarily offered as completely segregated product offerings. You need to deploy two different portals if you want a secure file transfer and a secure messaging service. A few vendors have recently started to offer collaboration portals that combine both file transfer and messaging services.

Secure portals usually broadcast an email to announce that a file or a message has been uploaded and is available for the client or the firm member. The portal-controlled email message contains an HTTPS hyperlink to the portal for easy secure download.

In the same manner, a secure messaging service provides a small add-on application to your mail client that gives you the option to send the message securely. When you use the secure send option, the email message is sent via HTTPS to the secure message portal and it also sends an email to the client with an HTTPS hyperlink to the saved message.

When the client uses the hyperlink to access the portal, the client is required to log on to the portal as an authenticated user. This way only the intended recipient can access the portal and download the file or read the message.

Convenience, completeness, authenticity, quality improvement, verification and reduced client queries all start with providing a secure file transfer portal and a secure messaging service portal.

Here are a few examples of how CA firms are implementing secure portals.

### The simple

In 2009, Gerry Wilton, then a partner at English & Jones Chartered Accountants (now known as Jones & O’Connell), a 20-member firm in southern Ontario, placed a link to a popular secure file delivery company on the front page of the firm’s website. “We needed a web-based file delivery mechanism so our clients could transfer a file securely to us. They click on the image, browse to the file they want to upload and that’s basically it. Our purpose was that focused. We needed secure file transfer from the client to us,” says Wilton.

The firm could also send a file to the client but this file delivery system did not provide for structured storage or individual client access to browse files on the portal.

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**Directors Source**

One of the reasons Wilton decided to use an externally hosted site was because of Internet bandwidth concerns. “If we were to host the server ourselves, then every time a client would upload or download a file, it would take away from our firm’s internal use of Internet bandwidth or worse yet, our client may experience a slower response if we were uploading a file while they were trying to download one. We just found it less intrusive to have the portal external to our operations,” he says.

**The practical**

Kanish & Partners, a 22-member chartered accounting firm in Toronto, recently deployed its own secure portal. “We were getting tired of having to go to the client’s office to get a copy of its trial balance or to get the client to courier its Simply Accounting data files to us,” says Diluckshiya Donbosco, financial analyst. “The files are just too large to send by email.”

Donbosco is in the process of setting up separate logon identities and passwords for each of the firm’s clients. This will allow each client to have its own privately accessible file storage location to exchange files with Kanish team members.

“It’s like a private drop box for each of our clients. It’s so simple

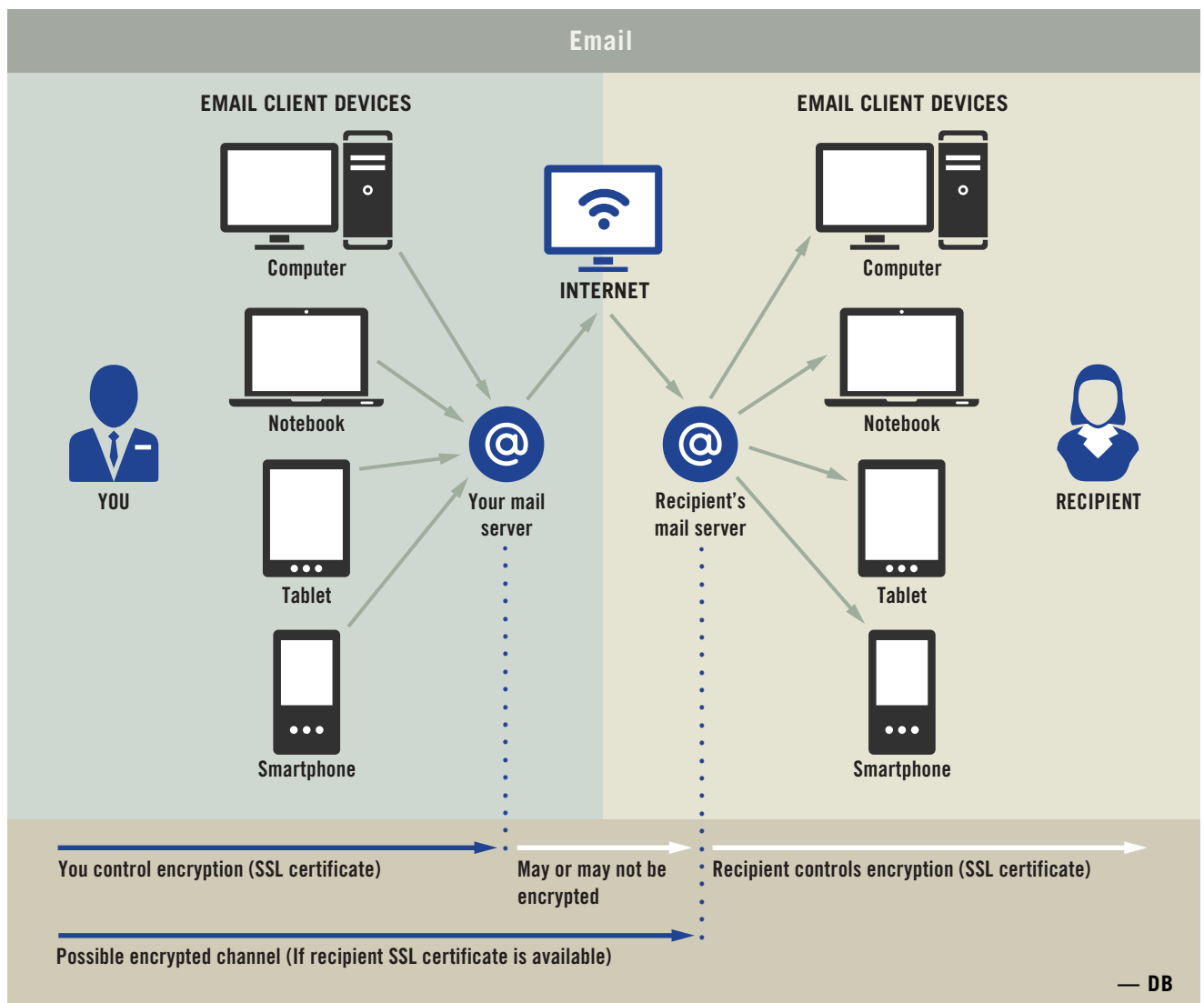
to use. Our clients find it very easy to transfer files to us.” She notes it was easy to quantify the business benefits when you can send a file in just a matter of minutes versus using a courier.

