

PROFESSIONAL ACCOUNTING CENTRE (PAC)

2022 INVITED CONFERENCE

**Corporate Misconduct, Fraud &
Whistleblowing**

Afternoon of June 3, 2022. Online using Zoom

The Institute for Management & Innovation Complex
University of Toronto Mississauga, Mississauga, Ontario

PAC is pleased to acknowledge funding support for this conference from CPA Ontario

AGENDA

Friday, June 3, 2022

12:45 Sign-in on Zoom

1:00 Opening Remarks

Corporate misconduct, fraud, and prevention mechanisms such as whistleblowing have become critical issues for professional accountants in all of their pursuits. Standard setters, regulators and professional accounting firms are focussing on how to combat these growing problems. This conference will review research projects underway and recent lessons learned by front-line participants in the battle.

Leonard J. Brooks, Director, Professional Accounting Centre
Soo Min Toh, Director, Institute for Management & Innovation, UTM
Craig Smith, EVP, Member & Student Services, CPA Ontario

1:15 Does Social Media Reduce Corporate Misconduct?

Jonas Heese, Harvard Business School (Co-author & Presenter)

Joseph Pacelli, Harvard Business School (Co-author)

Abstract

In this study, we examine whether social media activity can reduce corporate misconduct. We use the staggered introduction of 3G mobile broadband access across the United States to identify exogenous increases in social media activity and test whether access to 3G reduces misconduct. We find that facilities reduce violations by 1.8% and penalties by 13% following the introduction of 3G in a local area. To validate social media activity as the underlying mechanism, we show that 3G access results in sharp increases in Tweet volume and that facilities located in areas with high Tweet volume engage in less misconduct. The effect of 3G access on misconduct is stronger for facilities of firms with a large Twitter following and concentrated in non-financial violations, such as those involving unsafe workplace conditions and inappropriate treatment of employees and customers. Overall, our results demonstrate that social media helps reduce corporate misconduct.

Presenter: Jonas Heese, Harvard Business School

Jonas Heese is the Marvin Bower Associate Professor of Business Administration in the Accounting & Management Unit at Harvard Business School. His research focuses on corporate misconduct, with a special focus on the role of regulators, whistleblowers, the media, and organizations' compliance systems to prevent such misconduct.

Discussant: Alexander Dyck, Rotman School of Management, University of Toronto

Alexander Dyck, Professor of Finance and Economic Analysis and Policy, holds the Manulife Financial Chair in Financial Services, Rotman School of Management at the University of Toronto and is cross-appointed to the Faculty of Law. Professor Dyck's research focuses on corporate governance, private equity, mergers and acquisitions, asset management, pensions, and sustainability. He is Director of the Capital Markets Institute, Academic Director of the Directors' Education Program, and serves on the Academic Advisory Board of the Canadian Coalition for Good Governance, and on the External Advisory Committee of the Culture and Conduct Risk Division of the Office of the Superintendent of Financial Institutions.

Dyck is a graduate of the University of Western Ontario (BA) and Stanford University (PhD). He was previously an Associate Professor at the Harvard Business School, and has been a visiting scholar at INSEAD, and Yale University.

There will be an opportunity to share your views. Type in the Q & A

2:15 When Executives Pledge Integrity: The Effect of the Accountant's Oath on Firms' Financial Reporting

Jonas Heese, Harvard Business School

Gerardo Pérez-Cavazos, UC San Diego Rady School of Management (Presenter)

Caspar David Peter, Rotterdam School of Management

Abstract

We study the effect of executives' pledges of integrity on firms' financial reporting outcomes by exploiting a 2016 regulation that requires holders of Dutch professional accounting degrees to pledge an integrity oath. We identify chief executive officers (CEOs) and chief financial officers (CFOs) required to take the integrity oath, and find that firms reduce income-increasing discretionary accruals after executives took the oath. These firms also reduce discretionary expenditures, indicating that oath-taking executives reduce overall earnings management and not merely substitute accruals-based with real-activities earnings management. These effects are concentrated in firms where the CFO took the oath and are also present during years of performance pressure. Overall, our results indicate that integrity oaths for executives improve firms' financial reporting quality.

