CONFERENCE SUMMARIES

PAC'S 2021 ANNUAL PROFESSIONAL ACCOUNTING FUTURES CONFERENCE ON

COVID-19 IMPACTS: FINANCIAL REPORTING, INVESTING, AUDITING, AND GOVERNANCE CHALLENGES IN A FAST CHANGING AND CHAOTIC ENVIRONMENT

Held virtually on the afternoons of October 28, 29, 2021

ACKNOWLEDGEMENTS

The Professional Accounting Centre (PAC) is pleased to acknowledge the support of the University of Toronto Mississauga (UTM) and CPA Ontario for establishing and maintaining the PAC, and CPA Ontario for funding this conference.

We would also like to thank PAC board members for their organizational support and our speakers for their informative presentations. Additional thanks go to Nadine Mcharafie, for help with PowerPoint presentations; our videographer and website organizer, Abdullah Qaisar; and the compiler of this document, Lee Benson.

The views and opinions expressed in this paper are those of the speakers and do not necessarily reflect those of their respective organizations, CPA Ontario, or the PAC.

Len Brooks, Professor of Business Ethics & Accounting
Director, ***Professional Accounting Centre***

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EXECUTIVE SUMMARY

The best way to improve the future of accounting is to arrange discussions that engage professional accountants in assurance practice as well as those in management, regulation, standard-setting, and investment advice, plus academics and students. The ***Professional Accounting Centre*** (PAC) ***2021 Annual Futures Conference*** did just that.

Held virtually on the afternoons of October 28 & 29, the conference convened to discuss COVID-19's impacts on financial reporting, investing, auditing, and governance challenges in a fast changing and chaotic environment. Speakers were organized by topic in four panels with an opening keynote on Day 1 and research address on Day 2.

This ***Conference Summary*** document provides thumbnail sketches of each talk. Each panel summary of four speakers is about a 10 to 12-minute read. Of necessity, we provide only selected highlights here, but videos of the presentations, Q&A sessions, and PowerPoint slides are available free of charge at *PAC 2021 Annual Conference on Professional Accounting Futures – October 28 & 29, 2021*. Speaker biographies can be found in the ***Expanded Agenda***.

Some ***key messages*** emerged from the talks. Chief among them were these:

The need for clarity in financial statements and disclosures

Clarity — often lacking in COVID-related financial statements and disclosures:

- **increases the confidence** of lenders and investors (Linda Mezon-Hutter, Keynote; and Panels 1 & 2)
- **improves audit quality** (Panel 1, and Carol Paradine, Panel 3)
- **can be improved** through the web-based resources provided by standard setters (Linda Mezon-Hutter, Keynote; Jim Kroeker, Panel 1) and regulators (Mark Pinch, Panel 1) to help the preparers of financial statements address COVID-related accounting challenges that they may never have encountered.

Repeated COVID-related disclosure issues

Repeated COVID-related disclosure issues centred around management estimates, going concern, government subsidies, estimating cash flows, etc. (Linda Mezon-Hutter, Keynote; all of Panel 1; Anthony Scilipoti, Panel 2; Carol Paradine, Panel 3), and the need to consider relevance, reliability, and authenticity of audit evidence became more important than ever (Kristy Carscallen, Panel 1).

Adoption of technology

> *"Technology became the one tool that we all we all had to learn how to use better as we went into this in virtual environment." Linda Mezon-Hutter, Keynote [Q & A audio]*

Adoption of technology was accelerated through COVID, with some uses expected to outlast the pandemic. For example, technology adoption:

- **propelled audit into the future** with new AI modelling tools. Increased automation of more-routine tasks allowed people to use their judgment for higher risk areas and gave newer auditors more challenging work sooner than in pre-COVID times [Panel 1 Q&A]. (Kristy Carscallen, Panel 1)

- **made remote work possible** and, along with it, relocation of workers (John Barrios, Research Presentation). Return to full-time at-office work is considered unlikely for many workers, and the flexibility of remote work has become a bargaining chip in the retention of employees (John Barrios, Research Presentation; Kristy Carscallen, Panel 1; Pam Fowler and Maruf Raza, Panel 3; Shân Atkins, Panel 4).

- **through virtual meetings**, reduced associated costs and increased attendance of shareholder meetings without a loss of content (Fabrizio Ferri, Panel 1); reduced the timeline for hiring of C-suite employees and reduced travelling costs of directors' meetings (Shân Atkins, Panel 4); and increased international collaboration between standard setters (Linda Mezon-Hutter, Keynote [audio only]; Jim Kroeker, Panel 1 [audio only]). Indeed, this virtual PAC conference saw an unprecedented attendance of 863 on day 1 and 697 on day 2, and a total registration of 1408.

On the other hand:

- **Virtual meetings enabled by technology** cannot take the place of face-to-face meetings in engendering trust between lenders and borrowers (Philip Robson and Jared Kalish, Panel 2); cannot replace professional skepticism and professional judgment, which are developed through coaching, mentoring, and on-the-job learning (Kristy Carscallen, Panel 1; Pam Fowler and Carol Paradine, Panel 3); and cannot fully substitute for in-person team building and supervision, nor instilling of ethics, nor the more informed in-person hiring of CEOs and CFOs (Philip Robson and Jared Kalish, Panel 2; Kristy Carscallen, Panel 1; Pam Fowler and Carol Paradine, Panel 3; Shân Atkins, John Gordon, and Peter Dent, Panel 4), even though virtual meetings were augmented by some creative short-term adaptations or procedural changes during the pandemic.

- **Remote work** increased the occurrence of cybercrime and increased the need for cybersecurity. Key to organizations reducing cybercrime or fraud is to improve the ethics program. Employees who feel disconnected from their organization (e.g., through remote work or remote hiring) are less likely to report malfeasance (Shân Atkins, John Gordon, and Peter Dent, Panel 4).