Kanish is aware that its portal allows for bi-directional file upload-download, file folder structures, and default file retention periods. It is also aware that there is additional functionality available to it. Management is now in discussions on how to expand the portal beyond its current use for uploading client trial balances for short-term retention. The firm is exploring the client service side of this technology.

It intends to prepare a protocols document on the naming conventions, retention policies and types of documents that must be used with the portal. Donbosco says that even though it is early in the process, she can see this as a game-changing technology in collaborating on confidential information with the client.

**The integrated**

In the summer of 2007, MacGillivray Chartered Accountants & Business Advisors, a small Mississauga, Ont., firm with several large consolidated client entities amongst its client mix, deployed its first client portal.



"We saw it as an add-on to our internal paperless document management initiative," says Dave Straughan, partner.

"We started by selecting eight trial clients. As was our practice at that time, toward the end of the engagement we would have a meeting with the client and go over the results," he says. "We would bring a rather robust paper package to the client: financial statements, tax returns, adjusting journal entries and other related items. At the meeting with our first trial client, we told it that we had also posted a PDF copy on their client portal."

What happened during this client trial amazed Straughan. "The clients responded by asking why we had bothered to create the paper copy. What amazed us most was not that clients accepted the electronic version, it was their rejection of the paper version. By the end of the eighth client, we had decided we were not going to produce the same paper-based document deliverable package any more."

MacGillivray's client deliverable package contained a lot of private information. When asked whether compliance to the law was part of its criteria in deploying and maintaining the portal, Straughan takes a common-sense approach.

"We don't ever want to be in a situation where our client's data is stolen or its confidential information is compromised. Whether it is a legal infraction or not doesn't matter. It's just not good for business."

### The future

Secure file transfer portals, such as the one deployed by MacGillivray, are becoming more common in the marketplace. They allow for a secure file exchange with clients. And any content, including balance sheets, tax returns and trial balance data, can be freely exchanged. The exchange can be from you to the client or from the client to you.

MacGillivray has evolved its initial version of an internally hosted portal into an externally hosted software as a service (SaaS) solution. "The SaaS solution is so much more flexible than our version 1 portal," says Straughan. "We are now discussing which delivered documents we will maintain for the client and the document management associated with providing that service."

He's alluding to the client service options associated with archiving previously delivered documents. If the client needs a copy of his or her financial statements or corporate tax returns from the past five years, then why not provide this secure service anytime and anywhere the client wants to access them? This is an emerging practical client service offering given the unlimited storage, backup and server redundancies associated with a SaaS offering.

### Where does your firm stand?

It is enabling to have easy access to the Internet anytime, from anywhere. That's why the Internet has become the communication tool of choice — even when it comes to the distribution of confidential information. It's also clear that the Gmail user who sent the email SOS when his confidential information ended up in the wrong hands is not alone.

A recent survey of 200 IT executives in Ireland polled on behalf of IT distributor DataSolutions proves just how widespread a problem this is. Almost two-thirds of respondents reported that staff members had sent confidential business information over email. This included proprietary company details and customer financial or identity information. One in four reported they had to discipline an employee for sending confidential information over email.

If your firm had participated in the survey, are you confident you would be able to speak with the minority whose team members ensure confidential information is transmitted securely to clients?

Does your firm have an email acceptable-use policy with respect to sending confidential information?

Do you have a secure means of transferring files to or from clients?

Are your firm's policies in compliance with all regulatory requirements on the transmission of confidential information?

If you answered no to any of the questions, then you should be looking into making some changes. Secure your communication — it's time.

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## Are checklists killing our profession?

Generic checklists may be a great way to start an audit, but they can lead to a lessened focus on judgment

**A**ccountants love their checklists. “Thank you for the theory, now please just tell me what to do” is a common refrain from auditors, especially when faced with the 570-plus requirements in the Canadian auditing and quality control standards.

But ours is a thinking profession, not one that relies on a mechanical approach to deliver a product. Every audit is unique, so reliance on a common set of checklists is unlikely to be efficient, nor will it result in an effective audit. Research shows that reliance on systems designed to do your thinking for you can reduce your ability to make good judgments. Professional judgment is the crux of our profession. It is what the public expects and what clients pay for.

The relatively new Canadian auditing standards (CAS)

clock in at 800-plus pages. Many experienced auditors rely on generic checklists developed in-house or by third parties to cope with the volume, with reliance on generic checklists appearing easier than crafting their own.

And the initial setup is easy — just import the lists and tick the boxes. On the face of it, relying on someone else’s expert system avoids the need for a complete knowledge of CAS. A purchased methodology may even suggest procedures you haven’t thought of. However, there are significant drawbacks to this approach.

### Drawbacks to generic checklists

Consider this: computer application designers are faced with the problem where providing too much guidance to operators (that is, programming a computer system to make decisions in the background) can have negative impacts on the ability of the operator to make complex judgments and the time it takes to make those decisions.

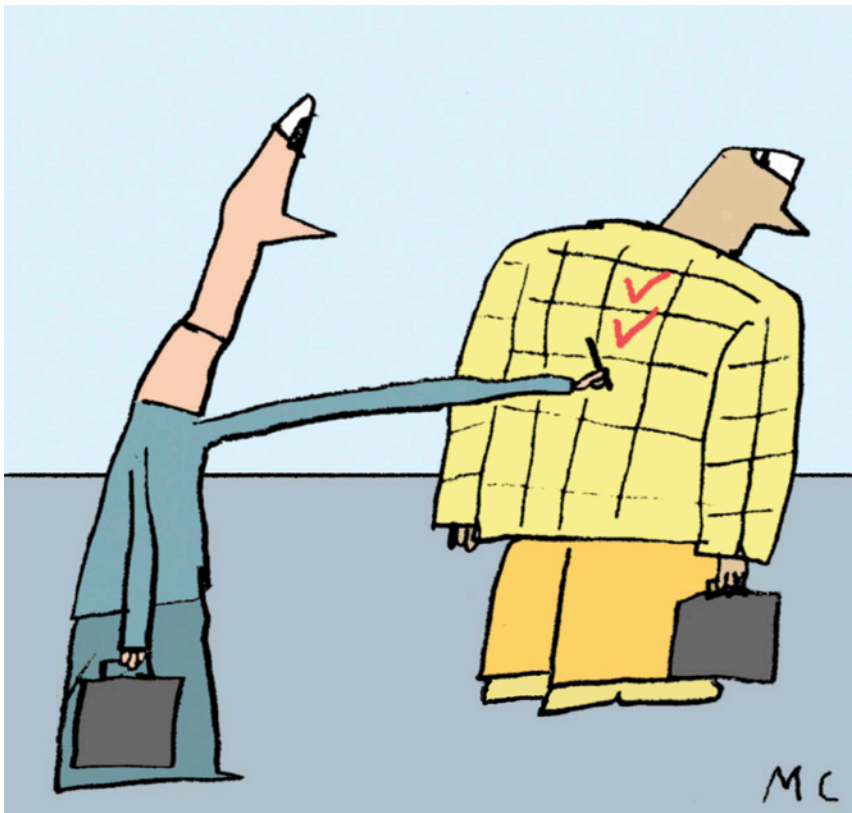
In addition, not having to think your way through a problem because you are guided by application software may foster shallow thinking. This comes down to operators who understand the workings of their systems having an advantage over those who don’t.

