



Professional Accounting Centre
UNIVERSITY OF TORONTO
MISSISSAUGA



CONFERENCE SUMMARY REPORT

for the

PAC'S 2018 ANNUAL CONFERENCE:

PROFESSIONAL ACCOUNTING FUTURES

held at the

*Institute for Management & Innovation and the University of
Toronto Mississauga (UTM)*

September 14, 2018

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ACKNOWLEDGEMENTS

The Professional Accounting Centre (PAC) is pleased to acknowledge funding support for this conference from CPA Ontario.

We would also like to thank PAC board members for their organizational support and our speakers for their informative presentations.

Additional thanks go to our videographer, Keith Nablo, and editor of this document, Lee Benson.

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<https://www.utm.utoronto.ca/pac/>

INTRODUCTION

The Public Accounting Centre (PAC) at the University of Toronto Mississauga (UTM) was established to examine the challenges affecting professional accounting, with the aim to enhance the relevance of professional accounting in the future.

PAC's third annual conference: *Professional Accounting Futures* was held at the Institute for Management & Innovation and the University of Toronto Mississauga (UTM) on September 14, 2018. Attended by 86 academics, accounting professionals, accounting standards setters, regulators, and graduate students, the conference consisted of five plenary sessions—two panel sessions in the morning; a keynote address during the lunch break; and two panel sessions in the afternoon.

Panelists of academics, accounting professionals, accounting standards setters, and regulators explored the genesis and impact of new challenges to professionalism in accounting, including:

- Non-GAAP and non-financial measures and their effects on value investing
- **Non-compliance with Laws and Regulations** (the NOCLAR standard)
- US developments in the CPA profession—Will they be replicated in Canada?
- Developing skepticism—A forensic approach
- The future of professional accounting and the role of external audit.

This event follows a PAC-CPA Canada Joint Symposium on The Future of Professionalism, held on May 10, 2018, which partly inspired this conference.

This document provides a summary of the conference—by no means exhaustive—that is not meant to replace the speakers' video- and PowerPoint presentations, which can be found on PAC's Events website under the conference name, [PAC 2018 Annual Conference on Professional Accounting Futures – September 14, 2018](#). The editor assumes responsibility for any errors in transcription. Biographies of the speakers can be viewed in Appendix 1.

Funding for the conference and this publication has been provided by Chartered Professional Accountants of Ontario (CPA Ontario). CPA Ontario supports freedom of speech, academic freedom and freedom of research and the views expressed herein are not necessarily the views of CPA Ontario.

PANEL 1: HOW NON-GAAP AND NON-FINANCIAL MEASURES ARE CHANGING VALUE INVESTING

Investigation of this topic was motivated by concern about unprecedented rise in usage of non-GAAP and non-financial measures by investors, and the related impact on professional accounting. Moderated by **Eric Kirzner**, John H. Watson Chair in Value Investing Emeritus, Rotman School of Management, this panel included three additional speakers: **Anthony Scilipoti**, CEO, Veritas Investment Research; **Linda Mezon**, Chair, Accounting Standards Board (AcSB); and **Partha Mohanram**, John H. Watson Professor of Value Investing, Rotman School of Management.

Panel 1 - Eric Kirzner - A Brief History of Value Investing and GAAP

Eric Kirzner opened the panel with a brief history of why standardized, universally applied performance metrics and Generally Accepted Accounting Principles (GAAP) changed investing.

In 1929, at the time of the great stock market crash, publicly available information about companies was not reliable, stock recommendations were based on qualitative factors, accounting was rudimentary, and financial reporting was sloppy.

Kirzner spoke about the crash being the impetus for then-University of Columbia professor Benjamin Graham, to develop quantitative techniques that could be universally applied for improved company valuation and financial reporting.

Under the leadership and persistence of Graham and others, fundamental security analysis--the origin of value investing--became a profession, and accounting standards improved, with Generally Accepted Accounting Principles (GAAP) emerging in 1939.

In introducing the other panelists, Kirzner said that many companies today present non-GAAP measures to provide, they say, greater insight into company performance and value than GAAP measures can provide. The panelists to follow discussed non-GAAP and non-financial metrics and associated challenges.

Panel 1 - Anthony Scilipoti - Investor Trends and Their Effects on Professional Accounting

Use of non-GAAP numbers

Referring to his company's 2016 study of non-GAAP reporting,¹ Scilipoti said the use of non-GAAP numbers is rampant, and that non-GAAP numbers are being used by investors *much more* than GAAP numbers. Why? The speaker named two main reasons.

- Investors want ***one number***² to compare in all companies around the world to help them make their investment decisions. Accountants know that is virtually impossible, yet fewer and fewer people are looking at financial statements, and companies like Bloomberg are providing such numbers.
- Companies know that financial statements are not being read and are taking advantage of this. For example, instead of a GAAP metric like cash flow, a company may present "operating cash flow" into which they've rolled interest-as-financing to increase it. Non-GAAP metrics most often make performance look better than GAAP metrics.

Solving the problem of non-GAAP reporting

Can the problems associated with non-GAAP reporting be solved? Scilipoti believes that pressure to change may come from:

- initiatives of the Accounting Standards Board (AcSB; see Linda Mezon, Panel 1), Ontario Securities Commission (OSC) and Canadian Securities Administrators (CSA), and
- pressure by journalists, users and preparers who care about making numbers better. One example is increased legal activity by investors who say they were misled by companies using non-GAAP metrics such as "adjusted cash earnings," "operating cash flow" or "adjusted operating cash flow." Scilipoti believes that as those cases move through the courts, they'll have repercussions on auditors and what numbers companies provide.
- Key Audit Matters³ – A section of the audit report that flags key matters to investors who might not otherwise pay attention to financial statements.

¹ Scilipoti, Anthony, and Georgopoulos, Taso. *Accounting Alert – The Rise of Non - GAAP Metrics*. Veritas Investment Research. Toronto: 2016.

² Partha Mohanram [see Panel 1, speaker 4] calls this fixation on one measure "functional fixation," on which a great deal of research exists.

³ Refers to new auditor reporting standards in the *CPA Canada Handbook – Assurance*. For more information, refer to CPA Canada, 2018. *Audit and assurance alert: CAS 701 Key audit matters*, available at <https://www.cpacanada.ca/en/business-and-accounting-resources/audit-and-assurance/canadian-auditing-standards-cas/publications/audit-and-assurance-alert-cas-701>

- market corrections – After the financial crisis in 2008 and the Dot Com crisis before that, people talked about the Sarbanes-Oxley Act (SOX) and compliance. Now? Scilipoti says that as long as the stock market gains value, investors ignore SOX requirements, but after a correction, investors will blame accountants, auditors and standard setters.

Implications of continued use of non-GAAP numbers

Scilipoti maintains that the implications for continued use of non-GAAP numbers are wide-reaching. For example:

- **Reduced investment and reduced revenue:** Canada has 3% of the world's market capital and *falling*. Without better disclosure and transparency, Canadian companies will not be attractive to foreign investors. Reduced sales and falling mutual fund fees mean reduced revenues for asset managers (the “buy side” for investment research).
- **Increased pressure to reduce research:** The “sell side” are the analysts who sell research and information to the asset managers, the “buy side.”
 - Reduced revenue means that the buy side will hire fewer analysts, and sell side analysts will be under pressure to do more (analyze more companies) with less revenue.
 - With both the buy side and the sell side under increased pressure to deliver the same amount of value for less revenue, cutting corners may be the only way that can happen. Cutting corners may mean relying on the “one number,” and non-GAAP metrics, rather than on time-consuming, critical analysis of financial statements.

Panel 1 - Linda Mezon - Enhancing the Relevance of Financial Reporting

Linda Mezon, in a talk entitled, “Enhancing the Relevance of Financial Reporting,” outlined the journey in producing the [Accounting Standard Board's](#) (AcSB's) June 2018 report, [Draft Framework for Reporting Performance Measures: Enhancing the Relevance of Financial Reporting](#).

Taking on a non-traditional role

The report is the outcome of a non-traditional role for the accounting standard setter, as a facilitator of discussion amongst “...all parties involved in financial reporting... to promote best practices for developing and reporting financial information that is relevant for decision-making.”⁴

⁴ Accounting Standards Board (AcSB). (June 2018). *Draft Framework for Reporting Performance Measures*. Toronto: AcSB. <http://www.frascanada.ca/accounting-standards-board/item85882.pdf> Accessed 23 October 2018. (p. 3)

The sparks for the report came, first, from non-GAAP metrics making headlines. For example, in 2016, when Veritas Investment Research released the report, *Accounting Alert—The Rise of Non-GAAP Metrics*.⁵ [See Anthony Scilipoti, Panel 1], the *Globe and Mail*⁶ said,

“...[the] report ...shows rapid growth in the use of non-GAAP measures over the past decade, with over 70 per cent of companies in the S&P/TSX 60 index reporting some form of internally adjusted net income figure in their filings in 2015, compared with fewer than 10 per cent in 2004. The report said 85 per cent to 90 per cent of non-GAAP measures [that Veritas Investment Research] studied over the past five years had the effect of improving a company's financial picture.”