- **Increased automation and digitization** mean increased risk (Carol Paradine, Panel 4), and faster spread of misinformation (Carol Hansell, Panel 4). Auditing around IT systems is difficult, if not impossible (Kristy Carscallen, Panel 1; Maruf Raza and Carol Paradine, Panel 3). In the Panel 3 Q&A [audio only], Maruf Raza and Karim Jamal debate whether new auditors will be traditional accounting/auditing students or data analytics students.

Early retirement, reluctance to return to at-office work, new-generation demands

Early retirement, reluctance to return to at-office work, and new-generation demands have produced labour shortages in many sectors (John Barrios, Research Presentation; Shân Atkins, Panel 4), including audit (John Barrios, Research Presentation; Maruf Raza, Panel 3). On a bright note, through the pandemic, both international and domestic applicant interest has increased significantly in the University of Toronto Mississauga's Bachelor of Commerce (BCom), Master of Management & Professional Accounting (MMPA), and Master of Forensic Accounting (MFAcc).

ESG

Implicit and explicit in all of the discussions is that the effects of the pandemic are not just economic, but environmental, social, and governance-related, too. In accounting for ESG issues, many companies are at the start of their journey (Linda Mezon-Hutter, Keynote Q&A [audio]; Kristy Carscallen, Panel 1; Carol Paradine, Panel 3; Shân Atkins and Carol Hansell, Panel 4).

Updated pre-certification CPA Competency Map

In his opening remarks, Craig Smith, CPA Ontario, reminded us that in January 2022, in keeping with the rapid pre-COVID changes, and appropriate now, CPA Canada will release the new, updated pre-certification CPA Competency Map. It will further shape accounting curricula to make new accountants future-ready. Craig said, "CPAs must renew their roles as stewards of Ontario's businesses in a still changing world, and events like this are crucial to that mission."

"*How* we do business is just as important as *what* we do," Greg continued, "and new 'warrior accountants'[1] will use their expertise in measuring, disclosing, [and] auditing to foster sustainability and smarter business decisions based on social justice and sound governance and environmental awareness."

Readers are reminded that the ***Conference Summary*** provides just thumbnail sketches of selected highlights of the speakers' information-packed presentations and Q&A. To learn more, visit the full conference — videos, PowerPoint slides, and Q&A — at *PAC 2021 Annual Conference on Professional Accounting Futures – October 28 & 29, 2021*.

Len Brooks, Professor of Business Ethics & Accounting
Director, ***Professional Accounting Centre*** ***(PAC)***

[1] See CPA Ontario. [2020]. ***CPAs and the New Social Contract: The Rise of the Warrior Accountant [CPA White Paper]***.

Conference Summary Introduction

The ***Public Accounting Centre (PAC)*** at the University of Toronto Mississauga (UTM) was established to examine the challenges affecting professional accounting, with the view to improving the ability of professional accountants to serve the public interest.

We also created PAC to support the development of UTM's significant programs dedicated to educating professional accounting, including our Bachelor of Commerce (BCom) program, our Master of Management & Professional Accounting (MMPA) program, and our Master of Forensic Accounting (MFAcc) program, all housed in the ***Institute for Management & Innovation*** at UTM. The first pandemic year saw an increase in both domestic and international applications for all three programs.

PAC's sixth annual ***Professional Accounting Futures*** conference was held virtually at the Institute for Management & Innovation (IMI) and the University of Toronto Mississauga (UTM) on the afternoons of October 28 & 29, 2021. Leading standard setters, auditors, regulators, practitioners, and researchers came together to discuss **COVID-19's impacts on financial reporting, investing, auditing, and governance challenges in a fast changing and chaotic environment**.

Attended by a record 863 attendees on day1 and 697 on day 2, and a total registration of 1408, the conference began with a keynote address (Day 1), and a research presentation (Day 2).

Speakers were drawn from the leadership of Canadian and U.S. standard setters, regulators, auditors, management and investors as is shown below.

Day 1, October 28, 2021

Keynote speaker: **Linda Mezon-Hutter**, FCPA, FCA, CPA (MI), CGMA Chair, **Accounting Standards Board** (AcSB)

Panel 1: Financial reporting and disclosure challenges

Kristy Carscallen, *Canadian Managing Partner, Audit, KPMG LLP*
Mark Pinch, *Associate Chief Accountant, Ontario Securities Commission (OSC)*
Mandeep Chawla, *CFO, Celestica*
Fabrizio Ferri, *PhD, Miami Herbert Business School, University of Miami*

Panel 2: Investor Challenges

Anthony Scilipoti, *President & CEO, Veritas Investment Research Corporation*
Philip S. Robson, *Executive Vice President, Fiera Capital*
Jared Kalish, *Partner, Private Capital, FirePower Capital*
Sanjil Shah, *Managing Partner, Alignvest Student Housing*

DAY 2, OCTOBER 29, 2021

RESEARCH PRESENTATION: **John M. Barrios**, PhD Washington University in St. Louis

PANEL 3: AUDITING CHALLENGES UNDER EXTREME UNCERTAINTY

Pam Fowler, Partner EY
Maruf Raza, Partner, National Director Public Companies, MNP
Carol Paradine, CEO, Canadian Public Accountability Board (CPAB)
Karim Jamal, PhD, University of Alberta

PANEL 4: GOVERNANCE CHALLENGES UNDER EXTREME UNCERTAINTY

Shân Atkins, Director, Aurora Cannabis
John Gordon, Audit Committee member, Topaz Energy & Cardinal Energy
Carol Hansell, Senior Partner, Hansell McLaughlin Advisory Group
Peter Dent, Partner & President, Deloitte Forensic Inc.