- Systems with built-in decision-making capabilities may be easy to use, but they don’t encourage the thought required for difficult decision-making. A point-and-click operation is not the same as thinking through a process.

- Operators relying on an application take significantly more time to resolve unexpected issues than those not using a decision-assisting application.

- Generic software must address every potential issue unless the operator has an understanding of the underlying decision-making process. This tends to make generic products overly detailed for most day-to-day tasks.

- An operator can use a point-and-click system even when distracted as the sys-





tem seemingly thinks for the operator.

In an effort to make application software easy, designers often bury the underlying logic in the application so users can focus on moving or clicking through the program to reach their goal quickly. While this is an admirable design goal for many computer applications, it is the antithesis of a quality audit process. Removing the decision-making process could impair a user's ability to think deeply — and deep thinking is essential in making sound judgments.

This situation is more than relevant to the audit profession. Auditors must think their way through every aspect of an audit to decide what evidence needs to be obtained, evaluate the quality of that evidence and then use this information to make a myriad of professional judgments. Just because an auditor understands the individual steps suggested by the expert system does not mean he or she grasps the bigger picture of how the steps fit together. Bottom line: a successful audit is not built on a system that encourages superficial thought.

### Relying on CAS

The CASs are not an easy read and they aren't meant to be. They demand operator-style knowledge of the underlying goals and structure. They are designed for problem solving and are not intended to result in an audit being performed by rote.

The process is all about judgment, with an essential time investment required up front to read and understand the standards. This is the process that helps determine what requirements are relevant to your audit and results in the ultimate benefits — more effective and efficient problem solving.

In addition, using the standards as they are intended encourages the development of professional judgment in up-and-coming professionals. Without generic checklists, auditors have the opportunity to think. Practice makes perfect, with the process of auditing being just as critical to the final result as the individual steps leading up to it.

The most effective way to internalize the standards is to read and understand them yourself. It is not a task to delegate. Figuring out which requirements are relevant to an individual audit and which aren't requires knowledge of each requirement.

The good news is the format of CAS makes this relatively easy. In fact, several of the 36 CASs will not be relevant to many audits, with some requirements needing just a brief consideration. Once requirements have been determined not relevant to your engagement, they can be ignored year after year unless engagement circumstances change.

For example, in the case of a micro-entity or small-entity audit, several of the standards will likely not be relevant, such as CAS 600, Special Considerations — Audits of Group Financial Statements. In addition, many of the requirements in relevant CASs may not be relevant to the audit at hand. For example, CAS 210, Agreeing the Terms of Audit Engagements, has 16 requirements, but only three will likely be applicable in every micro-entity audit (CAS 210.06, 09 and 10).

### Customizing checklists

Can the Herculean task of customizing checklists be managed? Assign one person as a project leader in your firm to go through the CAS requirements in depth to highlight those likely relevant in every one of your audits. From here, you can incorporate those requirements into your firm's audit methodology. The project leader can hold a series of guided information sessions for all staff, referring directly to CAS at all times.

It is hard to imagine having all the steps required in a CAS audit in working memory. This is where checklists come in again, but this time they're customized and promote sound and effective professional judgment.

More than this, generic, inappropriate and/or overly detailed checklists may be completed on auto-pilot by experienced auditors or completed by junior accountants who may not understand the subtlety of all the steps. Preparing tailor-made checklists that suit the needs of each specific engagement is the key to efficiency and effectiveness.

For example, an experienced auditor performing an audit for a longtime client doesn't always need to complete a 10- to 15-step bank reconciliation checklist. A better approach for the auditor

## **Without generic checklists, auditors have the opportunity to think. Practice makes perfect, with the audit process being as critical to the result as the steps leading up to it**

would be to have one or two high-level questions focused on the existence of cash, possible bank debt and statement disclosure.

Consider tailoring checklists to your type of client and industry specialization; to your staff mix (the more junior the staff, the more detailed the checklists need to be); and to the areas of your audits where professional judgment is most critical.

A generic checklist may be a great place to start, but it must be customized using your comprehensive knowledge and understanding of CAS. Ensure no key steps have been missed by designing a comprehensive document index for every audit file covering every aspect of the engagement — from planning to reporting. With every document in the index requiring completion prior to the engagement's end, you can be assured nothing significant has been omitted.

Generic checklists can lead to a lessened focus on professional judgment, which is the antithesis of the intent of CAS. However, customizing checklists for each audit can heighten professional judgment. Once customized, audit automation provides the ability to carry your unique approach forward annually — tailoring changes as appropriate, improving recoveries and reducing engagement risk.

Phil Cowperthwaite, FCA, is a partner of Toronto CA firm Cowperthwaite Mehta and a member of the IFAC Small and Medium Practices Committee

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

## A view from the bridge — Part I

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

**A**t first blush taxation may not be the most savory topic of discussion. An apprehension for the subject by nontax professionals is understandable and among the many reasons that generate disfavor is the fact that taxation can be a complicated subject with asphyxiating intricacy that can easily render its audience unconscious. Fortunately, here the discussion is not didactic. Rather, the aim is to highlight the importance of taxation in a multinational mining context and how it can be the source of significant risk and uncertainty. The lesson to be had is that it behooves decision-makers to closely consider tax matters in all relevant contexts.