Information gaps revealed

Next, in February 2017, the CFA Society Toronto, the Auditing and Assurance Standards Board (AASB), AcSB and the Canadian Public Accountability Board (CPAB) partnered to solicit input from investors and financial analysts on relevance of audited financial statements. Panelists included buy-side institutional investors representing \$3+ trillion assets under administration, and major sell-side analysts, research firms and credit rating agencies.

Although more than half of the panelists had started their careers as accountants, the results of the discussions were surprising. For example,

- 85% to 90% of the information they used to make investment decisions did **not** include audited documents, such as the financial statements. This “other information” included things like presentations, website information, and regulatory filings publicly available. They could not answer to the quality or consistency of the information or what level of oversight it received.

Emergence of the *Draft Framework for Reporting Performance Measures*

Finally, in November 2017, the AcSB strategy section gained overwhelming support for the initiative to enhance relevance of information (measures) that users rely on—that 85% to 90%. The outcome, in June 2018, was the *Draft Framework for Reporting Performance Measures*.

⁵ Scilipoti, Anthony and Georgopoulos, Taso (8 September 2016). *Accounting Alert—The Rise of Non-GAAP Metrics*. Veritas Investment Research.

⁶ McFarland, Janet. (23 Sept 2016). Canadian Securities Regulators on High Alert Over Misleading Earnings Statements. *The Globe and Mail*.

<https://www.theglobeandmail.com/globe-investor/inside-the-market/securities-regulators-press-firms-to-follow-standard-accounting-practices/article32028801/>

The *Draft Framework* deals with non-GAAP reporting, but goes beyond that alone. It deals with measures used by public, private and non-for-profit entities and pension funds, and the transparency consistency and comparability of those measures:

- **Transparency** in the framework refers to an enterprise defining the measure, saying why it is relevant and how it is computed.
- **Consistency** refers to using the same computation, period over period over period.
- **Comparability** is harder to ask for, since every industry—and sometimes every company within an industry-- has different measures or ways of computing it. For example, “net interest margin” is computed differently in each of Canada’s five largest banks. Because of this, transparency and consistency are even more important to ask for.

The report draws attention to the information gap revealed by panelists: the mistaken expectation that the same level of quality is built into the “other” information as into the financial statements. The objective of the Framework is to “...help entities that choose to report financial and non-financial performance measures outside financial statements improve the quality of this supplemental information.”⁷

The AcSB is using reputation, network and approach – to start the conversation about these principles, and believes the input from “...all parties involved in financial reporting – standard setters, management, directors, assurance providers, advisors, investors, contributors, lenders, other resource providers and regulators”⁸ is necessary in the development of the Framework.

The reader is encouraged to read the report and to watch the [AcSB website](#) for further developments.

Panel 1 - Partha Mohanram - The Use of Non-Financial Measures by Investors: Insights from Academic Research

Partha Mohanram, in his presentation, broadened the discussion of non-GAAP metrics to include non-financial measures in common usage, and associated academic research.

Mohanram classifies non-financial measures in three ways, based on the **purpose** of the measure, the **provider** of the measure, and the **format** of the measure.

⁷ Accounting Standards Board (AcSB). (June 2018). *Draft Framework for Reporting Performance Measures*. Toronto: AcSB. (p. 3). <http://www.frascanada.ca/accounting-standards-board/item85882.pdf> Accessed 23 October 2018.

⁸ Ibid. (p. 3)

Purpose of the measure

Given that investors fundamentally care about the prediction of future financials (firm fundamentals as well as stock returns), Mohanram said, the prediction of financial measures can be improved by non-financial measures that investors care about; for example, environmental stewardship, governance, corporate social responsibility (CSR), etc.

Provider of the measure

When the firm provides a measure, it may come with benefits (for example, the appearance of transparency or as an appeal to socially-conscious investors) and possible costs (for example, the appearance of “greenwashing” or a lack of appeal to the strictly financially-focused investor). The measure may also be provided by specialized analysts (for example, those focused on CSR), or investors themselves (for example, crowdsourced research in the form of sharing or disseminating information through social media like Twitter)⁹.

Format of the measure

Measures may be voluntary, additional information, but should some measures be mandatory? Mohanram says that some researchers argue that accounting no longer measures what is important to investors--so more disclosure measures should be required in financial statements--while others argue that making some non-financial measures mandatory gives them appearance of reliability, which may not be warranted.

Conclusion

In conclusion, Mohanram says that markets are generally becoming more efficient, and that value investors may consider non-financial indicators to be value-relevant. They may consider non-financial indicators necessary for predicting future cash flows or risk. The types of measures considered may differ in stakeholder-maximizing economies (for example, Europe, Asia) and shareholder-maximizing economies (for example, the United States and, to a lesser extent, Canada), and may include looking beyond firm-provided disclosures, such as those disseminated through social media. Remaining concerns about non-financial indicators revolve around credibility and utility versus trend chasing. For example, Mohanram reminded the audience that Internet firms were once valued based on web activity, rather than profits or revenues, and everyone knows how that trend ended.

⁹ See Bartov, E., Faurel, L., and Mohanram, P.S. (2018) Can Twitter Help Predict Firm-Level Earnings and Stock Returns? *The Accounting Review* 93(3), 25-57.

PANEL 2: PROFESSIONALISM: NEW CHALLENGES

This panel considered the genesis and impact of new challenges to professionalism in accounting, including:

- the new/proposed NOCLAR standard. This standard will require professional accountants to internally disclose events not in compliance with laws or regulations or not in the public interest, and may afford protection when disclosure to external authorities is required. This disclosure will likely change how *confidentiality* is perceived and managed, particularly for professional accountants employed within organizations and for tax practitioners.
- the related need for moral courage and skepticism, how to develop them.

Four speakers took part in this panel: **Jim Gaa**, Professor, University of Alberta, former member of IESBA during the NOCLAR debate; **Kelly Gorman**, Vice President, Regulatory & Standards, CPA Ontario; **Bruce Winter**, current Chair of the Auditing and Assurance Standards Oversight Council (AASOC), former partner PwC; and **Mark Pinch**, Associate Chief Accountant, Ontario Securities Commission (OSC).

Panel 2 - Jim Gaa - IESBA and NOCLAR: Background and Overview

Jim Gaa began the panel with an overview of the recent international ethics NOCLAR standard: the response of the [Internationals Ethics Standards Board for Accountants](#) (IESBA) “...to guide professional accountants in what actions to take in the public interest when they become aware of a potential illegal act, known as non-compliance with laws and regulations (NOCLAR), committed by a client or employer.”¹⁰

Gaa outlined why the international ethics standard is required; its primary features; the likelihood of its adoption in Canada; and suggestions for further research.

¹⁰ IESBA. (2018). IFAC Handbooks, Standards, and Pronouncements. “Responding to Non-compliance with Laws and Regulations” [webpage]. Retrieved November 1, 2018, from <http://www.ifac.org/publications-resources/responding-non-compliance-laws-and-regulations>

Why NOCLAR is required

The 2008 near meltdown of the world's financial system--and many, many corruption and money-laundering scandals--have generated a lack of trust on the part of regulators and others in accountants and, in particular, auditors.

Bedrock principles of the accounting profession dictate that accountants must

- act in the public interest, not their employer's, client's, or their own.
- maintain confidentiality of an employer's or client's secret information.
- act ethically, above and beyond legal requirements; otherwise, there is little point to a code of ethics, said Gaa.

Up until now, options open to a professional accountant were limited to remaining silent (regardless of materiality), resigning, or speaking with a lawyer (or a priest!). Where disclosure was the exception to silence, it was legally required, so in terms of ethics, these actions align with legal rights and duties, but **not** a higher ethical standard. Given that scandals continue, the limitations of these options are considered unacceptable. [See also Kelly Gorman, Panel 2, and discussion of disclosure.]

All of the following organizations are putting pressure on the accounting profession internationally to change and increase its standards. [Links to the websites of these organizations have been provided for the interested reader. [See also Bruce Winter, Panel 2, and discussion of the Monitoring Group and the public interest.]

Organizations Pressuring the Accounting Profession to Improve Standards

FSB – [Financial Stability Board](#)

MG* – [Monitoring Group](#)

IFIAR* – [International Forum of Independent Audit Regulators](#)

PIOB – [Public Interest Oversight Board](#)

IOSCO* – [International Organization of Securities Commissions](#)

IFAC* – [International Federation of Accountants](#)

IESBA* – [International Ethics Standards Board for Accountants](#)

CPA Canada* -- [Chartered Professional Accountants of Canada](#)

*Canada and Canadians have been active members of the asterisked groups.

An ethical standard that goes beyond national laws and regulations is necessary to safeguard securities markets. NOCLAR deals with the **ethical** issue of what to do when a professional accountant (PA) has evidence of possible **illegal** acts of others (clients and employees).

Primary features

The NOCLAR standard *differs* from a whistleblowing standard, because:

- External disclosures are restricted to legal authorities.
- Resignation is not a substitute for action.
- Scope is limited to violations of law and regulation that are not in the public interest.
 - *not* civil matters
 - *not* unethical-but-legal acts
 - *not* personal behavior of individuals unrelated to the organization.