In his opening remarks for this conference, Craig Smith, CPA Ontario, reminded us that in January 2022, in keeping with the rapid pre-COVID changes, and appropriate now, CPA Canada will release the new, updated pre-certification CPA Competency Map. It will further shape accounting curricula to make new accountants future-ready. Craig said, "CPAs must renew their roles as stewards of Ontario's businesses in a still changing world, and events like this are crucial to that mission."

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Len Brooks, Professor of Business Ethics & Accounting
Director, ***Professional Accounting Centre*** ***(PAC)***
University of Toronto

November 2021

[2] See CPA Ontario. [2020]. ***CPAs and the New Social Contract: The Rise of the Warrior Accountant [CPA White Paper]***.

Day 1 – Thursday, October 28, 2021

KEYNOTE SPEECH

Linda Mezon-Hutter, FCPA, FCA, CPA (MI), CGMA Chair, Accounting Standards Board (AcSB)

COVID-19 Impact: Financial Reporting, Investing, Auditing, and Governance Challenges in a Fast Changing and Chaotic Environment:
A Standard-Setter's View

> *"COVID-19 magnified what was already in motion. Challenges that existed before COVID-19 remained or became more complex." Linda Mezon-Hutter*

Linda examined the pre-COVID financial reporting environment and the effects of the pandemic on reporting through the lens of a former preparer, now standard setter.

During the pandemic, AcSB adapted its thinking to align with the changing priorities of its stakeholders: preparers, audit firms, investors, academics, and regulators. Many of them were completely focused on survival. To help them, the AcSB:

- Postponed effective dates for several standards but allowed early adoption, since some changes could fix problems or simplify reporting.
- Provided time-saving resources for:
  - Areas taken for granted before COVID that were suddenly more complicated (e.g., impairment analysis, or determining appropriate discount rates to use in already-complex valuation analysis, or even projecting revenue given the uncertainty going forward).
  - New issues (e.g., accounting for governments loans, liquidity risk, close call and going concern assessments). Management and those charged with governance needed to understand their roles and responsibilities in determining whether or not the business was a going concern. The AcSB produced a joint publication with the Canadian Audit and Assurance Board (AASB): *Close Call Going Concern Assessments*.
  - Other topics in Parts I to III of the CPA Canada Handbook (e.g., information on simplifying lease concessions to assist private companies and not-for-profit entities was published faster than was traditionally possible).

What Disclosures Told the AcSB During COVID-19

AcSB staff sampled interim and annual filings for 2020 disclosures over a range of industries and entities of differing sizes, to assess weak reporting areas. They compared information companies chose to put in their audited financial statements (F/S) and management discussion and analysis (MD&A).

Findings showed that:

- **Disclosures** gave little information on the quantum of government assistance for big or small companies.
- **Some disclosures** were consistently found in the MD&A, not in the audited F/S (e.g., most business impacts, such as business interruption or changes in operation to curbside or delivery).
- **Overall, F/S disclosures** looked very similar to pre-COVID disclosures, with newer information given more emphasis in the MD&A.
- **Going concern disclosures** were limited, both in quality and quantum. Showing close call with regard to going concern in the F/S might seem to preparers like a self-fulfilling prophecy, but Linda emphasized that users of the financial statements need to know that the analysis was performed, and a conclusion reached.

In addition, the findings showed that reporting beyond traditional F/S continued to be relevant. This validated the AcSB's pre-COVID document, ***Framework for Reporting Performance Measures*** (2018), created to help all types of reporting entities improve the quality of financial and non-financial performance measures reported outside of the financial statements.

The findings also shaped the AcSB's draft strategic plan, which had been put on hold at the start of the pandemic. Ironically, its themes echo pre-COVID stakeholder needs for accounting standards in Canada that enhance the relevance of financial and non-financial information reported. "Increased relevance will enhance the number of users and the usefulness of the financial statements, in conjunction with other information that is widely available," said Linda. Implementation of the plan is expected on April 1, 2022.

From the Keynote Q&A: When asked how the AcSB sets its priorities and how it decides what is relevant, Linda said:

> *"[We] have to be in touch with [our] stakeholders — just the way any business would be in touch with their customers — and deliver the things that they need."*
>
> *"What's new for us, I think, is learning how to be nimble and adaptable and change priorities very quickly…Standard setting is not known for being a very quick process, but we have worked very hard in the last 18 months to set aside things that we're not going to be able to move forward — because our stakeholders couldn't devote time and attention to them — and to prioritize those things that were important to our stakeholders."*

For the verbatim answer to this and the following questions, listen to the **Q&A for Linda Mezon-Hutter**.

- **With regard to financial disclosure and standards,** what is developing in the U.K. and Europe compared to North America?
- **How does the AcSB** solicit and use academic evidence?
- **How does the AcSB** reconcile standard setting and practicality and the effect it has on financial statement preparers?

PANEL 1: FINANCIAL REPORTING AND DISCLOSURE CHALLENGES

Jim Kroeker*, Vice Chairman, Financial Accounting Standards Board (FASB)*
Kristy Carscallen*, Canadian Managing Partner, Audit, KPMG LLP*
Mark Pinch*, Associate Chief Accountant, Ontario Securities Commission (OSC)*
Mandeep Chawla*, CFO, Celestica*
Fabrizio Ferri*, PhD, Miami Herbert Business School, University of Miami*

Jim Kroeker, Vice Chairman, Financial Accounting Standards Board (FASB)

COVID-Related Activities and Issues: ***A Standard Setter's Perspective***

Jim focussed on how the pandemic — an unprecedented medical crisis that turned into economic uncertainty and turmoil with then-unprecedented levels of government assistance — impacted:

- Recently issued accounting standards
- FASB's pace of activities and interactions with its constituents
- Existing standards

Impact on recently issued accounting standards

In response to the pandemic, FASB deferred adoption of its lease accounting standard and revenue recognition standard so that private companies and not-for-profits could focus their primary activities on continuity of business, responding to customer needs, and responding to their employees.