What is mining? The average person would likely give a response along the lines of the “profitable exploitation of natural resources via a series of activities that include exploration, development, extraction, refining, transportation, sale and environmental reclamation.” Although correct, the description is incomplete.

Today’s definition of mining must be a more expansive one that captures the interactions of mining companies with governments and, ultimately, the local communities where activities take place. In this broader context, mining becomes a transformative economic exercise that can have a wide area of influence in providing economic benefits and social development. What links all this? Most notably — taxes.

All business activity has an impact on economic and social betterment; however, the connection is arguably more pronounced and can be more precarious in the case of mining activities. Unlike manufacturing companies, mining companies can’t select where to undertake their operations. The precursory geological turbulence of the earth over vast periods of time does not necessarily culminate in mineralization being located in the most ideal locations. This immobility is a fact of mining life. With substantial-sized mineral deposits becoming increasingly challenging to locate, mining companies must travel to where they are to be found. Additionally,

mining is a capital-intensive pursuit requiring the commitment of significant financial resources prior to the start of commercial production, which is typically years ahead of the green field stage.

The combination of financial outlays, long lead times and immobile mineral deposits means the economics of mining projects are particularly sensitive to the risks of material adverse changes to the business environment of a foreign jurisdiction, including its tax regime. A point can be reached where the total tax take adversely affects the economic viability of a mining project with jeopardy ranging from a delay in the project’s commencement to its cancellation. Multinational mining companies can opt to devote their efforts and financial resources to developing alternative, more profitable projects within their portfolios in other jurisdictions. Given the nature of their busi-

### **Foreign governments, particularly in resource-based developing countries, target the mining sector as a revenue-raising source when faced with mounting debt**

ness and industry-specific challenges, mining companies are uniquely positioned when it comes to tax matters and for those mining companies with a global reach, the issue of taxes in foreign jurisdictions can be fraught with risks and uncertainties. A lack of clear rules or vacuous legislation can be a vexing problem.

What is a tax? A knee-jerk, flippant response — “something one would rather not pay.” Notwithstanding vast tomes of theory, analysis and discourse, in the simplest of terms, a tax is a fee or levy charged by a government on income, gains, capital or any other economic activity (typically termed “direct taxes”). Taxes can also be charged on the price or quantity of a good or service (typically termed “indirect taxes”). This is the traditional definition. The more expansive definition is a more contemplative one that recognizes the critical connection between taxes and the social betterment of jurisdictions resulting from the use of tax revenue to fund various programs and development objectives on the agendas of governments. The comfort and complacency of being stuck in and continuing



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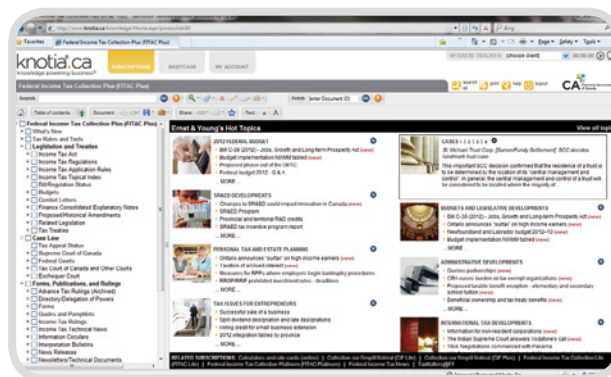
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with the traditional view of taxation is a risky proposition that is most likely unsustainable — a point very well understood by multinational mining companies.

Foreign governments, particularly those in resource-based developing countries, increasingly target the mining sector as their main revenue-raising source in the face of ever-increasing pressure to deal with mounting debt and to fund infrastructure and social programs. As a result of the global financial crisis many governments sought to jump-start their struggling economies with stimulus measures via the tax system. These measures will most likely be followed by efforts to recover lost revenue through the same tax system. Escalating debt can inspire foreign governments to raise mining-related taxes and such a strategy becomes a matter of extent and severity. Short-term objectives can come at the cost of long-term competitiveness and the attraction of foreign investment and the related economic development of associated industries that such investment brings with it. In developing long-term strategies to maximize the benefit derived from a country's natural resources, foreign governments are best served if they put in place fiscal regimes that are fair, conducive to foreign investment and stable from a forward-looking standpoint. This is what mining companies look for.

Economists (having a facility with attaching a theory to practically anything) use the term "economic rent," which most simply refers to the payment to the owner of some factor of production, such as land, labour or capital, in excess of the amount that is sufficient to keep it in its present employment. So, in theory, a reduction of economic rent should not alter the owner's economic behaviour. Firms earn economic rent when the prices received for their goods and services exceed the amount that is necessary to attract them to their industry or to keep them from reducing their output or shutting down if they are already in the industry. Here the key concept is that of a surplus financial return. From a mining company perspective the question for governments seeking to increase their tax take is whether they are tapping into economic rent vis-à-vis their policies or whether those policies will affect the economic behaviour of mining companies.

Economic progress for many developing and resource-rich countries is often tied to the exploitation of their natural resources. More and more there is an element of resource nationalism when it comes to how the populace view the mineral wealth of their country and whether they look to such wealth as a means of improving economic and living conditions. These expectations pressure governments to extract greater

returns from companies (in particular foreign companies) that exploit these natural resources. In a way, the mineral resource becomes the mining company's tax base, a base which is more often than not inextricably linked to the psyche of a nation. It is literally part of the nation until it is extracted and with extraction the debate commences as to the appropriate return for the mining company versus for the nation. In this light, some form of resource nationalism is increasingly prevalent in many foreign jurisdictions.

Resource nationalism takes the first position in the top 10 risks discussed in Ernst & Young's Business Risks Facing Mining and Metals 2012-2013, with the sector increasingly targeted by governments as a revenue source. It is noted that resource nationalism places a large cost burden on mining and metals companies and can influence a company's decision on whether or not to invest in a particular country. According to Andy Miller, E&Y's global tax leader, mining and metals: "Resource nationalism has become a contagion impacting the mining and metals industry across the globe. The industry needs to become more engaged in the analysis and management of this risk, which can place a heavy burden on existing operations and influence future decisions on where to invest."

