

## **PAC 2018 Conference on Professional Accounting Futures – Condensed Summary**

The Professional Accounting Centre (PAC) (<https://www.utm.utoronto.ca/pac/>) was established at University of Toronto Mississauga (UTM) to examine the challenges affecting professional accounting, with the aim of enhancing the future relevance of professional accounting.

PAC's third annual conference: *Professional Accounting Futures* was held at the Institute for Management & Innovation at 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 new IFAC 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 is a condensed summary of the conference. The full Summary and speakers' bios, and video and PowerPoint presentations can be found on PAC's Events website under the conference name, [\*PAC 2018 Annual Conference on Professional Accounting Futures – September 14, 2018.\*](#)

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### ***How Non-GAAP and Non-financial Measures are Changing Value Investing***

#### ***Panelists***

Eric Kirzner, John H. Watson Professor of Value Investing (Emeritus), Rotman School  
Anthony Scilipoti, CEO, Veritas Investment Research  
Linda Mezon, Chair, Accounting Standards Board  
Partha Mohanram, John H. Watson Professor of Value Investing, Rotman School

One of the major challenges facing professional accountants is that *traditional audited financial statements are no longer the dominant source of information for investors, and that many, if not most of non-GAAP measures produced improve the reporting company's financial picture.* When over 80% of the data used for investment decisions does not pass through the GAAP and audit framework, questions are raised about the future relevance of professional accounting as we

know it, whether the investing public is being well-served, and how professional accounting can change to best serve the public interest.

The panelists spoke about how the trend toward different measures of performance was undermining traditional value investing in some ways, while improving the assessment of future value generation in others. For example, non-GAAP and non-financial measures are susceptible to manipulation and show an incomplete picture, but some measures are definitely more useful in establishing projections of future activity and value than are traditional financial statement-based measurements. In addition, non-GAAP and non-financial measures are considered very useful in telling the story of corporate performance and risk more clearly than GAAP-derived measures.

As a result of this new reality for professional accountants, the panelists provided their assessments and suggestions for the future for professional accounting, including:

- Making traditional GAAP based-statements and related reports more relevant.
- Introducing a *Framework for Reporting Performance Measures*<sup>1</sup> that will deal with important fundamentals such as the maintenance of transparency, consistency, and comparability, and will establish new territory and purpose for professional accountants.
- Becoming more involved with performance reports covering CSR and ESG matters.
- Supporting research into performance reporting and the role of professional accountants.
- Strengthening security regulations and stronger enforcement to protect the public.

The panelists left little doubt about the relevance of new performance measurements to the future of professional accounting. How is the profession going to adapt? That's a key question for all.

*Professionalism: New Challenges - NOCLAR Standards, "in the Public interest",  
courage, ...*

**Panelists**

Jim Gaa, Professor, University of Alberta (retired)  
Kelly Gorman, Vice President, Regulation, CPA Ontario  
Bruce Winter, AASOC Chair  
Mark Pinch, Associate Chief Accountant, OSC

*New NOCLAR Standards will require professional accountants to disclose to appropriate parties events **not** in compliance with laws and regulations, and not in the public interest – which will likely change how **confidentiality** is perceived and managed, not only for auditors but particularly for professional accountants employed by organizations, and for tax practitioners.*

Adopted by the International Federation of Accountants' (IFAC's) International Ethics Standards Board for Accountants (IESBA) in mid-2017, these standards are now being studied by CPA Canada and other professional accounting bodies around the world to see how they will be adopted in each jurisdiction. They call for new understanding of what is and is not "in the public

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<sup>1</sup> 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>

interest”, as well as new levels of moral courage to speak out and to whom, and the appropriate level of skepticism needed in professional accounting activities.

NOCLAR standards were reviewed by the panel, indicating the following.