FASB activities and interactions with its constituents

At the start of the pandemic, FASB created a portal for COVID 19 issues and associated topics (the FASB Response to COVID-19) to help stakeholders find educational materials and other resources related to economic activity that was either heightened or new because of the pandemic. Topics include leases, hedging, accounting and disclosure of government assistance, and goodwill impairment.

FASB did more internal research, and made fewer direct proposals to the public, than usual. FASB did more stakeholder outreach through new use of technology tools like Zoom and Microsoft Teams. Through those meetings, constituents, investors, and preparers gave FASB post-implementation reviews of FASB's credit loss standard and leases standard. So, gaining input in that way will be carried forward.

How existing standards performed

On the whole, Jim believed that U.S. GAAP, IFRS Canadian GAAP, and well-established GAAP around the world withstood the challenges of the pandemic amazingly well. "That doesn't mean there aren't difficult judgments; difficult areas of uncertainty; or auditing challenges," he continued. "And, as Linda Mezon-Hutter mentioned, going concern assessments and impairment assessments are difficult, particularly with the stress of uncertainty, but the standards themselves…held up very well to the situation which we found ourselves."

Kristy Carscallen, Canadian Managing Partner, Audit, KPMG LLP

COVID-19: Financial Reporting & Disclosure Challenges: ***An Auditor's Perspective***

> *"If we turn the clock forward to today from the start of the pandemic, nothing has changed but everything has changed." Kristy Carscallen*

Kristy reflected on rapid changes in auditing brought on by the pandemic and its post-pandemic future.

The world moved to home offices overnight, so clients, auditors, regulators, and standard setters were all forced to react quickly and provide guidance in non-traditional ways.

Since the start of the pandemic an audit opinion may not change, but how evidence is gathered to support it has, she said. At KPMG, the virtual environment made a challenge of counting inventories, vouching documents, and understanding changes in clients' internal controls and management estimates.

For clients, the unprecedented economic uncertainty made projecting cash flows difficult, as well as the impacts on impairment, debt covenants, and continuing as a going concern.

"The need to consider relevance, reliability, and authenticity of audit evidence became more important than ever," Kristy added. The challenge had not changed: it lay in auditing management estimates and demonstrating professional skepticism. For example, how did management make the estimate? What method, model, data, and assumptions were used and how were they developed? For an estimate of goodwill impairment, assumptions include future growth rates, discount rates, and terminal values. But how did economic disruption affect future cash flows? Supply chains? ESG?

Technology has been key to helping auditors generate modeling and sensitivity analysis, especially during the pandemic. KPMG's Clara Asset Impairment tool uses predictive analytic modeling to independently challenge clients' cash flow assumptions.

Technology doesn't replace an auditor's professional judgment and skepticism, Kristy said, but innovation has played a big role in helping auditors address the impacts of the uncertain environment. Increased automation of more-routine tasks allowed people to use their judgment for higher risk areas and gave newer auditors more challenging work sooner than in pre-COVID times [Panel 1 Q&A].

In conclusion, Kristy says auditors need to:

- **Bridge the gap** between ways of work before the pandemic and during the pandemic to bring out the best of both worlds. "That means that building deliberate connections with our teams must be part of the future of audit," Kristy said, especially if the hybrid work environment is here to stay. That can be done through bringing teams together on high-risk audit sections' estimates; thinking together about how to exercise professional skepticism; and through in-person coaching and supervision.
- **Adopt innovation**, including artificial intelligence, but not at the expense of professional judgment.

- **Continue to upskill**.

For more details, see Kristy Carscallen's presentation, PowerPoint slides, and Panel 2's Q&A.

Mark Pinch, Associate Chief Accountant, Ontario Securities Commission (OSC)

COVID-19: Financial Reporting & Disclosure Challenges: ***The Regulatory Perspective***

> *"Disclosure on an ongoing basis is really a story, and that story needs to be told from beginning to end, even in this fast-paced, chaotic environment."* *Mark Pinch*

As the pandemic progressed, the OSC reviewed interim filings for about 90 reporting issuers from various industries. Focussing on COVID-19 disclosures, the review, ***CSA Staff Notice 51-362 Staff Review of COVID-19 Disclosures and Guide for Disclosure Improvements***, was produced to help entities prepare and improve their 2020 annual filings.

Mark outlined four areas of disclosure needing improvement:

- **Financial statements** required more information on going concern assessments and close call disclosures; entity-specific disclosure for significant judgments or measurement uncertainties; the reasons for impairment of non-financial assets; and the nature and extent of government assistance.
- **Non-GAAP financial measures**. Some adjustments were misleadingly described as COVID-19 related. Losses or expenses were sometimes described as non-recurring, infrequent, or unusual, yet uncertainty in the pandemic environment gave management a limited basis for that assertion.
- **MD&A disclosures** often lacked entity-specific, quantified impacts on operations; lacked sufficient information on liquidity and capital resources; and some forward-looking information was provided without reasonable basis.
- **Promotional disclosures** in relation to COVID-19 were sometimes misleading or lacked enough specificity to give clear understanding of the entity's business intentions and should not have been included.

Mark said the OSC, as a regulator, understands that reporting in a fast-paced and chaotic environment is difficult, and preparers are faced with making decisions with imperfect information. But, as new information becomes available, preparers should consider what they've said in the past, then reconcile it and bring it forward, because disclosure is a story that needs to be told from beginning to end. Disclosure should be complete, balanced, and focussed on material information. Both positive and negative views should be given equal prominence.

For more details, see Mark Pinch's presentation and PowerPoint slides.