Fueled by an increase in commodity prices, resource nationalism can manifest itself in various forms, including increases in mineral royalty rates or the imposition of some form of resource

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rent tax or windfall tax seeking to capture some portion of perceived excess profits during periods of high commodity prices. Wanting to encourage further local economic development, governments may seek to impose local processing requirements for resource companies before products are exported. Existing mining codes or other laws may be amended or new ones put in place to increase local participation and economic interest in mining projects, or to limit the extent of foreign participation. Changes to tax legislation may include the imposition of ring fencing where the costs of one mining property, for example, a property in the exploration or development stage, cannot offset the profits of another property that is, for example, in the producing stage.

A mining company is not just subject to corporate income taxes, it is also subject to other levies. One popular levy is the mineral royalty whose tax base can range from gross revenue, with potentially certain permissible deductions, to some measure of profit. A profit-based royalty is preferred over a revenue-based royalty, as the former is more economically efficient. A revenue-based royalty calls for royalty payments even when there may be no profit. Beyond mining royalties, there is increasing focus by many governments on super-profit or windfall taxes.

As a result of the disastrous Chilean earthquake in February 2010, the government considered alternative measures to finance reconstruction efforts. Ultimately, the corporate tax rate was increased to 20% from 17% for 2011 and to 18.5% for 2012, with the rate currently scheduled to return to 17% in 2013. In addition, focusing on the mining industry, the core of Chile's economy, the government passed a bill raising mining taxes (also called royalties). Mining operations that did not have a stabilization agreement with the Chilean government became subject to graduated rates of 5% to 14% based on mining operating profit margins. Mines with an operating profit margin of less than 35% are subject to a 5% rate, increasing to 14% for operations where the mining operating profit margin exceeds 85%. For foreign investors protected under tax stability regimes and not affected by the change, voluntary regimes were made available, affording an extended period of stability in exchange for being liable to the new tax for the 2010 to 2012 period. Prior to the changes, mining operations generally paid a tax of 4% or 5% of operating income.

In 2010 the Australian government proposed the introduction of a Resource Super Profits Tax commencing July 1, 2012. At a rate of 40%, the RSPT was to apply to, generally, all resources except projects subject to the existing Petroleum Resource Rent Tax and would operate in parallel with state and territorial royalty regimes. In its rationale for the new tax, the government stated that the current resource-charging arrangements failed to collect an appropriate return for the community from private firms exploiting nonrenewable resources and that the RSPT would provide a more efficient mechanism for collecting a share of the returns and would remove impediments to mining investment and production. This proposal was met with

loud protests from the mining industry and the government opposition party.

Later the same year, Australia abandoned the RSPT and proposed a narrower profit tax, the Minerals Resource Rent Tax, at a rate of 22.5%, applicable to the coal and iron ore sectors and levied on mining revenue, less certain allowable deductions. Along with the MRRT, Australia's PRRT was to be extended in its scope of application. The MRRT was passed into law in March this year, but not without the strife that always accompanies any controversial and material tax in a legislatively charged environment with battling government parties.

Along with a corporate tax rate increase to 35% from 25% in its 2012 budget, Ghana also introduced a windfall profit tax of 10%, the details of which have yet to be released. As part of the budget speech, the government noted that although the mining sector was one of the leading sectors of the country, the economic and social benefits provided by it did not meet the government's expectations.

In 2008, Zambia introduced a windfall profit tax. In the budget for the subsequent year, it abolished the windfall profit tax in light of the global economic crisis affecting the mining

## **Fueled by an increase in commodity prices, resource nationalism can manifest itself in various forms, including increases in mineral royalty rates**

sector. Mining companies have generally objected to windfall-type taxes as being inappropriate and unfair. What constitutes a windfall, excess profit or super-profit, is a matter of debate and foreign governments may focus on a period of high commodity prices without giving due thought to cyclicity and to life-of-project economics.

In 2011 the South African government released its strategy of mineral beneficiation that identified policies, legislation and targeted incentives to enable this key government priority for the country's resource-based economy. In a 2011 paper, *A Beneficiation Strategy for the Minerals Industry of South Africa*, "beneficiation" is described as the transformation of a mineral or a combination of minerals to a higher value product to be exported or consumed within the country. The government sees this strategy as a method of advancing the economy's development by undertaking this value addition through local processing, thereby creating jobs, facilitating economic diversification, increasing industrialization, developing technological excellence and expediting progress towards a knowledge-based economy.

*(Next month's part 2 will continue to examine mining in foreign jurisdictions and taxation.)*

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

## When the birdies go tweet, tweet, tweet

How social media is used by fraud investigators, litigators and law enforcement: the perils and paybacks of tweets, friends and YouTubers



**W**hen the Vancouver Canucks lost the final game of the Stanley Cup to the Boston Bruins in June 2011, more was shattered than fans' hopes. Violence broke out in the streets when investigators set off riots resulting in damages of close to \$4.2 million and more than 100 arrests.

What made the ensuing police investigation unique was that when investigators reviewed information from social media websites, there were more than 3,500 tips from videos, emails, and YouTube and Facebook links.

And it's no wonder: with 845 million monthly active Facebook users and 800 million unique YouTube users, user-generated content is the largest transmitter of open source intelligence.

Law enforcement agencies are not alone in taking advantage of the proliferation of social media portals. Litigators and fraud investigators often refer to Google searches and social media as a starting point in cases. Human resource professionals typically use social networks to obtain background information on potential hires. Employers have used the information on such sites to chronicle cases of employees taking vacations when they had called in sick. Criminal investigators have established circumstantial evidence related to clothing worn by alleged suspects. Occupational fraud investigations have used Facebook photos to identify recoverable assets. And in Australia, New Zealand and the UK, defendants have been served notices by courts through Facebook.

Clearly, these sites are being used for more than track-

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ing long-lost school chums, watching do-it-yourself tutorials or looking at photo updates.

Combined with other sources of information, social media can present a digital diary of an individual's daily life. German Green party politician Malte Spitz conducted an experiment where he sued his cellphone provider to receive six months of phone data. He combined the 35,000 records he received with Twitter feeds, blog entries, website updates and other information from the Internet. The result is an incredible chronology of his daily movements, including train times, flights flown, text messages sent, sleeping patterns and his preferred beer gardens.

Spitz's aim was to bring attention to the record-retention policies of cellphone providers and the amount of information they maintain. However, when coupled with social media, the results are quite impressive and reflect a very detailed digital footprint.