For *internal* disclosure, NOCLAR guidance says the PA should:

- investigate facts further
- make judgment about the possibility of illegality
- focus on disclosure to senior management and those charged with governance (TCWG)
- determine if action has been taken by senior management or TCWG to remedy the situation, including reporting to external authorities
- consider disclosing to external authorities if no action has been taken.

For *external* disclosure, NOCLAR guidance says it is **not required**, but the PA:

- must not alert (tip off) the client prior to disclosure
- may need to disclose if a breach is imminent
- must disclose only if
 - senior management and TCWG do not rectify the situation
 - items in financial statements are directly affected
 - compliance is fundamental to operations or involves substantial penalties.

Adoption in Canada

Gaa reported that CPA Canada has an obligation as a member of the [International Federation of Accountants](#) (IFAC) to ensure that Canada has a code of ethics that is the same as, equivalent to, or stricter than NOCLAR. Currently, however, professions are legislated at the provincial, not at the national level. Because CPA Canada cannot impose the code nationally, it must support efforts to adopt the standard province by province. While adoption may be a lengthy process, Gaa says, Canada has no choice about adopting NOCLAR.

Further research suggestions

Gaa suggested a number of research projects associated with NOCLAR, such as

- a study of the standard setting process in Canada, including the role of regulators and inter-provincial issues
- case studies of past scandals to compare how accountants acted without NOCLAR and how their actions might differ under NOCLAR
- longitudinal studies with a group of PAs, to track their behaviour under the various current norms and how those behaviours change over time under NOCLAR

- cross-sectional studies of how accountants recognize ethical issues before and after NOCLAR takes effect.

Conclusion

NOCLAR represents a fundamental change in the relationship between accountants and their clients/employers, Gaa said, particularly because NOCLAR moves away from protecting client privacy with accountant-client privilege. With NOCLAR, the public interest may trump client confidentiality.

Panel 2 - Kelly Gorman: Non-Compliance with Laws and Regulations (NOCLAR)

[Gorman began her talk with the following disclaimer: *The views expressed in her presentation are her own, and do not represent the CPA Ontario Council or colleagues at CPA Ontario.*]

Dovetailing with Jim Gaa's presentation, this talk detailed some of the implementation issues and concerns with the NOCLAR standard from the accounting perspective: who will be affected; NOCLAR standard and conflicting professional principles; when disclosure is mandatory; implementation and unintended consequences; and sharing the burden.

Who will be affected?

The NOCLAR standard is *proportionately* applicable¹¹ to all professional accountants (PAs): that is, auditors and PAs in public practice will be held to higher account than senior PAs in business (directors, officers, or senior employees) and other PAs in business.

NOCLAR standard and conflicting professional principles

The NOCLAR standard was created to address situations where a PA comes across known or suspected non-compliance that has been (or is about to be) committed by client/employer. While PAs have an ethical responsibility not to turn a blind eye, they are also bound by a duty of confidentiality. This duty of confidentiality has created a barrier against PAs disclosing non-compliance to regulators or enforcement authorities. So, the NOCLAR standard *sets aside* the duty of confidentiality and provides a framework for PAs on how best to act in the public interest. [See also Bruce Winter, Panel 2, and discussion of the public interest.]

¹¹ See International Ethics Standards Board for Accountants (IESBA). (2016). *Responding to Non-Compliance with Laws and Regulations: Fact sheet*. Retrieved November 20, 2018, from <https://www.ifac.org/system/files/publications/files/IESBA-NOCLAR-Fact-Sheet.pdf>

Gorman noted that the standard is not yet in place in Canada and that, under the [CPA Ontario Code of Professional Conduct](#), client confidentiality must still be respected. CPA Ontario is working on this issue in advance of the standard's adoption. Nonetheless, the objective of the standard is to allow PAs to bring to the attention of management or those in charge of governance (TCWG) any acts—suspected or actual—of non-compliance so that they can be rectified, remediated, mitigated, or entirely prevented.

When disclosure is mandatory

Gorman cautioned that PAs must still understand how their local laws and regulations work and how they differ from NOCLAR. For example, if NOCLAR is adopted, it may not require disclosure in some cases, yet some laws or regulations might. For example, the Securities and Exchange Commission (SEC) requires lawyers and accountants—no matter what their respective state confidentiality rules—to report knowledge of significant financial harm.

Conversely, NOCLAR may *require* internal disclosure and gives *permission* for external disclosure even when there is no legal or regulatory requirement to do so. (Clause 360.25, p. 20)¹²

With those examples, Gorman emphasized that PAs will have to understand both NOCLAR and local laws and regulations and how they intersect.

PAs will also have to decide whether they should take action and whether the extent of further action would be considered sufficient, appropriate, and in the public interest if judged by a third party. Gorman has some concerns that the clause to this effect in the standard (Clause 225.28, p. 9)¹³ will be problematic because of its subjectivity.

Implementation and unintended consequences

NOCLAR implementation varies across the world: some countries that have adopted it fully; others, on a modified basis. Gorman, as a member of [CPA Canada's Public Trust Committee](#), along with regulatory staff from the other provincial bodies, is researching these different approaches so that Canada can understand implementation issues. The differences in degrees of adoption may be due to how NOCLAR intersects with local laws, Gorman says, and that the major concern for non-adopters may be the lack of legislated whistleblower protection.

Generally speaking, Gorman believes that greater accountability will result from the new standard. Organizations will learn that PAs are obliged to internally disclose non-

¹² International Ethics Standards Board for Accountants (IESBA). *Responding to Non-compliance with Laws and Regulations. Final Pronouncement*. New York: International Federation of Accountants (IFAC): 2016. Retrieved November 2, 2018 from <https://www.ifac.org/system/files/publications/files/IESBA-Responding-to-NOCLAR-Pronouncement.pdf>

¹³ Ibid.

compliance, and management and TCWG must be seen to act or risk the consequences. Because most people want to do the right thing, the possibility that PAs will externally disclose non-compliance may actually have the positive effect of improving internal controls. In addition, public expectations of professional accountants, particularly auditors, may increase.

NOCLAR may have unintended consequences, however. For example, if a tax accountant is governed by the NOCLAR standard, but a tax lawyer is not, could we see businesses moving professional services to non-accountants? If the PA designation may subject a senior person in business to an enforcement action later for a judgment made or a decision made to not disclose, might that person decide not to maintain their designation?

Sharing the burden

The onus of preventing harm—for example, financial harm or environmental harm--cannot be on PAs alone. So another job of the Public Trust Committee is to engage other stakeholders to protect the public interest and to play a role in preventing significant harm for society at large.

Panel 2 - Bruce Winter - Considering the Public Interest

Bruce Winter, as a participant in the standard-setting process over 10 years, shared his observations on the growing public oversight of standard setters and increasing pressure for them to seriously consider the “public interest.” This scrutiny has increased despite ongoing reforms of audit and ethics standard setting, because standard setters—“particularly on the audit side of the ledger”—are perceived as being more focused on *self*-interest than *public* interest.

Winter outlined use of the term “public interest” then and now; the Auditing and Assurance Standards Oversight Council (AASOC) and its search for a definition of the term; its importance in the NOCLAR standard; and suggestion for further research.

“Public interest” then and now

Winters provided examples of standard setters sometimes using the term “public interest” simply to end a debate or appearing to be a smokescreen to gain support for the advocate’s interest, rather than the public interest.

Currently, however, the Monitoring Group—a powerful group of international regulators—announced a consultation process¹⁴ in late 2017 that would “safeguard the independence of

¹⁴ The Monitoring Group. (2017). *Monitoring Group Consultation: Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest*. Retrieved from <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD586.pdf>

the standard setting process and its responsiveness to the public interest,” reported Winter. [See also Jim Gaa, Panel 2, and organizations pressuring the accounting profession to bolster standards.]

Defining public interest

As Chair of [AASOC](#)—established in 2002 to provide public oversight of audit, initially, then audit and independence standards in Canada--Winter sought to define the term “public interest,” because it was key to AASOC’s purpose. Many other organizations had attempted this in the past, and single-line or single-paragraph definitions seemed too simplistic, and likely to lead to unintended consequences, reported Winter. For AASOC, then, research and extensive consultation with many organizations led to the publishing of the paper, *What the Public Interest Means to AASOC*.¹⁵

Winter believes that an academically disciplined approach to how the terminology of the public interest has evolved and how it's being used would be valuable.

Public interest and the NOCLAR standard

Winter conducted a search in the final published version of the [NOCLAR standard](#) (q.v.) and found the term “public interest” important enough to be used 17 times.

Panel 2 - Mark Pinch: NOCLAR Depends on the Development of Skepticism: A Regulatory Perspective

Mark Pinch began his talk with a disclaimer: that the views expressed in his presentation are his own, and are not necessarily representative of the Ontario Securities Commission or its staff.

Skepticism and suspected non-compliance

While the NOCLAR standard is clear about a PA’s obligations when non-compliance has occurred, it is less clear when non-compliance is *suspected*, Pinch says, because to determine *what* to do, the PA must decide *how much* action is enough. That response, he asserts, depends on the PA’s professional skepticism. [See also Panel 3: *Developing Skepticism – A Forensic Approach to this Critical Problem*.]