Mandeep Chawla, CFO, Celestica

COVID-19: Financial Reporting & Disclosure Challenges:
A Management/Enterprise Perspective from a CFO

> *"In the depths of the crisis…very quickly [we] had to come out and talk about the fact that we have strong liquidity and [we'd] be able to see our way through this crisis."*
> *Mandeep Chawla*

Mandeep serves as CFO of Celestica, a global manufacturing and technology company, and as chair of the audit committee for Sleep Country Canada, Canada's largest mattress retailer. After an overview of both companies, Mandeep spoke generally about the Celestica's reporting and disclosure challenges under four categories in his slide, below. Comments included these:

1) Global operations added layers of complication, because of country differences in regulations, expectations, and government authorities.

2) Factory shutdowns in various countries required a rapid review of contract obligations and contract rights. Liquidity became a focus when stock lost value for a short period of time, and investors had to be reassured. Celestica performed customer credit analyses to determine which of its customers could still pay their bills.

3) With remote work, would controls still be sufficient? A good working relationship with the external auditor was important.

4) Providing disclosures around COVID-19-related revenue impacts was important. Stakeholders wanted to know whether results were on the back of strong operational performance or government assistance. "That took a lot of time and attention in order to make sure that we were being transparent and telling the right story," Mandeep concluded.

For more information from Mandeep Chawla, visit his presentation, PowerPoint slides, and Panel 2's Q&A.

Fabrizio Ferri, PhD, Miami Herbert Business School, University of Miami

COVID-19: Financial Reporting & Disclosure Challenges
A Researcher's Perspective:
How COVID-19 Affected Communication Between Firms and Investors.

> *Virtual shareholder meetings (VSM) "…could make annual meetings a more meaningful forum than they've been in the past." Fabrizio Ferri*

COVID-19 prevented companies from holding in-person annual shareholder meetings. Instead, they switched to ***virtual shareholder meetings*** (**VSM**). Despite the benefits of the VSM — lower cost for the company and participants, and generally increased participation by shareholders — a debate started for/against this meeting format, said Fabrizio. The opposition side was concerned that VPNs don't allow true dialogue or eye-to-eye contact to get a sense of the character of management and the board. And, management could use the technology in an opportunistic manner to filter out uncomfortable questions, because questions submitted via chat can only be seen by management.

To study these and other concerns, Fabrizio's study compared ***Voluntary Adopters*** of VSMs (pre-COVID), with ***Forced Adopters*** (post-COVID) over 1,400 VSMs. For more details about the study, view Fabrizio's talk and slides. Fabrizio provided the following summary of findings:

Summary of Findings

Are virtual shareholder meetings a case of poor governance?
- No evidence that firms adopt VSM to avoid scrutiny.
- Q&A activity largely unchanged: no much evidence that VSM limit shareholders' ability to ask questions or receive answers

Does the virtual format affect the meeting's information content?
- Voluntary adopters choose to provide less information via the business presentation; no change among forced adopters
- Shorter and more negative questions (online technology)
- Overall, no change in market-based proxies of the meeting's information content

In brief: less activity but no loss in information content
- A lost opportunity for firms and investors?
- Re-think the role of annual shareholder meetings?

In conclusion, the virtual meeting format does not seem to mean a loss of substantial information. "The basic message of the study is that we can rethink the role of annual meetings," said Fabrizio. With potentially thousands more investors reaching meetings, and with technology offering options for forms of interaction, VSMs could make annual meetings a more meaningful forum than they've been in the past.

"Right now, VSMs are still pretty much a compliance exercise," Fabrizio said. "They have not yet been exploited to improve communication between shareholders and firms, but this might change in the future as people become more familiar with technology and more comfortable with this type of interaction."

Questions from the Panel 1 Q&A

For the verbatim answers to the following questions, see the Panel 1 Q&A:

- **For Kristy Carscallen:** In 2022, what do you expect to see as problem areas where managers show opportunism with respect to COVID?
- **For Jim Kroeker and Mark Pinch:** What you foresee in the in the in the future in regard to disclosures (related to COVID, going concern, or other issues)?
- **For Kristy Carscallen:** Given the changes in the auditing process during the pandemic, do you think that the near future will be radically different? Will auditors fall back into old habits?
- **For Mark Pinch:** Do you have any concern that firms may take "a big bath" during COVID 19 in order to recognize losses earlier, because investors may discount these losses and, as a result, firms could manage earnings and look more favourable as the economy recovers?
- **For Jim Kroeker and Mark Pinch:** Has materiality changed during COVID-19? Are people making decisions based on a different measure of materiality?
- **For Mark Pinch:** How does the OSC approach a company that should provide more disclosure in its reports?
- **For Mark Pinch:** Has there been a significant increase in going concern disclosures on financial statements over the [pandemic] period?
- **For Jim Kroeker:** What are the expectations for/evolution of disclosure moving forward?
- **For Kristy Carscallen and Mandeep Chawla:** The hybrid work environment results in less interpersonal interaction. How do you develop corporate culture or integrate new people with corporate systems when less interaction is likely?
- **Mandeep Chawla** commented on compliance reporting for federally and provincially funded grants.
- **For Kristy Carscallen:** How is mentoring done virtually?
- **Mark Pinch** commented on virtual shareholder meetings and the OSC's contact centres for complaints.

PANEL 2: INVESTOR CHALLENGES

__Anthony Scilipoti__, President & CEO, Veritas Investment Research Corporation
__Philip S. Robson__, Executive Vice President, Fiera Capital
__Jared Kalish__, Partner, Private Capital, FirePower Capital
__Sanjil Shah__, Managing Partner, Alignvest Student Housing

Anthony Scilipoti, President & CEO, Veritas Investment Research
*Investor Challenges: **An Analyst's Point of View***

> *"When we see sneaky accounting, that's kind of our first sniff test to say maybe there's something unsustainable in the underlying operations." Anthony Scilipoti*

Veritas is an independent equity research firm that provides analysis for investors. From this point of view, Anthony highlighted the ways that companies treated both positives (e.g., government subsidies) and costs related to COVID-19. Known as a critic of non-GAAP metrics, Anthony quipped that misleading and inconsistent pandemic disclosures were the new "COVID-19 GAP."