Presenter: Gerardo Pérez-Cavazos, UC San Diego, Rady School of Management

Gerardo Pérez Cavazos is an Assistant Professor of Accounting at UCSD. Professor Perez Cavazos's research focuses on two themes. The first theme examines the role of information on customer-supplier relationships. The second theme centers on corporate misconduct, including compliance, monitoring, and employee whistleblowing. His research has been published in the *Accounting Review*, the *Journal of Accounting Research*, the *Journal of Accounting Economics*, and the *Journal of Financial Economics*.

Professor Pérez Cavazos earned a PhD in accounting and an MBA from The University of Chicago Booth School of Business and a bachelor's degree in Economics from Instituto Tecnológico Autónomo de México (ITAM). Prior to joining UCSD, he was an Assistant Professor of Business Administration at Harvard Business School.

Discussant: Kyle Welch, George Washington University

Before becoming a professor at George Washington University, Kyle Welch worked on the investment team at the Stanford Management Company (Stanford University's endowment). While there he developed asset allocation and portfolio strategies. Professor Welch also evaluated public equity, private equity, venture capital, and hedge fund investment opportunities/fund managers. Prior to working at Stanford, Professor Welch worked at Standard & Poor's (S&P) in the Corporate Valuation and Consulting Group and then as a minister for his church in Detroit Michigan. Professor Welch received his B.S. and Masters from Brigham Young University and his Doctorate from Harvard Business School.

There will be an opportunity to share your views. Type in the Q & A

3:10 Break

3:25 Auditing with a Chance of Whistleblowing*

Lin Nan, Purdue University

Chao Tang, Hong Kong University of Science & Technology (HKUST)

Minlei Ye, University of Toronto (Presenter)

Abstract

In this study, we develop a strategic auditor-whistleblower-enforcer model to investigate the impact of promoting whistleblowing on audit quality, social welfare, and detection efficiency. We find that, on the one hand, as more whistleblowing helps identify financial misreporting and reveals audit failures, it motivates the auditor to improve audit quality. On the other hand, more whistleblowing may crowd out the enforcer's investigative effort and reduce the likelihood of detecting audit failures, thereby dampening the auditor's incentive to improve audit quality. In contrast to conventional wisdom, we demonstrate that under certain conditions, encouraging whistleblowing not only impairs audit quality, but also lowers social welfare and detection efficiency.

**Presenter: Minlei Ye, PhD, CPA, CGA,
Associate Professor of Accounting, University of Toronto**

Dr. Minlei Ye joined the University of Toronto in 2009. Her research interests focus on the economics of auditing. She utilizes analytical and archival methods to study the impact of audit regulations and liabilities on audit quality, auditor

independence, and audit market, as well as the economic factors that affect audit pricing.

She has presented her research at numerous international and national conferences. She has published in the Journal of Accounting Research, the Journal of Accounting & Economics, and Contemporary Accounting Research. She is one of the founding members of the Accounting and Economics Society and an Ad Hoc editor at Contemporary Accounting Research.

She earned her Ph.D. in Accounting from the University of British Columbia, and received her Bachelor's and Master's degree in Accounting from Renmin University of China.

Discussant: Jonathan Black, Purdue University

Jonathan Black is an Assistant Professor of Accounting in the Krannert School of Management at Purdue University. He is also a faculty affiliate of the Purdue University Research Center in Economics. Jonathan's research focuses on how stakeholders, such as investors, employees, and auditors, shape financial reporting and the role that legal and regulatory institutions play in protecting investors. He has published in leading journals such as The Accounting Review and has presented his research at various international conferences.