¹⁵ Auditing and Assurance Standards Oversight Council (ASSOC). (2016). *What the Public Interest Means to AASOC*. Toronto. Retrieved from <http://www.frascanada.ca/auditing-and-assurance-standards-oversight-council/what-we-do/public-interest/item83355.pdf>

Should professional skepticism apply to *all* PAs?

Pinch believes that while the term “professional skepticism” is generally reserved for auditors, the “...attitude that includes a questioning mind; being alert to conditions that may indicate possible statement due to error fraud; and that critical assessment of ... evidence” is the same attitude needed when PAs apply NOCLAR to suspected non-compliance.

Pinch said that IESBA, in addition to producing the NOCLAR standard, recently issued a consultation paper, *Professional Skepticism – Meeting Public Expectations*,¹⁶ that asks if the concept of professional skepticism should be brought into the code of conduct and apply to *all* professional accountants, not just those who are auditors.

Canadian securities commissions and skepticism

Many stakeholders have views on professional skepticism, and the view of each one affects the others, Pinch asserts. Canadian securities regulators, as one such group of stakeholders, are involved in discussions related to professional skepticism with regulatory bodies, audit oversight bodies, standard setters nationally and internationally. However, the two main areas in which Canadian securities regulators impact skepticism are through whistleblower programs and enforcement actions.

OSC whistleblower program

The OSC has a whistleblower program, though not all Canadian securities commissions do. Pinch believes that the program encourages skepticism and creates a channel to report that skepticism. The OSC also encourages organizations to develop internal whistleblowing programs as a means to increase skepticism. Pinch believes that the stronger an internal whistleblower program, the more beneficial the actual application of NOCLAR will be.

OSC enforcement

Enforcement is the most notable role for regulators and shows that non-compliance has consequences. Pinch holds that without oversight and enforcement, the NOCLAR standard will be ineffectual—“just a piece of paper.” The OSC takes a strong view about auditors developing and encouraging skepticism, because of their important role in capital markets. They should provide investors with confidence that the financial information used for investment decisions is reported accurately and in accordance with standards. Where auditors do not use skepticism to the right degree, the OSC will take action against them.

¹⁶ International Ethics Standards Board (IESBA). (2018). *Consultation Paper: Professional Skepticism-Meeting Public Expectations*. Retrieved from <https://www.ifac.org/system/files/publications/files/Professional-Skepticism-Meeting-Public-Expectations-Consultation-Paper.pdf>

NOCLAR's potential impact

In the short term, after the NOCLAR standard is in effect, Pinch believes that firms will review programs and protocols dealing with suspected non-compliance, and internal and external whistleblowing may increase. Firms will need to determine how they respond to suspected non-compliance; and how they document their response.

Over the longer term, he believes that best practices will develop on how to apply skepticism, particularly with suspected non-compliance.

Conclusion

In summary, Pinch said that "...anticipated behavioral change [in identifying and reporting suspected non-compliance with laws and regulations] ... will only work if it is supported by identifiable enforcement action by regulators, by professional bodies such as CPA Ontario, and ... ongoing education about skepticism and things such as confirmation bias and anchoring bias and how those things [impact] decisions..."

KEYNOTE SPEECH

Karim Jamal - A Perspective on the CPA (AB) Strategic Plan

As part of a [CPA Alberta](#) (AB) strategic planning process, **Karim Jamal** was asked a number of questions about the future of the profession. At the same time, the [International Organization of Securities Commissions](#) (IOSCO) issued a consultation paper on audit committees¹⁷ on which the [Ontario Securities Commission](#) (OSC) asked Jamal to comment. Jamal took what he termed a "very cursory look" at both areas and presented a subset of his team's findings.

Focussing on the US, UK, and Canada, Jamal examined

- educational backgrounds of chief financial officers (CFOs) and chief executive officers (CEOs) over time
- who reports to the CFO as a predictor of who might become CFO

¹⁷ The Board of the International Organization of Securities Commissions (IOSCO). (2018). *IOSCO Consultation Report on Good Practices for Audit Committees in Supporting Audit Quality (CR04/2018)*. IOSCO: Madrid. Retrieved from <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD600.pdf>

- board composition
- students in accounting
- audit fees

Jamal's narrative is summarized here, and while PowerPoint slide references are provided in square brackets, the slides are not reproduced. The reader is invited to view Jamal's PowerPoint slide presentation [here](#) to view actual data and sample sizes.

Educational backgrounds of CFOs

Using a biographical database of board members and senior executives ([BoardEx Data](#)), Jamal looked for:

CFOs with an accounting background [Slide 5]

- In US companies, the number of CFOs with an **accounting** background is apparently declining (“...about a 20% drop for CPAs over 23 years and about a 25% gain for MBAs”) and “they're losing the jobs to MBAs...Every year, the description of a CFO is more an MBA rather than a CPA,” reported Jamal.
- In UK and Canadian companies, CFOs with accounting backgrounds was roughly equal (over 80%), and not in decline: “[s]ome MBAs become CFOs in Canada, but not they're not taking over the market.”

CFOs with a STEM background [Slide 7]

- In the US, it is common for CFOs to have a science, technology, engineering and math (STEM) background.
- “In the UK, there's some traction for [a] stem degree; again Canada's kind of different -- we didn't expect this – STEM [has] no power in the Canadian [CFO] market.”

Background of those reporting to CFOs [Slide 8]

In all of the seven positions examined that report to CFO in US (2018), accounting as an educational background ranked below law, MBA, MBA + STEM, STEM. [Slide 8] Using who reports to the CFO as a predictor of who might become CFO **in the US**, there are essentially **no** accountants—even in controllers.

In the US, “accountants are just seen as compliance people only, and not seen as strategic, and not seen as the people who report to the CFO.”

Jamal said that the same data for Canada would require more research, since the databases are US-centric.

CEOs with an accounting background [Slide 9]

In 2018, CEOs with education as an accountant is greatest in the UK (~25% of 429 companies examined), followed by Canada (~22% of 338), and trailed by the US (~12% of 3,981).

Board composition [Slide 10]

- In the US, “a very small number of companies ... actually have anybody who has any accounting training [on the board], and it's *not* getting better.”
- “Canada is better [and the] UK is better [than the US]...and the only one doing better over time is the UK.”
- So, despite the Sarbanes-Oxley Act, and the belief that audit committees will make company accounting better, Jamal cautions that in the US, these results show that essentially “...nobody on the committee knows any accounting.”

Students in accounting [Slide 11]

Jamal reported these findings:

- Enrollment in accounting programs rose post-Enron for 15 years.
- At one large Canadian university, the grade point average (GPA) of accounting majors is higher than those in business and higher than those in other programs.
- “There's a movement, at least in the top US schools, to try and reduce accounting in the curriculum...with the notion that it's not relevant today.”
- For graduates who achieved honour roll status in the CPA uniform evaluation (UFE)¹⁸, Jamal reported that “...within three years 60% are gone [have left public accounting]; within six years, 80% are gone.”

Audit fees [Slides 14, 15, 16]

Using [Thomson Reuters ESG research data](#), Jamal reports that

- “Audit fees are very low in Canada” compared to the UK and the US.
- “Audit committees don't want to pay for an audit--at least, the prices they're paying are dropping very rapidly” in the largest companies US and in the UK in recent years.

Conclusion

“The CPA is in very significant decline in the US but that's only a US story...not a Canadian story and...not a UK story,” said Jamal, because “the labour markets are totally different.”

¹⁸ Uniform final evaluation (UFE), now the common final examination (CFE) is one of the examinations required to obtain the Chartered Professional Accountant (CPA) designation in Canada. See <https://www.cpacanada.ca/en/become-a-cpa/cpa-certification-program-evaluation>

PANEL 3: DEVELOPING SKEPTICISM – A FORENSIC APPROACH

Professional skepticism is one of the most important characteristics for professional accountants to develop, and it is one of the most difficult to teach and instill in professional accounting students. In order to be successful, forensic accountants must develop an outstanding level of professional skepticism. The question is how best to do so. More importantly, according to CPAB's 2014 inspection report¹⁹, "In some firms, up to 80 per cent of the audit work is conducted by staff with fewer than five years' audit experience" [i.e. within five years of university graduation (Len Brooks)] – so developing professional skepticism in future auditors while they are at university is critical.

Since forensic accountants are expected to have highly developed levels of professional skepticism, in this panel, three successful, senior forensic accountants were asked to share their perspectives on developing professional skepticism: **Jennifer Perry**, Senior Manager – Fraud Investigation & Dispute Services, Ernst & Young LLP; **Gary Moulton** – Retired Partner, Deloitte and Duff & Phelps; and **Larry Lancefield**, Managing Director, Lancefield Inc.

Speakers agreed that all professional accountants, not just those who are auditors, need to develop professional skepticism; in other words, the skills to *critically assess* provided information. Each speaker recounted cases and insights that were valuable throughout their careers. To avoid repetition, key points from all of the speakers are combined here, under a number of headings.

What questions should be asked?

Jennifer Perry talked about needing to identify, ask, *and follow through with*, the "next logical question." For example, when Bernie Madoff was investigated, an SEC auditor confirmed that Madoff had a Deposit and Trust Clearing Corporation (DTCC) account—an account required if stock transactions are processed. The auditor failed, however, to ask the next logical question: could Madoff provide statements? If he had, the Madoff Ponzi scheme might have been discovered earlier.