Anthony provided real-company examples of both transparent and obfuscating accounting. For example:

- **Admirable companies** were transparent in including extra revenue from COVID subsidies and in accounting for associated COVID expenses.
- **Less admirable companies**:
  - made their adjusted net income look higher by excluding what they claimed were one-time COVID-related costs, yet they included government assistance. Anthony called this treatment a "good stuff in and bad stuff out" non-GAAP metric.
  - made up what they thought would have been their revenue, had COVID not affected their business, to show an increase in revenue. By deducting this imaginary number, Anthony's team showed a revenue decline.

Anthony illustrated other confusing accounting treatments. He was concerned that COVID was an excuse for some companies to make their numbers look better than they might otherwise be.

He said, in conclusion, "The best type of disclosure is just full disclosure: explain how you make the adjustments, explain why you make the adjustments, and we'll decide as investors whether we want to include them in our calculations or not."

For more examples and charts showing that COVID-19 caused the sharpest market decline in history, and fastest recovery, see Anthony's slides and presentation.

Philip S. Robson, Executive Vice President, Fiera Capital
Investor Challenges: ***A View from the Private Debt Side***

> *"We like to do eyeball-to-eyeball due diligence…We found that doing…that…virtually took some time to get used to." Phil Robson*

Fiera is one of Canada's largest corporate non-bank private debt managers. Private debt through Fiera supports corporate lending, infrastructure debt, interim business financing, and real estate financing.

Phil focussed his talk on COVID-related problems experienced at Fiera, some of which included:

- **Portfolio management.** The pandemic forced Fiera to increase contact with its borrowers to monthly, weekly or daily, to understand the borrowers' working-capital issues. The "watch list" doubled to about 16% of the portfolio of borrowers and dominated management's time. Fiera eased terms of payments for about 20% of the portfolio.
- **Investor Relations.** Institutional investors, concerned with their risk of loss and borrower defaults, required increased reassurance reporting to monthly, weekly, or daily. Many institutional investors withdrew temporarily. Investors new to the private debt space also required reassurance.
- **Investing.** Fiera closed funds to new investors for part of 2020 because of time demands of the existing portfolio. Later, virtual, instead of live ("eyeball to eyeball"), due diligence meetings required adjustment and resulted in longer deal-processing times.

Some of Fiera's positive outcomes included:

- **validation** of Fiera's significant and ongoing investments in technology and cybersecurity
- **some productivity gains** from hybrid home/office work, some which may become permanent
- **learning** to use virtual meetings more effectively and to make face-to-face meetings more productive.

For more details on Fiera's other services and Fiera's COVID-related activities, visit Phil's slides, presentation, and Panel 2's Q&A.

Jared Kalish, Partner, Private Capital, FirePower Capital
Investor Challenges: ***A View from the Private Capital Side***

> *"A large part of meeting people is about trust: "[knowing] who you're dealing with and trying to make sure that you're dealing with ethical people." Jared Kalish*

FirePower is an investing business focussed on private debt and private capital, but in a different market segment than Fiera, described in the previous talk.

Jared explained that a decade ago, "…new growing businesses might need core infrastructure [like] new factories or equipment [that] would be considered assets." Today, however, "…a tech company might be investing in new marketing initiatives: those are really people- [and] technology- spends in terms of… new products," not the tangible assets of a decade ago.

So, FirePower is a specialist lender to Canadian entrepreneurial technology companies, technology-enabled service companies, and others that generally lack significant tangible assets as collateral for securing traditional growth capital. FirePower also provides financial or operational expertise to businesses not large enough to have dedicated teams in those areas.

Jared described some of the changes FirePower experienced because of the pandemic:

- **FirePower paused new lending** for three months because of uncertainty.
- **COVID affected due diligence** (DD) processes:
    - In-person due diligence — "meeting people and really trying to understand who they are" — was challenging. Financials, information, and emails are one thing, Jared explained, but a large part of meeting people is about trust: "[knowing] who you're dealing with and trying to make sure that you're dealing with ethical people." As a result, "…more time than usual was spent asking more detailed questions and checking behind-the-scenes on people." Some of these processes may continue.
    - Financial statements are reconstructed for every deal in order to understand the effects of COVID, much in the way Anthony Scilipoti described.
    - Audited financial statements are primarily used
        - as a check-box item, because they might be a year old, but "…we're diving in [to company financials] on a monthly basis."
        - at the end stage of underwriting, just to validate that an entrepreneur is telling the truth (e.g., Have we been given information consistent with the independent accounting firm review?)
- Working virtually has created big efficiencies that will stay, Jared said, but being back in the office two days a week has massive benefits for debating deals, training junior team members, meeting people hired during COVID, and building strong relationships within the organization.

For more details on FirePower, see Jared's slides and presentation, as well as the Panel 2 Q&A.

Sanjil Shah, Managing Partner, Alignvest Student Housing
Investor Challenges: ***The View of a Borrower***

Sanjil looked at the pandemic from the view of a borrower and an investment trust.

> *"For our business, at least, we're through COVID. We would say that we've persevered. We've demonstrated the resiliency and stability of student housing as a sector, an asset class, within real estate." Sanjil Shah*

Launched in June 2018 as an open-ended, private real estate trust, Alignvest Student Housing Real Estate Investment Trust (Alignvest Student Housing REIT, or "REIT") focussed on providing student housing near or on Canadian university and college campuses.

In March 2021, universities cancelled classes, shut their doors to students, and sent students home. These external factors could have disrupted this business, but Sanjil told a surprising story.