Twitter tweets, personal blogs, Facebook profiles and other popular social media portals contain a plethora of information revealing birth dates, contact information, personal beliefs, political views, hobbies, photographs, videos, employment history, family and friend networks. The willingness of users to post personal information invariably erodes a user's privacy and enables others to accumulate supporting or contradictory information about someone.

While companies will need to consider this aspect when crafting their social media and data retention policies, litigators and investigators are digging deep into this treasure trove to investigate witnesses, prepare for examinations, vet jurors and investigate opposing counsel and judges. There is a wealth of information in these sites that was virtually impossible to discern so quickly 10 years ago.

The benefit of this not-so-secret information cache is obvious. In the US, legal counsel use social networking sites to evaluate and profile jurors and often structure the wording of their arguments around jurors' apparent sensitivities. Similarly, expert witnesses who maintain a social-networking profile could find the behaviours, relationships and networks shown in their online profile are used to question their independence or competency.

Courtrooms have long heard the social chatter. Since 2007, several cases have been brought before provincial courts where social media information, such as photographs posted or comments made, contradicts the claims presented.

Insurance claims, divorce matters and child-custody proceedings top the list. In 2009, Ontario Superior Court Justice D. M. Brown ruled in *Leduc v. Roman* that, if the plaintiff can show relevancy, documents posted on a party's Facebook profile are discoverable and may be admitted in court. The ruling permitted cross-examination of Leduc's profile, which showed the defendant enjoying a post-accident lifestyle that suggested the claims were less serious than the suit claimed. In conjunction with previous rulings, this opened the doors for social media evidence in the courts.

In the US, some insurance companies have hired dedicated social-media investigators as part of their special investigation

units (SIU). Given that nearly two-thirds of adults maintain profiles on social-networking sites, the information on these sites has assisted SIUs and the benefit of preventing fraudulent claims outweighs the cost of investigating them. In the past, hidden video evidence was sought by insurance investigators. Today, methods involve predictive modeling and various data-mining techniques. According to Frank Scandifi, spokesman for the National Insurance Crime Bureau, a nonprofit organization that investigates suspect claims for insurance partners such as Allstate and State Farm, investigators can sit at their desks "mining databases and searching Facebook."

The use of these sites, however, needs to be tempered. Apart from the obvious privacy concerns, Peter Foley, vice-president of claims administration at American Insurance Association, cautions that social media sites should be used only as a launch pad for further investigations and never as final proof of fraud. He points out that investigators could be considered negligent if they did not conduct at least "a quick scan of social media to check for contradictions."

These contradictions often result in denied claims or charges of fraud. Take the January 2012 case of Corbin Joseph of Williams

## **Courtrooms have long heard the social chatter. Since 2007 several cases have been brought before courts where social media information contradicts the claims presented**

Lake, BC, who had been drinking at a New Year's Eve party when he rolled his vehicle and three passengers on a rural road west of his hometown. Fortunately, no one suffered serious injuries. At the time, Joseph was prohibited from driving so he asked a female passenger to lie for him in order to collect the \$18,350 insurance payout. She agreed and he proceeded to brag about his insurance payout on Facebook, which caught the attention of SIU investigators. In addition to being fined and ordered to repay the claim proceeds, he was handed a three-month conditional sentence and put on probation for six months.

Law enforcement officers also monitor social-networking portals as Paul Chambers learned on Jan. 6, 2010, when he tweeted to his 650 followers what he thought about not being able to fly due to cold weather: "Crap! Robin Hood airport is closed. You've got a week to get your [expletive] together otherwise I'm blowing the airport sky high!" An airport employee saw the message and although it was not considered credible by airport management, the matter was nonetheless reported to the police. Chambers was arrested, investigated and subsequently lost his job. His trial became known as the Twitter Joke Trial. As of June, his appeal to dismiss his conviction was still before the high court, pending a reserved judgment.

The speed at which information is transmitted through social networks can be a cause for concern — as many Hollywood stars can readily attest to. While personal statuses, photos, bragging rights and opinions are often shared within a limited circle of friends or acquaintances, social media has also become an avenue

for news bulletins, especially as they relate to Twitter reports of cases before the courts.

Susan Harada and Mary McGuire, associate professors at Carleton University's School of Journalism and Communication, commented that "Twitter turns traditional journalistic practices on their head. There is no editor reviewing the copy before it is published." The courts are aware of this and consider the permissibility of real-time social media broadcasts on a case-by-case basis.

But the perils of social networking also rest with jurors. In August 2010, a 20-year-old Michigan juror posted on Facebook how it was "gonna be fun to tell the defendant they're guilty." The post was discovered by the 17-year-old son of the defence attorney. The juror was fined US\$250 and ordered to write a five-page essay on the US Sixth Amendment, which grants an accused the right to a fair and impartial jury.

Earlier this year, the Judicial Conference of the United States released new model jury instructions including wording that prohibited jurors from communicating with others through cell-phones, email, "BlackBerry, iPhone, text messaging, or on Twitter, through any blog or website, through any Internet chat room, or by way of any other social networking websites, including Facebook, My-space, LinkedIn, and YouTube."

It had good reason for doing so. In March 2009, a Florida juror in a drug case admitted to conducting research on the Internet. Eight other jurors had done the same, despite the judge's explicit instructions to consider only the evidence presented during the trial. Eight weeks into the trial, the judge was forced to declare a mistrial.

This was not the first time a juror faced a judge's wrath. In 2009, during a multimillion dollar civil action in Ohio, a juror updated his Facebook status to "sitting in hell 'aka' jury duty." He was promptly dismissed and the trial continued. The fact that he belonged to the Cincinnati network meant his status was visible to everyone in the same network.

Yet networking and maintaining relationships is often cited as the primary reason people join social-networking sites. The interpersonal connections that are the *raison d'être* of social-networking sites can be quite informative in uncovering links and associations between various parties. Forensic professionals can use relationships found through Internet postings and sites to establish tentative relationship databases upon which to gather additional evidence.

In occupational fraud investigations, reviewing a suspect's social network can be useful in determining possible aliases, related parties or additional persons of interest. Vetting a suspect's "friends" or "followers" can reveal relationships or alert the investigator to fraud schemes including names of fictitious vendors or special contacts.