Lancefield gave an example of embezzlement in which, as a junior auditor, he asked for complete purchasing records for equipment. He found invoices, but no receiving slips. Upon calling the supplier, he discovered that the equipment had been delivered directly to a senior

¹⁹ Canadian Public Accountability Board (CPAB). (2015). *Public Report 2014: Changing Expectations*. Retrieved from [http://www.cpab-ccrc.ca/Documents/Topics/PublicReports/2014 Public Report EN.pdf#search=2014 public report on inspection](http://www.cpab-ccrc.ca/Documents/Topics/PublicReports/2014%20Public%20Report%20EN.pdf#search=2014%20public%20report%20on%20inspection) (p. 12).

vice president's residence. Without that extra step—asking the next logical question—the fraud would not have been as quickly and easily discovered.

In another case, Lancefield was given statements for a shareholder loan account. He was suspicious of one of the shareholders, because of his poor reputation and the poor way he treated the others. That suspicion made him skeptical about the account—always in the shareholder's favour. Asking the next logical question, Lancefield examined invoices that the others had been required to reimburse. He discovered that those invoices had been inexpertly and clearly falsified by adding zeroes to the totals. An external accountant, by contrast, had seen nothing suspicious in the account, and had not asked for invoices.

How forensic accounting differs from audit

Moulton said that forensic accounting is almost always begun with just a suspicion, rumour, or specific allegation of financial wrongdoing, which is not the case for audit. But, Moulton added, “getting the right [number] of forensic techniques into regular eyes” seems important.

Forensic investigations are usually performed by more experienced people than the bulk of audit work, which is typically performed by very junior people.

What are some barriers to employing skepticism?

A lack of experience can be a barrier to effectively applying skepticism. For example, junior staff accept information that that more experienced staff might view with suspicion. Moulton reminded the audience that key roles may be filled by MBAs, rather than CPAs, who have limited training in accounting (and, perhaps, professional skepticism). [See also Karim Jamal's keynote address.]

Lancefield provided an example in which a junior employee blew the whistle and reported to internal audit. Internal audit supposedly found nothing unusual, however, because their investigation was inadequate. In his own investigation, Lancefield discovered that embezzlement had, indeed, occurred (see above). He suggested that inadequate investigation of a tip would

- discourage employees from speaking up
- dissuade professional skepticism, and
- render a whistleblower program ineffective.

How to apply professional skepticism

Moulton approaches forensic investigations with three imperatives:

- 1) Understand the motivations of people interviewed/audited/assessed: understand the situation from the other person's point of view and what might motivate him or her to lie or to provide incomplete information. Corollaries might be to be aware that:
 - a. Interviewees may offer what the investigator *expects* or *wants* to hear, particularly a plausible explanation that a non-skeptical investigator might accept at face value, but not catch as false. Challenge information that just doesn't make sense.

- b. Interviewees may say anything to get the investigator off the trail or to go away.
 - c. Fraudsters may continue to lie, even when caught, to minimize damage to themselves.
- 2) Learn and employ effective listening and observation skills:
- a. Do not interrupt or talk over the interviewee, or important information might be missed. Don't be afraid to watch the interviewee and to wait, and wait, and wait for an answer, Lancefield added. Silence can be powerful.
 - b. Listen and watch for clues of deception: Sometimes tonality, words interviewees use—or don't use—and nonverbal (body-language) cues may suggest deception. Watch the interviewee during the interview.
 - c. Interviewers, Lancefield added, should know the answers to the questions being asked so that the interviewee can be observed, and confronted with the truth when the timing is right.
 - d. Lancefield suggested first meeting with senior management to understand their concerns, but also interviewing "first level operational staff [to] hear how and what controls are being bypassed and overridden."
- 3) Identify barriers to a successful investigation/audit, and reduce or remove those barriers:
- a. **Rushing:** budget- or scope limitations may not allow the investigator the time to employ skepticism to the extent required.
 - b. **Bias:** conscious or unconscious bias can reduce skepticism.
 - c. **Difficult interviewees:** some people will not answer a question or will dance around a question (Moulton said politicians and senior executives are experts at spinning stories); others will employ intimidation, which could be a particularly effective avoidance tactic employed against junior investigators. All speakers believe that **persistence** in getting answers is necessary for a good investigation.

Developing skepticism

Perry felt her natural curiosity was nurtured in a number of ways, particularly by a high school teacher who had her class discuss and question the evidence in the Kennedy assassination case. Perry and Moulton both said that by observing the work and methods of mentors they developed their own skills.

Both Moulton and Perry said that important ingredients for developing skepticism in a forensic accountant are:

- 1) Training: Courses can help develop skills and also identify bad habits (such as interrupting or talking over the interviewee) that might limit an investigator's effectiveness. Moulton pointed to the [Master of Forensic Accounting](#) (MFAcc), which replaces and builds upon the [Diploma in Investigative & Forensic Accounting](#) (DIFA) at UTM and also suggested *earlier* training for undergraduates in accounting programs and for professionals early in their professional careers. Perry pointed to the effectiveness of case studies in business school that can substitute for on-the-job experience.
- 2) Understanding human behaviour.
- 3) Learning from and observing mentors (for example, senior practitioners).

Is there a skepticism mindset?

Jennifer Perry believes the “next logical question” would come to someone with natural curiosity. Moulton calls this “drilling down”: remembering to ask for details, rather than moving on to the next question.

Perry, Moulton, and Lancefield do not discount the importance of intuition, no matter how it might be termed (intuition, women’s intuition, mother’s intuition, gut instinct): consciously or subconsciously picking up on nonverbal cues or words not said. Being interested in human behaviour led Perry to an undergraduate minor in psychology, which has proved invaluable to her work. Moulton and Lancefield repeated that understanding human nature is key to good forensic investigation. Lancefield added that “all humans are created with common sense and intuition,” but too often, people ignore both, and that prevents applying appropriate skepticism.

Both Lancefield and Perry believe that people who like people make better interviewers than those who don’t. Interviewers with cognitive empathy can better understand another person’s motivations and how they think.

Skepticism and the future

Data analytics will play a role in forensic investigations and auditing, but even though all transactions, rather than a sample, might be audited, Moulton believes that *talking to people* will still be necessary to understand motivation, so developing skepticism will also be necessary.

The speakers said that although some of the points made might seem simplistic, they are not. Surprisingly, many obvious steps are not taken and questions are not asked by investigators or auditors who are not skeptical enough.

One of Lancefield’s aphorisms is, “If something just doesn’t make sense, it doesn’t make sense for a reason, so it’s worth investigating.”

PANEL 4: FUTURE OF PROFESSIONAL ACCOUNTING AND THE ROLE OF EXTERNAL AUDITORS

This topic was motivated by motivated by many factors, including:

- new developments like artificial intelligence (AI) and blockchain
- higher expectations by the public
- more stringent regulation and oversight
- decreasing relevance of GAAP based financial data
- increasing global business requirements and complexities

- increasingly interdependent global financial markets
- more stringent global networks for combatting bribery and for litigation, and
- the reality that much of audit work is performed by recently graduated professionals.

The panel considered how these factors may change professional accounting in both assurance and non-assurance roles, and then, more specifically, in external and internal assurance roles. Panelists have been chosen from roles (regulator, overseer, external and internal auditor, and academic researcher) that give them different perspectives on the prospective evolution of the profession. These perspectives will provide a mosaic for interpretation, consideration, and exploration to increase the relevance of professional accounting.

Three speakers addressed this topic: **Dan Simunic**, Professor Emeritus, University of British Columbia; **Carol Paradine**, CEO, Canadian Public Accountability Board; and **Kristy Carscallen**, Canadian Managing Partner, Audit, KPMG.

Panel 4 - Dan Simunic - The Future of Professional Accounting

Dan Simunic led the discussion with an economic view of the future of the Big 4 audit firms. Drawing a picture of their future with material from Gow and Kells, *The big four: the curious past and perilous future of the global accounting monopoly*,²⁰ a book he recently reviewed, Simunic also examined the Big 4 from a research standpoint, through the changing economics of audit production driven by technological change.

Moving from labour-intensive to capital-intensive

Audit is viewed as a labour-intensive process, often the career starting point of junior accountants. With technology changes—the use in auditing of, for example, big data analytics and artificial intelligence – audit is changing from a labour-intensive operation to a **capital-intensive** one. That is, the capital-intensive investment in computer technology has been growing and is expected to become a significant part of the cost of audit and a key determinant of competitiveness for external audit firms.

Audit production function

Sometimes, Simunic said, “..people have used the labor hours expended by audit firms as a proxy measure of audit quality.” This view allows comparison across firms, particularly when, until now, capital investments were not very large, and the audit process could be viewed as an entirely labour-based production. Labour-hours is **not** a good proxy measure if capital is involved.

²⁰ Gow, Ian D & Kells, Stuart (2018). *The Big Four: The Curious Past and Perilous Future of the Global Accounting Monopoly*. Oakland, CA: Berrett-Koehler Publishers, Inc.