At first, the only students remaining in residence where those who could not go home. So, Alignvest worried about how it would pay operating expenses, salaries, maintenance costs, and mortgages when occupancy plummeted. Two key performance indicators important to any investor would be occupancy and rent collection rate. So, how would valuation be affected?

A surprising thing happened, however: students soon returned. More importantly, collection rates were equivalent to about 95% occupancy. To understand this perplexing but welcome phenomenon, Alignvest polled returning students. Sanjil said that the poll revealed these big reasons:

- **Students** wanted their independence from parents.
- **Parents** didn't want to default on rent payments, which would negatively affect their own credit rating or their child's.

And, after significant investment early on in the pandemic, as students returned,

- **Internet quality and reliability** in Alignvest's buildings was highly valued by students. Alignvest had recognized that increased Internet traffic for remote classes necessitated an investment in fibre optics.

Sanjil's company had an enviable COVID outcome. For more on the company's pandemic responses, see Sanjil's talk and slides. What impressed co-panel members even more was his company's proactive assuaging of investor fears. (See inset.)

From the Panel 2 Q&A: When investors on the panel answered how they gauge their trust of borrowers, Sanjil, as a borrower, said:

> *"I was the recipient of those [nervous] calls from our investors, and the flip side was equally applicable: open communication was so important. When COVID-19 first started, I had to be honest and say, "Like you, I don't know what's going to happen. This is evolving very quickly."*
>
> *Sanjil continued, saying that there's a difference between regular disclosure requirements and continuous disclosure requirements.[3] "Very quickly at the start of the pandemic we put out bi-weekly flash reports just saying what we knew at the time."*
>
> *In another move to provide investors with an added level of trust and confidence, Alignvest brought in third-party Cushman Wakefield to provide quarterly property appraisals, instead of their usual annual one.*

Questions from the Panel 2 Q&A

For the verbatim answers to the following questions, see the Panel 2 Q&A:

- **For Anthony Scilipoti:** Given your work [on the OSC's Continuous Disclosure Advisory Committee], what are your thoughts on continuous disclosure in Europe? for North America?

[3] For more information, see. Ontario Securities Commission (OSC), "Continuous Disclosure," https://www.osc.ca/en/industry/companies/continuous-disclosure.

- **For all:** For lenders or investors, what are your key variables for judging trust?
- **For all:** Are there non-financial measures that that have become critical to your computation of whether you're going to do business or continue to do business with some companies in this period of extreme uncertainty?
- **For all:** What is the future role of climate/social issues/ESG and their impact on investments and valuing of companies?

Day 2 – Friday, October 29, 2021

RESEARCH PRESENTATION

John M. Barrios, PhD Washington University in St. Louis

COVID-19 Uncertainty & Society: ***A Researcher's Perspective***

> *"The pandemic, though fundamentally a health event, introduced a massive amount of economic uncertainty affecting all aspects of our society." John Barrios*

From an American researcher's perspective, John provided a high-level overview of the pandemic events and uncertainties, a few of which are outlined here.

A health event became and societal and economic event

Governments relied on individuals to control the spread of the virus, but John, and other researchers, found that differences in individuals' behaviours were based on political leaning[4] and cultural determinants, such as civic engagement.[5] Using mobile phone and survey data, they found that during the early phases of COVID-19, voluntary social distancing was higher when

- individuals exhibit a higher sense of civic duty or civic capital. "Think of civic capital," John explained, "…as the level of trust people have for one another, as well as their willingness to engage in activities that benefit the collective more than the individual" — like voting or blood donation or social distancing. This was true for U.S. counties and European regions, John said.
- Political affinity affected behaviour in the US and Europe [and Canada?], with conservative parties being more anti-social distancing.

Online shopping increased, and foot traffic/in-person shopping decreased by much greater amounts than could be attributed to mandated closures for some businesses: people were avoiding high traffic areas because of the health risk.[6]

A different type of economic and labour structure emerged

Employment declined but affected lower wage earners disproportionately. "U.S. private-sector employment contracted by about 21% between mid-February and late-April 2020, with workers in

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[4] Barrios, J.M. and Hochberg, Y. April 2020. Risk Perception Through the Lens of Politics in the Time of the COVID-19 Pandemic, National Bureau of Economic Research [Working Paper 27008], DOI 10.3386/w27008, https://www.nber.org/papers/w27008.

[5] Barrios, J.M., et al. June 2020. Civic Capital and Social Distancing during the Covid-19 Pandemic, National Bureau of Economic Research [Working Paper 27320], DOI 10.3386/w27320, https://www.nber.org/papers/w27320.

[6] Goolsbee, A. and Syverson, C. June 2020. Fear, Lockdown, and Diversion: Comparing Drivers of Pandemic Economic Decline 2020, National Bureau of Economic Research [Working Paper 27432], DOI 10.3386/w27432, https://www.nber.org/papers/w27432.

the bottom quintile of the wage distribution experiencing a 30% employment decline through May, and those in the top quintile only a 5% decline."[7]

Work from home in the U.S. increased substantially between May and June 2020 to somewhere between 35%[8] to 50%[9]. However, minimum wage workers in the U.S. suffered more unemployment than highly paid professionals, because telework was less possible in the service/retail industry. Offering remote work became the big weapon in a war to attract and retain key personnel.

Early retirement played a role in reduced labor-force participation — with about twice as many women as men exiting the labour market.[10] The labor market is also seeing a reallocation between industries and sectors as the unemployed leave the hardest COVID-hit industries and re-employ in less COVID-affected ones, John said.

Technology adoption was accelerated

Businesses were forced to make investments (e.g., in technology) when capital investments, because of uncertainty, were expected to go down.

COVID accelerated technology adoption, even by individuals in their 50s and 60s — something that in normal times we would never see, said John.

Cybersecurity increased to help compensate for the mobile workforce, employees using personal devices, and potential large-scale issues like data breaches.