- The NOCLAR standard *differs* from a whistleblowing standard, because external disclosures are restricted to legal authorities, and resignation is not a substitute for action. Their scope is limited to violations of law and regulation that are not in the public interest. They do not cover civil matters, unethical-but-legal acts, or personal behavior of individuals unrelated to the organization.
- For *internal* disclosure, NOCLAR guidance says the Professional Accountant (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 necessarily required, but the PA: must not alert (tip off) the client prior to disclosure; may need to disclose if a breach is imminent; and must disclose only if – senior management and TCWG do not rectify the situation, items in financial statements are directly affected, and compliance is fundamental to operations or involves substantial penalties.

Obviously, these guidelines will impact current confidentiality practices, and will require significant study of:

- which PAs will be affected, and how (i.e. auditors only, non-auditors, tax practitioners)
- what external and/or internal disclosures will be demanded for the protection of the public interest even if not required by law
- how will the interests of PAs be protected if disclosures are required
- the extent of further investigative action will be required
- how much professional skepticism is enough
- whether or not professional skepticism be brought into the ethical codes of conduct for all PAs, not just for auditors
- what does “in the public interest” mean
- how these new guidelines will affect judgement required by PAs
- how NOCLAR standards will improve securities regulation, and how should securities regulators integrate them with whistleblowing programs and enforcement?

The new NOCLAR standards, which are intended to improve PAs protection of the public interest – and thereby the profession’s reputation – will require significant changes in many aspects of professional accounting activity.

**Keynote: *Developments in the U.S. CPA Profession: Will they be replicated in Canada?***

**Keynote Speaker**  
Karim Jamal,

Karim Jamal offered comments on his research as part of the strategic planning process for CPA Alberta, and on the consultation paper on audit committees issued by the [International Organization of Securities Commissions](#) (IOSCO)<sup>2</sup>. His research shows that trends in the U.S. are different than those in Canada and the U.K. In the US “the CPA is in very significant decline”, but not in Canada and the U.K. Specifically, Jamal found that:

- In US companies, the number of CFO's with an **accounting** background is apparently declining relative to MBAs, but in Canada and the UK, CFO's with accounting backgrounds are maintaining an 80% share of appointments
- In the US, it is common for CFO's to have a background in science, technology, engineering and math (STEM) background, but not in Canada or the UK
- CEO's with accounting background are ~ 25% in the UK, 22% in Canada, but only 12 % in the US.
- In the US, there are very few accountants reporting to CFOs, and accountants are seen as compliance people.
- In the US, few accountants are on audit committees in spite of the *Sarbanes-Oxley Act*.
- Although accounting enrolments and quality of student remains high in Canada, 80% on the CPA Honour Roll leave public accounting within six years.
- In the US, in the top schools there is a trend towards reduction in the accounting curriculum because it is seen as not relevant.
- Audit fees are very low in Canada relative to the US and the UK, and the audit committee pressures to reduce fees are growing.

### *Developing Skepticism – A Forensic Approach to this Critical Problem*

#### *Panelists*

Jennifer Perry, Ernst & Young LLP  
Gary Moulton, Retired Partner, Deloitte and Duff & Phelps LLP  
Larry Lancefield, Lancefield Inc.

Professional skepticism is one of the most important characteristics for professional accountants to develop, and one of the most difficult to teach and instill in professional accounting students. More importantly, according to CPAB's 2014 inspection report<sup>3</sup>, “In some firms, up to 80 per cent of the audit work is conducted by staff with fewer than five years' audit experience” – so developing professional skepticism in future auditors *while they are at university* is critical.

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<sup>2</sup> 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>

<sup>3</sup> Canadian Public Accountability Board (CPAB). (2015). *Public Report 2014: Changing Expectations*. Retrieved from <http://www.cpab-ccrc.ca/Documents/Topics/Public Reports/2014 Public Report EN.pdf#search=2014 public report on inspection> (p. 12).