Audit and airlines: an analogy

When an operation becomes capital-intensive, the whole operation changes, Simunic asserts. To help understand the change in the cost of audit production, Simunic drew a parallel with the airline industry. Airlines require lots of capital (fixed) costs, but relatively less labour. This creates a situation where pricing becomes difficult. Their marginal cost pricing results in variability of profits, because profits are a function of volume (number of passengers). This means that fixed costs are not always covered and, if sustained, the airline can fail. Could the same happen with members of the Big 4?

With audit, the capital intensity may improve the efficiency of audit production, and costs will decrease as a function of classical scale economies. Simunic says, "...the most efficient audit firm [will dominate] the market or multiple firms with the same level of investment and efficiency [will] co-exist." Today, the latter describes the Big 4, but if efficiency continues to increase, one firm may supplant the others, Simunic surmises.

Capital investment as a barrier to entry

Capital investment can be a barrier to entry. This means that the chance of smaller firms succeeding against the Big 4 is doubtful. And, although the Big 4 call themselves "global," they are really affiliations of national franchises—with different market sizes—that are quite independent, Simunic reports. So if the multi-country franchises—the international members—do not share the investment of capital—or cannot overcome the complications of allocating revenues, costs and profits of multinational engagements to international members who are all contributing--gaps could widen *among* them and *between* the Big 4.

Implications for standards like NOCLAR

In his penultimate slide, Simunic had a gloomy prognostication, in keeping with that of Gow and Kells: "If capital investment is not shared, then any attempt to equalize audit quality and auditing standards across (large & small) countries is also doomed to fail."

Panel 4 - Carol Paradine - The Canadian Public Accountability Board (CPAB)

With a background as a former corporate controller and CFO, Carol Paradine understands the role of preparing audit-ready financials. As an external auditor for over 30 years, she also understands the audit process and the process of having audits reviewed through Canadian Public Accountability Board (CPAB) and Public Company Accounting Oversight Board (PCOB) inspections. Just as she integrates this experience to fulfill her role as head of Canada's audit regulator, Paradine integrated many points from the day's earlier presentations, giving them context within the activities of the [Canadian Public Accountability Board](#) (CPAB).

CPAB's Role

As Canada's audit regulator, CPAB's mandate is to protect the interests of the investing public and to act in the public interest by, among many other roles, conducting inspections in order to promote "quality, independent auditing."²¹ Paradine likens quality audit to a three-legged stool, with the auditors, the preparers in the company, and the audit committee each playing a critical role. [See also Bruce Winter, Panel 2, and discussion of the public interest.]

Audit and technology

While audit quality in Canada has improved over the last 15 years, Paradine reported, technological change may challenge that trend. For example:

- **Artificial intelligence (AI):** In its early stages, AI was used at Paradine's former external audit firm. It sped up parts of the audit process, but since audit quality is often defined as labour hours [See also Dan Simunic, Panel 3], an audit committee had to be convinced of its effectiveness.
- **Big data analytics:** Typically, the domain of information technology (IT) specialists, big-data handling skills will be increasingly important for entrants to the accounting and audit profession. For regulators like the CPAB, understanding new audit technologies is necessary to ensure they are properly tested and efficiently operated. Greater collaboration between audit and IT specialists may be essential for future success, but a threat is that non-audit firms may take over audits and perform the function in a very different way.
- **Blockchain:** Termed the technology that is the foundation for the new internet of value, "...where anything of value, including money, ... identities, cultural assets like music, and even a vote can be stored, managed, transacted, and moved in a secure, private way"²² without intermediaries, blockchain is seen as a treat to the accounting profession, with rumours of future losses of *a third* of accounting jobs, Paradine says.
- **Cryptocurrencies:** Approximately 50 public crypto-companies operate in Canada now. "The audit approach ... is really difficult to figure out," Paradine said, "...because we don't have what we traditionally rely on for auditing." For example, there is no custodian who can verify that an asset exists. Paradine asked how an auditor can determine that an individual has the right to ownership of something which is [protected by] encryption keys. Three of the Big 4 firms have indicated that they are not ready to provide an audit opinion on these companies, reported Paradine.

²¹ See Canadian Public Accountability Board (CPAB). (2018). *Inspection Process*. Retrieved November 9, 2018, from <http://www.cpab-crc.ca/en/About/Inspections/InspectionProcess/Pages/default.aspx>

²² The Blockchain Research Institute. (2018). *Navigating the Blockchain Revolution*. Retrieved November 9, 2018, from <https://www.blockchainresearchinstitute.org/>

In these early stages, Paradine says, “some organizations are in denial about what's occurring; some of them are confused; and others are trying to be early adopters of technology.”

These technological disruptors will be enabling if used well, Paradine asserts: They have the potential to generate stronger audit overall, with reduced risk of missing salient information. However, are existing standards sufficient, or will new standards be required?

CPAB, stakeholders, and trust

The CPAB also listens to stakeholders. At a recent conference of international regulators, Paradine conveyed that the CEOs of the six largest accounting firms all talked about trust and integrity, with one saying that *trust in the profession has never been lower*.

Whether that lack of trust is part of an expectation gap about expected and actual quality of information [See Linda Mezon, Panel 1] or because auditors did not detect failures-- failure because of massive fraud or failure because a company goes under—standard setters in the US and UK are examining standards to determine if

- standards are good enough
- procedures are good enough
- expectations of the investing public are understood.

CPAB and fraud

Fraud is an area of interest to Paradine and to the CPAB. She asked, rhetorically:

- Can **auditors** do more to train junior staff?
 - Paradine agrees with Panel 3 speakers who said that developing skepticism is a combination of nature and nurture. Junior staff are trained in areas of fraud and professional skepticism, but is their training (at university and on the job) enough?
 - Junior staff may be more likely to learn about fraud from non-executive staff (usually interviewed by more senior audit staff), but their idea of “talking” to people may not mean face-to-face, which would not meet professional standards.
 - Given that junior staff have traditionally been the labour of audit [See Dan Simunic, Panel 3], could they be a contributing factor to audit failures?
 - From her son, Paradine learned that Canadian Border Services Agency staff have four months' training that includes how to ask questions and how to investigate, to help determine if people are lying. Do accounting professionals need similar training?
- Will **technology** make fraud harder to detect? Gone are the days when paper cheques and invoices can be reviewed; the volume of data is greater now, and most is **virtual**. [See Kristy Carscallen, Panel 4]
- Will **centralization** take auditors further from face-to-face interviews and on-site inspections? [See Panel 3, Developing Skepticism – A Forensic Approach.]
- Do differences in **audit quality** between jurisdictions contribute to failures? Many Canadian public companies have subsidiaries in foreign jurisdictions and even CPAB's ability to get access to those files can be somewhat limited, Paradine said.

Panel 4 - Kristy Carscallen - The Future of Professional Accounting and the Role of External Auditors

Opening with a video clip called *Audit 2023*, **Kristy Carscallen** said KPMG Global changed the original title of *Audit 2030*, upon advice that the artificial intelligence and big data analytics represented by the talking “smart data platform” named “KPMG Clara,” were not so far away. Following the now-plausible clip of a day-in-the-life of global external auditors—that would have been called “scifi” just a few years ago--Carscallen gave an overview of KPMG’s investments to enhance audit quality, and an outline of the strides—and the future auditor’s skill set-- necessary to make the video clip’s scenes a reality.

Data explosion

“Everything that we do today creates data. We create more data in one minute than we did in a lifetime less than a generation ago,” Carscallen began, as she projected a slide that showed the volume of data generated, transmitted, uploaded and downloaded in a minute through common social media.

At KPMG, technology is helping to “...organize, understand, analyze, [and] interpret large amounts of data.” But more than that, it is the vehicle for KPMG’s “innovation journey” — a vision that Carscallen thinks is similar for all of Big 4.

Current and future analytics

Currently, audit at KPMG relies on manual labour and structured data [for example, databases] and is piloting cognitive technology with a goal to deploying it as part of KPMG’s audit approach. KPMG’s investment in technology has “three prongs” Carscallen says, with a smart audit platform/single interface—like the opening video’s KPMG Clara—at their centre.

- 1) **Digital automation** will allow rapid
 - a. evaluation of large datasets.
 - b. granular analysis of large datasets
 - c. identification of anomalies
 - d. visualization of results, to the point where audit findings may be delivered virtually, rather than in hardcopy.
- 2) **Cognitive technology** will allow for the analysis of more unstructured data [non-database data, such as email, contracts, and external information] in bigger datasets. Carscallen believes it will “replicate or enhance human cognitive capabilities” and allow auditors to
 - a. use their industry knowledge to enhance machine learning
 - b. test complete data sets, rather than just samples
 - c. analyze real-time data
 - d. focus on anomalies or specific risks

- e. enhance the decision-making process with insights from, for example, analysis of all, rather than a sample of transactions.
- 3) **Predictive analytics** will produce even better analysis and greater insights by leveraging client data and analytics tools.

Other forms of assurance

As a result of the explosion of data and advanced analytical tools, Carscallen says, historical financial statements may become less relevant. If big data and unstructured data become **inputs** for enterprises to measure, monitor and manage their business, then some form of assurance may be required for those inputs. For example, assurance may be required for validation of:

- blockchains or distributed ledgers
- sustainability measures
- non-GAAP/non-financial measures or key performance indicators (KPIs)
- data valuation for companies whose largest asset and goal is to control data (e.g., Amazon, Google, Facebook, *et al.*)

Next-generation auditor

Carscallen says that future auditors will require the following skill sets:

- firm foundation in accounting, auditing, and financial reporting, systems and processes
- strong understanding of risk and internal controls
- comfort with emerging technologies and data analytics
- ability to collaborate in teams whose members may have different specialties (for example, financial reporting, information systems, risk management)
- comfort with change.