In a recent occupational fraud investigation, although the suspect's profile was private, his son's profile (which was not private) revealed plans to sell various assets and leave the country. This information, along with other collaborative sources,

allowed the forensic investigators and legal counsel to implement various civil procedures, including a Mareva injunction to stop the sale of certain assets and a Norwich Pharmacal Order to order the production of the son's bank records.

Often one of the perils and challenges is in proving online identities and ownership. Some users may not give their real names when creating a profile, making it difficult to associate an individual with his or her online identity. In such cases, it is helpful to have other information, such as email addresses or phone numbers, to confirm the individual's identity. Many networking sites permit reverse address searches, which can be helpful in associating a username with the person of interest.

Accessing social-networking profiles is often the next hurdle. Professionals should remember that gaining access to a social-networking account through the "friending" of someone to obtain information that would not otherwise be available is considered "pretexting." This may limit the usefulness of the information or, more seriously, its admissibility in court.

Several US bar associations expressly state that "subterfuge friending" violates ethics standards or is outside the permissible social-networking conduct by lawyers. It has been deemed de-

## **Professionals should remember that gaining access to a social networking account through the "friending" of someone to obtain information is considered "pretexting"**

ceptive, as it induces a witness to provide access that he or she may not have otherwise provided had the true purpose of the access request been known.

Often social media sites have privacy settings that, if activated, may limit the information viewable on the profile. Our experience with corporate intelligence searches often shows that there are wide-ranging global public information sources that are helpful in uncovering potentially sensitive information such as comments made on online forums, groups and message boards.

In many cases, even if an individual has tried to remove something from the public domain, records remain in search engines, mirrors, archives or other websites, which may support a future discovery request for the original source of that information. In the case of deleted pages, there are services that specialize in archiving snapshots of sites.

Without a doubt, the proliferation of social media and online networking portals widen the scope for the proverbial tweety bird to chirp away relevant electronic information. Increased attention and vigilance can help ensure that the benefits of these portals outweigh the risks attached to them.

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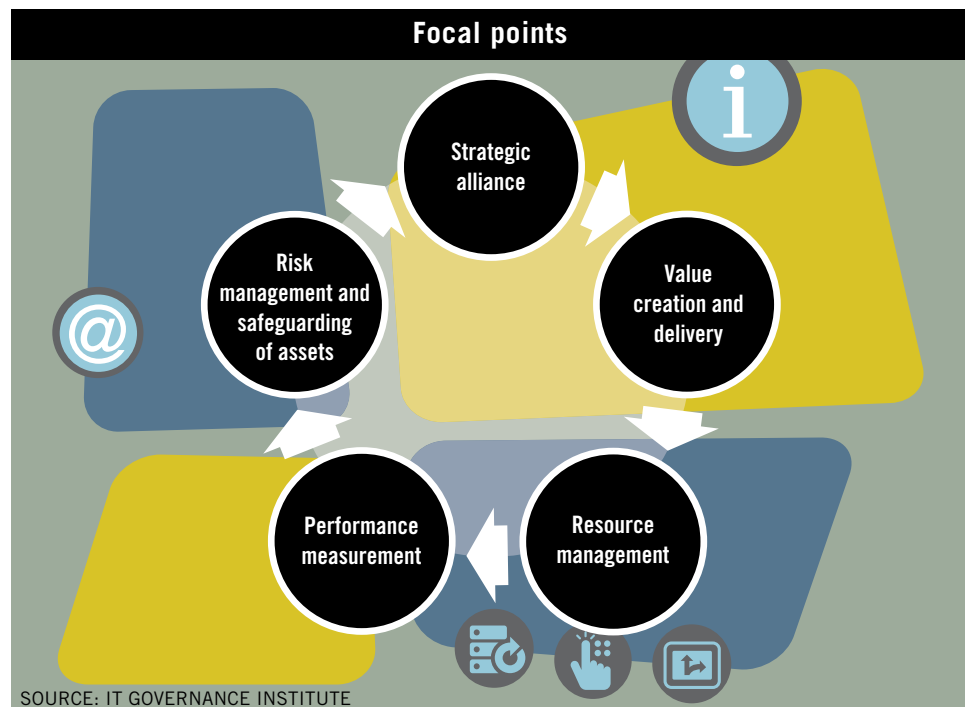
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## Good governance

In any corporation, sound IT governance is essential to efficient operations, value creation and effective risk management



The word “governance” has become permanently incorporated into today’s business vernacular, and although it has a variety of interpretations, it means one thing — the art of governing well.

Take information technology (IT) governance, which relates to a company’s culture and policies and to the procedures and mechanisms for the monitoring, transparency and control of its overall activities. IT governance is an integral part of corporate governance, but its scope is more specific.

Many businesspeople agree that one of the biggest risks, and a major concern, is the inability to align IT with a company’s business strategies, which would prevent the company from delivering the expected added value. For example, more than 44% of CFOs who took part in a study conducted by *Computerworld* magazine were concerned about harmonizing IT with business strategies.

Since IT has a significant impact on corporate perfor-

mance and competitiveness, failing to effectively manage IT-related activities will have a definite impact on a company’s growth capacity.

In recent years, there has been increased interest among businesspeople in sound IT governance. This interest has been fuelled by such factors as:

- executives’ awareness of technology related risks;
- companies paying more attention to the added value of IT initiatives and cost management;
- management wanting to understand how the organization is performing from an IT perspective, compared with others in the same industry;
- management wanting to ensure that its IT infrastructure can effectively support its current and future business needs;
- need for organizations to gain a better understanding of the value of IT, both internally and with external suppliers; and
- the greater need for sound management discipline, given that IT is a complex, continually evolving area.

IT governance aims to develop the IT function by implementing a model that is rooted in the company's core structure in order to deliver value-added solutions to its business clients, and focuses on the profitability of IT investments by taking their overall life cycle into account (return on invested capital). The model should also be focused on cost control to provide leeway for maintenance, operations, support, etc., in order to reinvest in projects that add value to the organization. The current trend of transferring activities to cloud computing is an example of such direction. And it should also be focused on the efficient management and use of material and human resources for all IT activities.

While a company can question the need to reorganize its IT governance model, bad governance is often the cause of mistakes that can damage the organization at many levels. For example:

- many projects poorly configured from the start, not having the necessary support from upper management or sufficient involvement from the various business sectors, are too often characterized by exorbitant costs compared with the original budget; major delivery delays that can result in IT solutions being obsolete by the time they are available for use; delivery of features that no longer meet user needs.