Since forensic accountants are expected to have highly developed levels of professional skepticism, in this panel, three senior forensic accountants were asked to share their perspectives on developing and applying professional skepticism, and they provided the following suggestions for future auditors:

- Learn and employ effective listening, observation, and interviewing skills. Don't interrupt or talk over someone being interviewed. Listen and watch for clues of deception. Anticipate answers and watch how the interviewee gives his/her answer. Understanding human behaviour is essential to assessing how a person is behaving. Try to develop cognitive empathy and demonstrate it to the interviewee to break down possible barriers.
- Try to understand the motivations of people you encounter that might influence the information they give you. Many people will tell you what they think you want to hear.
- Challenge information that doesn't make sense. According to Lancefield, "If something just doesn't make sense, it doesn't make sense for a reason, so it's worth investigating."
- Try to identify and ask the next logical question. If one exists, and you don't ask it, you haven't applied appropriate skepticism. Be persistent.
- Identify and remove barriers to successful investigations: rushing and bias. Develop techniques for dealing with difficult interviewees.
- Education and training are essential, preferably using cases and role playing, under observation from knowledgeable mentors.
- Interview operational staff – they often know what controls are being bypassed or overridden.

### *Future of Professional Accounting and the Role of External Auditors*

#### *Panelists*

Dan Simunic, Professor Emeritus, University of British Columbia  
& Professor of Accounting, Simon Fraser University  
Carol Paradine, CEO Canadian Public Accountability Board  
Kristy Carscallen, Canadian Managing Partner, Audit, KPMG LLP

Many factors motivated this discussion, including the advent of new developments like AI and blockchain, higher expectations by the public and more stringent regulation and oversight, the decreasing relevance of GAAP based financial data, global business requirements and complexities, globally interdependent 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.

Dan Simunic drew on a book by Gow and Kells, *The big four: the curious past and perilous future of the global accounting monopoly*,<sup>4</sup> to offer comments on how professional accounting could change as it moves from a labour-intensive process to a capital-intensive one with the

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<sup>4</sup> 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.

introduction of AI. Audit quality metrics will change as labour hours alone will no longer fit reality. Audit pricing will also change as the fixed costs of capital begin to dominate variable costs. The size of needed capital costs may create a barrier to entry by smaller firms that may allow large firms to dominate in the future. In closing, Dan offered that: “If capital investment is not shared, any attempt to equalize audit quality and auditing standards across (large & small) firms and countries is also doomed to fail.”

Carol Paradine spoke about CPAB’s mandate 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.” While audit quality in Canada has improved over the last 15 years, Paradine reported, technological change poses both an opportunity and a threat. AI, for example, poses significant challenges including a skill gap, untested audit techniques, and increasing reliance on and collaboration with IT personnel. Blockchain affords the possibility of essentially private, virtual accounting systems that could disrupt current reporting and audit approaches. Cryptocurrencies have spawned about 50 companies where there is no traditional custodian to facilitate the verification of assets, and some firms have indicated that they are not ready to provide an audit opinion on these companies. Trust in the profession is being challenged, standard setters must assess whether existing standards and procedures are good enough, and the expectations of the investing public are understood. Finding fraud is also of great concern, and efforts to strengthen professional skepticism and related skills, particularly in junior staff, must be supported. Technology will likely make fraud harder to detect by moving auditors farther from the face-to-face interactions traditionally involved in discovery. Finally, the problems of auditing an increasingly set of foreign subsidiaries will be a continuing concern.

Kristy Carscallen, head of KPMG’s Canadian audit practice, believes that technology will transform how financial and other data are used and understood in the context of audit. Kristy spoke about the impact of technology: the ability to deal with large datasets to identify anomalies, the introduction of cognitive technology to analyse unstructured data such as emails, and predictive analytics to gain better insights. She foresees that, with the explosion of data and advanced analytical techniques, new assurance techniques will need to be developed and applied to provide validation to data other than historical financial statements such as blockchains or distributed ledgers, sustainability measures, non-GAAP/non-financial measures or key performance indicators (KPIs), and data valuation for companies whose largest asset and goal is to control data (e.g., Amazon, Google, Facebook, *et al.*). She believes that 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 different specialties (for example, financial reporting, information systems, risk management)
- comfort with change.

Although technology presents challenges, Carscallen firmly believes that technology will “...augment, but ... not replace professional judgment,” and will enhance audit quality.

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