Conclusion

Carscallen believes that technology will transform how financial and other data are used and understood in the context of audit. It will provide an opportunity for centralized analysis and engagement management, Carscallen says, which would increase global consistency in audit quality [See Carol Paradine, Panel 4; Dan Simunic, Panel 3] and also allow global knowledge sharing and team collaboration. Carscallen firmly believes that technology will “...augment, but ... not replace professional judgment,” and will enhance audit quality.

APPENDIX 1: SPEAKER BIOGRAPHIES

Eric Kirzner

John H. Watson Chair in Value Investing (Emeritus); Rotman School of Management

Since 1971, I have lectured as a professor at various universities on security analysis and portfolio management. I have also published a number of books, two registration training manuals and well over 1000 articles on these subjects. I have been a professor of finance at the Rotman School of Management since 1989.

I am very active in the financial community and serve on a number of financial and advisory boards and committees. I am the lead external advisor to Healthcare of Ontario Pension Plan and a member of the investment committee of Wealthsimple.

I have an extensive background in securities regulation. I was previously Chair of the TSE Special Committee on Market Fragmentation, Public Governor of the Toronto Futures Exchange, a director of the Derivatives Clearing Corporation, Chair of the OSC Investor Advisory Committee, a director and Vice-Chair of Regulation Services, and a director of IIROC.

One of my primary interests is how investors make decisions and what information they rely upon in making decisions. I am the co-developer, with Richard Croft, of the FPX Indexes that have been published in the Financial Post since 1997. These indexes are designed as asset allocation benchmarks that allow investors to measure the performance of their portfolios and assess whether there is value added from active management. I am also the author of the retail investor-focused Easy Chair portfolio published periodically in the Toronto Star.

In 2003, I was awarded the John H. Watson Chair in Value Investing in recognition of my teaching, writing and contributions to investment knowledge in Canada. In July 2018, I became the John H. Watson Chair in Value Investing Emeritus.

Anthony Scilipoti

CEO, Veritas Investment Research

Anthony is a founding partner of Veritas Investment Research (2000). He is a Fellow Chartered Professional Accountant, a Fellow Chartered Accountant, a Certified Public Accountant (Illinois), and a member of the Association of Certified Fraud Examiners. He is a licensed portfolio manager. Anthony has also served as a member of the Ontario Securities Commission's Continuous Disclosure Advisory Committee since 2006.

Anthony has been very active in accounting standard setting since 2003. He is a former member of the Canadian Accounting Standards Board, the CICA's Emerging Issues Committee, and was the Chair of CPA Canada's User Advisory Committee. Anthony began

teaching in 1997 as a part-time accounting instructor at York University's Schulich School of Business in the MBA and BBA Programs. He was nominated for the Teaching Excellence Award in 1997 and 2003. Several of Anthony's cases have been published in *Cases in Financial Accounting: A Principles Based Approach*, First Edition, 2006. While he no longer teaches full courses, he does guest lecture at the undergraduate and graduate levels and runs custom training programs on financial statement analysis and business valuation for the CFA societies in Canada and the US, CPA Canada, as well as Canadian and US analysts and portfolio managers.

Anthony is an advocate for investor rights. He is a frequent media commentator and public speaker on issues related to financial accounting and disclosure and is considered an industry expert in special situations related to accounting. In 2006, Anthony received the Award of Distinction from the Institute of Chartered Accountants of Ontario (now Chartered Professional Accountants of Ontario) for his impact and leadership in the accounting profession among those under 40.

Linda Mezon

Chair, Accounting Standards Board

Linda F. Mezon is the Accounting Standards Board (AcSB) Chair and has served in this capacity since July 1, 2013. Linda's experience as a standard setter began in 2004 when she was appointed as a volunteer AcSB member. Her time with the Board includes the period encompassing the adoption of IFRS Standards and development of separate sections of the *CPA Canada Handbook –Accounting* for private enterprises and not-for-profit entities.

Linda provides leadership to the AcSB to achieve its mission, as well as enables and promotes a deeper stakeholder understanding of the Board's strategic plan and activities. She is a frequent speaker on topics related to financial reporting, able to represent both the standard setter and preparer points of view.

Prior to her appointment as Chair, Linda was the Chief Accountant at the Royal Bank of Canada (RBC), responsible for the interpretation and application of IFRS Standards and US GAAP. She also monitored compliance with Canadian regulatory requirements on financial disclosure and was responsible for auditor independence. Before RBC, Linda held other senior positions in industry and also has four years of experience in public accounting.

With regard to her not-for-profit experience, Linda is a member of the Board of Directors of the Toronto Rehabilitation Institute Foundation, serving as Vice Chair as well as Chair of its Governance Committee.

Linda was named a fellow of the Institute of Chartered Accountants of Ontario (now Chartered Professional Accountants of Ontario) in 2013, is a Certified Public Accountant (Michigan) and Chartered Global Management Accountant (CGMA), holds a BA in Accounting from Michigan State University, and an MBA from the University of Detroit.

Partha Mohanram

John H. Watson Professor of Value Investing, Rotman School of Management

Professor Partha S. Mohanram is the John H. Watson Chair in Value Investing and Professor of Financial Accounting at the Rotman School of Management at the University of Toronto. He is also the Area Coordinator for the Accounting Area and the director of the India Innovation Institute at the University of Toronto.

Professor Mohanram obtained his PhD in Business Economics from Harvard, MBA from IIM-Ahmedabad, and BTech in Computer Science from IIT- Madras. He is a CPA (CGA, Canada) and a certified board director (ICD.D) who served on the board of CGA Ontario (now CPA Ontario) from 2012- 2014.

Professor Mohanram has published extensively in the top accounting and management journals. He is considered to be one of the leading experts in the area of valuation, fundamental analysis, and cost of capital. He has also published in the areas of corporate governance, executive compensation, and disclosure regulation.

In 2017, Professor Mohanram was honoured with the Haim Falk Award for lifetime contribution to accounting research by the CAAA. In 2018, he won the Rotman School of Management's Research Impact Award. His papers are highly cited and featured in the business press – his research has been featured in the *New York Times*, *Forbes*, *The Globe and Mail* and other publications, and he has discussed his research on CNBC's *Squawk on the Street*, NPR and TVO (TV Ontario).

Professor Mohanram is an editor of *Contemporary Accounting Research* and also serves on the editorial board of *The Accounting Review* and *Review of Accounting Studies*. He serves on the executive committee of the CFEA consortium, and was the co-organizer of the 2016 CFEA conference.

Professor Mohanram teaches *Business Analysis and Valuation* to MBA students, *Financial Statement Analysis and Valuation* to undergraduate students, and also at the executive and PhD levels. He is also actively involved in mentoring PhD students, serving as chair and committee member for numerous PhD students.

James Gaa

Professor, University of Alberta (retired)

James Gaa is an Emeritus Professor in the Department of Accounting, Operations and Information Systems, and an Adjunct Professor of Philosophy, at the University of Alberta. He has had visiting appointments at Arizona State University, the University of British Columbia, and Massey University in New Zealand. His research has focused on standard setting for financial reporting and ethics, and on business and professional ethics. His work in ethics focused on the ethics of public accounting and especially on the independence of auditors from their clients.

Professionally, he was a Canadian board member of the International Accounting Standards Committee from 1997 to 2001, and a public member of the International Ethics Standards for Accountants from 2010 through 2016. Other notable positions include President of the Canadian Academic Accounting Association, and member and chair of the Professionalism and Ethics Committee of the American Accounting Association. In addition, he served as a member of the Boards of CGA Alberta (now CPA Alberta) and CGA Canada (now CPA Canada).

Kelly Gorman

Vice President, Regulatory & Standards, CPA Ontario

Kelly Gorman leads the Registrar, Practice Inspection, Member Advisory Services, Standards Enforcement, and Investigation and Prosecutions teams: role that are crucial to CPA Ontario's protection of the public interest. Prior to joining CPA Ontario, Kelly served as Deputy Director of Enforcement and the first Chief of the Office of the Whistleblower at the Ontario Securities Commission. Her extensive background as a policy advisor to those charged with governance will continue to ensure the integrity of the CPA profession in Ontario.

Bruce Winter

AASOC Chair

Bruce Winter is retired, having spent 35 years in public accounting. He was an audit partner with PricewaterhouseCoopers LLP where his client base was focussed on larger multinational clients. His work experience included work with public and private companies, within Canada and globally.

Bruce is currently the chair of Canada's Auditing and Assurance Standards Oversight Council (AASOC). The Council provides public interest oversight for the setting of audit and independence standards for the accounting profession in Canada. He is a past member and chair of the Canadian Auditing and Assurance Standards Board (AASB) and past member of the International Auditing and Assurance Standards Board (IAASB), standard setting bodies that serve the public interest by setting standards for the provision of audit and related services in Canada and globally, respectively.