- human resources required to support the IT strategic plan are inadequate, both in terms of numbers and qualifications. Internal resources lack the required expertise or are too few to handle the expected workload for a given project. External resources used to offset these deficiencies have not been factored into the IT group's operating budget, which can drastically increase project costs. It can result in too many internal resources for the organization's needs, leading to inefficiencies in IT activities and lack of a plan to replace key resources in critical IT positions.
- performance indicators and expected benefits are either undefined or inadequately defined when IT projects are delivered or as the systems are maintained. Projects were delivered and implemented without considering the costs that could be generated once they are operational (user support, incident handling, upgrades); users were not consulted about the solutions deployed, which could lead them to reject the new systems or delivered modules and continue using older methods (manual processes or aging software solutions); and outsourced activities are improperly monitored, which can result in poor service going unnoticed or the systems being unavailable to support operations.

These examples, although not exhaustive, show that inadequate IT governance can negatively affect the company as a whole.

However, there are mechanisms to identify these issues and provide relevant information to senior management and IT managers (chief information officer, chief information security officer, director of information technology, etc.) to help them take the necessary steps to correct the identified problems.

Internal audit teams are ideally positioned within the organization to properly assess the company's IT governance model. In fact, given the independence of internal auditors, their functions and their obligations to the audit committee, they are capable

of handling all aspects of IT governance, whether strategic, tactical or operational.

One framework proposed by the IT Governance Institute (ITGI) identifies five focus areas of IT governance (see chart on p. 49). All five and how they should be addressed are extensively covered in a number of publications, including those prepared by ITGI. In order to obtain a proper assessment, it is vital to consider these five governance focus areas as a whole and to understand their inter-relationships based on a complete walk-through of IT control activities.

Once the assessment is made, the next step is to determine how the issues and observations affect the five focus areas.

A prime example of the impact of an IT governance problem is the unavailability of the architects or security experts, which can delay the delivery of the project intended to support the sales team. This human resource issue is detrimental to:

- the delivery of expected value (dissatisfaction of the business sectors and potential impact on expected sales);
- risk management (the validity of the risk map and updates is called into question);
- resource management (lack of proactivity in finding solutions

**Since IT has a significant impact on corporate performance, failing to effectively manage IT-related activities will have an impact on a company's growth capacity**

to replace a resource on short notice);

- value creation and delivery (project delays can affect related projects and cast doubt on the program's validity as a whole if it is a key project); and
- strategic alignment (frustration of senior management who supported the initiatives only to realize that the strategy may be compromised and steps will need to be taken to ensure that the achievement of the strategic objectives remains a priority).

The internal auditor's role is to identify all the issues and problems relating to the weaknesses in the IT governance model and to understand how they inter-relate and impact the company's performance. This will make it easier to identify value-adding improvements and cover the full range of IT activities by considering all the control processes and mechanisms.

IT governance is essential to efficient operations, the creation of added value and effective risk management. The IT governance model in place should therefore be evaluated to ensure it is aligned with the culture and needs of management. An internal auditor is in the best position to validate this model's efficiency.

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## Obesity, carbs and the Red Cross

**O**besity is the precursor of significantly higher rates of diabetes, heart disease and many types of cancer. In the past 30 years, the obesity rate has grown at an alarming speed. One-third of North American adults are currently obese and another third are overweight. More alarming is that 18% of US teens between 17 and 19 are already obese. The situation is even grimmer in England, Australia and Mexico. In fact, many experts claim a major public health crisis is looming on the horizon, not just in rich countries but in the rest of the world.

It has been established that more than half the population is genetically predisposed to being overweight. And very few succeed in preventing that outcome as adults. Weight gain is most often blamed on a lack of exercise and a poor diet. However, some experts point to a more paradoxical cause: this crisis may actually be explained by the changes introduced in food products in the past 40 years as a result of the demonization of fat and its massive substitution by carbohydrates.

In his 2007 book *Good Calories, Bad Calories*, Gary Taubes, an US science writer, discusses the origins of this movement. Based on studies now considered questionable, physicians convinced US public health authorities in the 1960s that dietary fat was dangerous since they associated it with higher cholesterol levels and an increased risk of cardiovascular disease. As a result, governments developed programs to reduce fat in foods.

To make sure foods retained their flavour, fat was replaced by carbohydrates. Very quickly low-fat, high-carbohydrate foods became popular. We ended up with 1% milk, fat-free yogurt, lean beef, whole-wheat bread, cereal, bran muffins and the list goes on, while sausage, salt pork and whipped cream were relegated to the banned food group. At the same time, public health authorities were distributing the well-known food pyramids in schools, which recommended a balanced diet of carbohydrates, proteins and fibre and low in fat and sugar.

But it was in that same period that the obesity crisis evolved.

Today, we know a lot more about how fat is metabolized and accumulates in the human body. Insulin plays a key role: the pancreas secretes it when carbohydrates are detected in the blood. The more carbohydrates you eat, the more the pancreas secretes insulin and the more the insulin produces body fat. We know that when we eliminate carbohydrates from our diet, insulin levels fall sharply and our body begins to burn our fat reserves instead of building them.

So should we eschew carbohydrates and reintroduce fat into our diet? This is exactly what a growing number of specialists recommend. But nutritionists and public

**So should we eschew carbohydrates and reintroduce fat into our diets as some specialists recommend?**

health authorities oppose this, still clinging to the belief of the advantages of a balanced diet, which unfortunately implies a large daily dose of carbohydrates, a mainstay of a so-called balanced diet.

In 2006, three doctors responsible for collecting blood were charged with criminal negligence for their lack of vigilance in 1986 when early suspicions that the Red Cross had collected HIV-contaminated blood began to shake that organization. Indeed, many hemophiliacs died as a result of receiving HIV-contaminated blood. The responsibility of collecting blood was taken away from the Red Cross in the 1990s. Finally in 2008, some 22 years after the incidents, the three doctors were acquitted after a sensational trial.

Many experts believe the “balanced diet” recommended by public health experts, low in fat but rich in carbohydrates, causes obesity in a large segment of the population. The ensuing obesity crisis will be a lot more devastating than the AIDS crisis. Will there be lawsuits if their claims turn out to be founded?

Now there’s some food for thought!

Marcel Côté is founding partner, SECOR Consulting, Montreal

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