Jonathan holds a Ph.D. from the University of Colorado Boulder and a B.S.B.A. from Bucknell University. Before entering academia, he worked as an auditor at KPMG where he earned his CPA.

There will be an opportunity to share your views. Type in the Q & A

4:20 Panel: Recent Experience of Whistleblowers, Regulators, and Facilitators

Pavandeep Gill, Senior Legal Counsel, Wirecard

Alejandro Cardot, whistleblower, Bridging Finance scandal

Joe German, Director of Strategic Alliances, Clearview Strategic Partners Inc.

Panelists will comment on:

- their experiences as whistleblowers, legal counsel, regulators, and whistleblower facilitators,
- the challenges whistleblowers, companies, and organizations encounter and how whistleblowing programs can be made more successful, and

- future whistleblowing developments they foresee.

Pavandeep Gill, former Senior Legal Counsel, Wirecard

(No PPTs)

A former 'Magic Circle' lawyer who is now the Chief Legal Officer of Southeast Asia's fastest growing digital assets exchange, Zipmex, Pav is widely regarded as a key opinion leader on legal and compliance topics in the payments and digital assets spaces. He has been featured by various global news outlets including CNBC, BBC, and the Financial Times, and served as keynote speaker at international conferences held by ACFE, LexisNexis, Dun & Bradstreet and DLD. In addition, he is regularly invited by large banks to conduct internal training for their employees.

For his role in exposing the Wirecard scandal, Pav has been awarded the 2021 Blueprint for Free Speech "Special Recognition Award" for integrity and bravery in the public interest, and the 2022 ACFE "Cliff Robertson Sentinel Award" - one of the ACFE's highest honours bestowed annually on a person who, without regard to personal or professional consequences, has publicly disclosed wrongdoing in business or government. His contributions served as the primary focus of the documentary "Wirecard - The Billion Euro Lie", produced by Sky Studios and NBC Universal, and which was one of the nominees of "Best Documentary" in the 2021 German Television Awards.

Alejandro Cardot, whistleblower, Bridging Finance scandal

Originally from Venezuela, Alejandro has 15 years of experience in diverse areas of the financial sector, such as trading back-office, portfolio management, family offices and investment banking. He has acted as president and general manager of two broker-dealers in Venezuela. He immigrated to Canada in 2018. Since 2021, he has focused his professional practice on providing due diligence services and forensic financial research. He holds a Bachelor's degree in industrial engineering from UCAB in Venezuela, an MSc in Finance from IESA in Venezuela, and an MBA from McGill University.

About Bridging Finance ... The OSC alleges that Bridging defrauded investors out of millions of dollars through "dishonesty and deceit." The OSC, using their powers, unearthed overwhelming evidence of Bridging's embezzlement for an amount close to \$100 million. However, according to the receiver, Bridging's investors are facing up to \$1.3 billion in losses.

The difference between the expected losses and the alleged embezzlement can be explained by the deficient lending practices of Bridging Finance, which were identified by the receiver. Beyond the asset misappropriation, most of the losses investors suffer will arise from Bridging's management accounting misrepresentations. Their most significant fund, the Bridging Income Fund, never

posted a negative month. The fund's audited statement had no signs of problems from the fund investments. These actions destroyed 10x more capital than the charges the Sharpes are facing. So far, no accusation has been brought against Bridging's management for those misrepresentations

Joe German, Director of Strategic Alliances, ClearView Strategic Partners Inc.

With a career spanning over a decade as an award-winning public servant and as VP of Business Development at Canada's largest independent mutual fund company, Joe German understands the wide variety of challenges that organizations face. As Director, Strategic Partnerships his goal is to educate organizations and industry groups about ClearView's ethics reporting platform and to partner with them to create better, safer workplaces. Joe holds a BA and a Master of Public Administration from Western University.

There will be an opportunity to share your views. Type in the Q & A

5: 30 Closing Remarks & Adjournment - Len Brooks & Dushyant Vyas

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