Bruce is also a member of the Governing Council of the University of Toronto. He currently serves on the Executive Committee, Business Board and Pension Committee of the Governing Council. Bruce's past involvement with community has included roles as a Board member for St. Joseph's Health Centre (Toronto), the Shaw Festival (Niagara-on-the-Lake), and the Canadian Cancer Society (Ontario Division).

Mark Pinch

Associate Chief Accountant, OSC

Mark Pinch is the Associate Chief Accountant at the Ontario Securities Commission. His responsibilities include:

- providing specialized accounting and auditing advisory services to various branches of the Commission on accounting, policy and operational issues
- assisting with addressing regulatory issues pertaining to accounting, auditing and the disclosure of financial performance measures.

Mark has recently been involved in the development of the recent proposals with respect to the disclosure for non-GAAP and other financial measures, which are intended to replace existing staff guidance.

Karim Jamal

CA Distinguished Professor, School of Business University of Alberta

Dr. Jamal is the past Chair of the American Accounting Association's Financial Accounting Standards Committee (FASC), which provides scholarly opinion and discussion to the Financial Accounting Standards Board (FASB) in the US, The International Accounting Standards Board (IASB), and The Securities and Exchange Commission (SEC).

Dr. Jamal's research focuses are

- Auditor balancing of fraud versus client satisfaction
- Disclosure and its effect on conflict of interest and discussions with the audit committee
- Private markets for accounting and auditing
- Regulatory failure in auditing, and
- Persuasion, justification and interpersonal perception in auditing.

Dr. Jamal has numerous publications in research and professional journals in accounting, economics and psychology, published in Australia, Canada, the US, the UK, Japan and Taiwan.

In 2009, the Alberta Institute of Chartered Accountants (ICAA),(now Chartered Professional Accountants of Alberta) made Dr. Jamal a Fellow of Chartered Accountants (FCA).

In 2010, Dr. Jamal received the Haim Falk Award for Distinguished Contribution to Accounting Thought from the Canadian Academic Accounting Association (CAAA) and was appointed as Centennial Ambassador for the Institute of Chartered Accountants of Alberta (ICAA),(now Chartered Professional Accountants of Alberta).

In 2016, Dr. Jamal became a Public Member of Board of Directors of CICBV – Canadian Institute of Chartered Business Valuators: 2016-2019.

In 2017, Dr. Jamal became a Department Audit Committee (DAC) Member for the Federal Government's Office of the Director of Public Prosecutor: 2017-2020.

Jennifer Perry

Senior Manager – Fraud Investigation & Dispute Services, Ernst & Young LLP

Jennifer Perry is a Senior Manager in the Toronto office of Ernst & Young's Fraud Investigation & Dispute Services practice. She has practiced exclusively in investigative and forensic accounting since 1996. She has led teams in large and small-scale financial investigations and litigation support. Her experience includes analyzing and quantifying economic damages and conducting investigations on behalf of individuals, corporations, courts, regulatory agencies and governments.

Her casework includes investigation of alleged fraudulent financial reporting, securities and related fraud matters, misappropriation of funds, Ponzi schemes, procurement fraud, income tax disputes, whistleblower complaints, asset tracing, and planning and execution of Anton Piller orders.

Her experience in dispute and litigation support services includes various post-acquisition purchase prices disputes, and loss quantification in breach of contract and tort. Jennifer also has particular experience in quantifying economic damages and accounting of profits in intellectual property disputes.

A preparer of numerous expert reports and affidavits, Jennifer has provided expert witness testimony as a forensic accountant on issues involving loss of income in the Ontario Superior Court of Justice. She has been an instructor in both *Investigative Related Matters and Loss Quantification* courses and a lecturer in *Monetary Remedies in Intellectual Property Disputes* for the University of Toronto Diploma in Investigative and Forensic Accounting program. She is an author and speaker on topics of fraud, forensic accounting, economic losses, and accounting of profits in intellectual property disputes.

Gary Moulton

Retired Partner, Deloitte and Duff & Phelps

Gary Moulton has been involved in the forensic and investigative accounting profession in Canada for over 35 years. He was the partner in charge of the Toronto forensic services practice of Deloitte Canada for several years and is a past Chair of the CICA's Alliance for Excellence in Investigative and Forensic Accounting. He lectures at the University of Toronto's Master of Forensic Accounting program on advanced forensic investigations and investigative interviewing skills. During his career he has led many significant Canadian and global forensic investigations involving allegations of fraud and other financial impropriety in public and private corporations, governments, and not-for profit and charitable organizations. He has testified as an expert witness on many occasions in criminal and civil courts in Canada. His investigative experience includes employee and management fraud, investor fraud, financial statement misrepresentation, corruption and bribery, bid rigging and contracting fraud, cheque and electronic funds kiting, and tracing assets in many jurisdictions.

Larry Lancefield

Managing Director, Lancefield Inc.

Larry Lancefield CPA, CFE, CA·IFA, CBV, CFF joined the world's first full-time forensic accounting firm as a CA in 1984.

In 1985, Larry began teaching accounting at both the Ontario Provincial Police College and the Royal Canadian Mounted Police College. In 1998, he became an inaugural member of the IFA Standards Committee co-authoring *Standard Practices for Investigative and Forensic Accounting Engagements* issued in 2006 and in 2003, he created the course content for the first *Investigative Related Matters* course of the University of Toronto's Diploma in Investigative & Forensic Accounting (DIFA) Program. He has taught that course continuously until last year when he created content for the new Masters in Forensic Accounting (MFAcc) Program. He also previously created forensic accounting content for the Federal Auditor General Staff Training Program.

Larry's work experience includes murder, fraud, civil litigation and valuation cases. A number of these cases have involved work in foreign countries, and he has been engaged by major US Corporations to create investigative training programs for their internal audit departments. He has provided numerous presentations on forensic and investigative accounting to various professional organizations, associations, government bodies, universities and schools.

Dan Simunic

Professor Emeritus, University of British Columbia

Dan Simunic is currently Professor of Accounting at Simon Fraser University and Professor Emeritus of Commerce and Business Administration at the University of British Columbia. He has also served as Visiting Professor at various universities around the world.

Dan's research interests are in the economics of auditing and in international auditing. He has published research papers in numerous scholarly journals, including the *Journal of Accounting Research*, *Journal of Accounting & Economics*, *The Accounting Review*, *Contemporary Accounting Research*, and *Auditing: A Journal of Practice & Theory*.

Dan obtained a Ph.D. in economics and accounting from the Graduate School of Business, University of Chicago in 1979. He worked in the Chicago office of Ernst & Ernst (now Ernst & Young) and served for 10 years as a technical advisor from Canada to the International Auditing Practices Committee (now the International Auditing & Assurance Standards Board) of the International Federation of Accountants. Dan is a US CPA (State of Illinois) and a former FCGA (British Columbia). Dan served as co-editor of *Contemporary Accounting Research* from 1997 to 2000, and as the editor of *Auditing: A Journal of Practice and Theory* from 2005-2008 and is currently a co-editor of the *Journal of Contemporary Accounting & Economics*.

Carol Paradine

CEO, Canadian Public Accountability Board (CPAB)

Carol is the Chief Executive Officer of the Canadian Public Accountability Board. Prior to assuming the leadership role at CPAB, Carol was a partner in a major international firm. She specialized in assurance and advisory services for public companies as well as complex accounting and financial transactions. Carol served on the firm's Board of Directors and Executive Committee with roles that included Managing Partner – Leadership Development and Succession, Managing Partner –Prairie Region and Acting Chief Financial Officer.

Community service is equally important to Carol, with roles that have included Chair, Manitoba Chambers of Commerce; President, Alzheimer Society of Manitoba; board and audit committee member, Alzheimer Society of Canada; board and audit committee member, Centreport Canada; board and finance committee member, YMCA-YWCA National Capital Region; board member, Innovate Manitoba; board member, Harmony House; and advisory board member, Carleton University School of Business. She also coached youth soccer for a number of years and was a lecturer and coach at Carleton University.

Carol has a Bachelor of Commerce degree, along with her Chartered Professional Accountant and Certified Public Accountant designations from Canada and the United States. She speaks both official languages.

Kristy Carscallen

Canadian Managing Partner, Audit, KPMG LLP

Kristy is the Canadian Managing Partner, Audit for KPMG in Canada. She has over 25 years of experience and has been a Partner at KPMG for eighteen years.

In her role as Canadian Managing Partner, Audit, Kristy is responsible for the delivery of high quality audits, audit innovation and technology as well as developing our audit professionals to respond to the ever-changing environment. Kristy is a member of KPMG Canada's Management Committee.

Prior to assuming leadership of the Canadian Audit Practice, Kristy was Chief Human Resource Officer and a Partner in KPMG's Toronto office within the Technology, Media & Telecommunications Practice (TMT). She has served as Lead Engagement Partner on numerous public and private sector clients.

Kristy is a member of the Board of Directors of Ronald McDonald House ("home away from home" for seriously ill children and their families, and a place to heal better together), the chair of the Governance & Nominating Committee and a member of Finance & Audit Committee.

Kristy is a Member of Chartered Professional Accountants of Ontario.

Kristy enjoys spending time with her husband and eleven year old daughter.