Effects on accounting and financial services

John said accounting and financial services were also affected by these changes. Auditing has been done remotely, and remote work has enabled relocation, said John in the Q&A. What if people do not want to return to work? What will this mean for auditing, already affected by a labour shortage? John posited that one accounting firm after another may be forced to change their policies to entice people to join their team or change the way some audits are done (e.g., by correlating foot traffic to sales estimates to provide remote assurance for those estimates).

For many more details, see John's slides and presentation and the Q&A that followed.

For the verbatim answers to the following questions, see the Research Presentation Q&A:

- ☐ **On labour trends:** Where would professional accountants dealing with projections planning look for a quick update on labour trends**?**

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[7] Cajner, et al. June 24, 2020. The Pandemic Recession's Disproportionate Effect on Wage Earners, University of Chicago Becker Friedman Institute for Economics [Working Paper 2020-58], https://bfi.uchicago.edu/insight/finding/the-pandemic-recessions-disproportionate-effect-on-wage-earners/.

[8] Bick, A., Blandin, A., and Mertens, K. (2020).Work from Home After the COVID-19 Outbreak. Federal Reserve Bank of Dallas [Working Papers 2020] DOI 10.24149/wp2017r1.

[9] Brynjolfsson, E., et al. June 2020. COVID-19 and Remote Work: An Early Look at US Data, National Bureau of Economic Research [Working Paper 27344], DOI 10.3386/w27344, https://www.nber.org/papers/w27344.

[10] Coibion, O., Gorodnichenko, Y., and Weber, M. July 9, 2020. COVID-19 Results in Wave of Early Retirement, University of Chicago Becker Friedman Institute for Economics [Working Paper 2020-41], https://bfi.uchicago.edu/working-paper/labor-markets-during-the-covid-19-crisis-a-preliminary-view/.

- **Behaviour during COVID:** Would we expect to any difference between the U.S. and Canada with regard to behaviour (e.g., masking, vaccinations, etc., after lockdowns and multiple re-openings)?
- **Remote work:** How do you think working from home, if it's going to be permanent, is going to affect promotions and upward mobility?
- **Research opportunities:** Do you think the COVID pandemic offers similar opportunities for research as the 2008-2009 financial crisis? Apart from the impact of uncertainty on accounting estimates, what might be the top research questions on your mind?

PANEL 3: AUDITING CHALLENGES UNDER EXTREME UNCERTAINTY

***Pam Fowler**, Partner EY*
***Maruf Raza**, Partner, National Director Public Companies, MNP*
***Carol Paradine**, CEO, CPAB*
***Karim Jamal**, PhD, University of Alberta*

Pam Fowler, Partner E&Y

Auditing Challenges Under Extreme Uncertainty:
An Auditor's Perspective on Talent Impact

> *"It's professional judgment that supports critical decisions in an audit. Professional skepticism and judgment are developed over time through training, coaching, mentoring, and observations through on-the-job learning." Pam Fowler*

A big challenge since the start of the pandemic is engaging and supporting employees in a way to ensure that critical skills were still being developed in the face of competing and growing demands for their time and the difficulty of working from home.

"High levels of attrition being experienced in most industries globally have an impact on auditors as well as clients," Pam said. Changing jobs might be the one thing that employees had control over.

"We need to make sure that we find a better balance as we emerge from COVID-19, truly committing to flexibility, being empathetic, and reinforcing that being together is very fulfilling and supports an environment of collaboration learning and development.

"We're all still learning about what a hybrid work environment looks like, and the only thing we know for sure is there's not going to be a one-size-fits-all strategy."

From the Panel 3 Q&A: When asked, "How do you establish professional skepticism in a remote environment?" Pam responded:

> *"As an industry, we came together to answer questions like this one.*
>
> *"It seems simple, but one way is to turn your video on. When you're challenging management on those hard estimates, turn your video on to see body language, and do your very best to simulate an in-person conversation.*
>
> *"We also reminded our more experienced professionals to bring the more junior members of the team along to those client conversations. Watching experienced auditors engage in effective challenge is how they learn."*

For more details, see Pam's slides and presentation, as well as the Panel 3 Q&A.

Maruf Raza, Partner, National Director Public Companies, MNP

Auditing Challenges Under Extreme Uncertainty:

Challenges on the Audit Side

Maruf, as a partner in MNP, one of Canada's fastest growing national accounting firms, talked about sector areas creating challenges on the audit side, not necessarily as a direct result of the pandemic, but magnified by it.

Digital assets

For example, Maruf described the difficulty of auditing digital assets like cryptocurrencies, non-fungible tokens (NFTs), etc., all driven by blockchains. They present a challenge to business rules in general, and certainly auditors are challenged by how to approach some of these.

He discussed some of the questions auditors are asking right now about digital assets (e.g., is information obtained from the blockchain reliable?) Maruf's peers on the technology side couldn't, at first, understand why auditors would ask such a question. But how do you prove ownership in something that is inherently designed to be anonymous? How do you prove an asset exists?

For more discussion about accounting, auditing, and cryptocurrencies, watch the Panel 3 Q&A session.

New models of e-commerce

Maruf looked at new models of e-commerce as an extreme version of some of the challenges auditors are facing. Consider, he said, a company whose orders are fulfilled by Amazon (or many similar entities). The company may never bill customers directly or ever take possession of its own inventory, held in an Amazon (or other) warehouse, likely off limits to auditors. So how should an auditor audit companies and meet standards when the information is really driven ultimately by a third party?

Lack of capacity

A major factor affecting all audit firms today is a lack of capacity. Many firms are unable to take on new work and, in fact, are reducing their existing client loads. The problems started before COVID but have been magnified by it.

Maruf speculated on some reasons for accountants leaving the audit stream and warned that the CPA profession needs to take the problem seriously. Firms need to adapt their onboarding and retention strategies to appeal to newer generations, and governments may need to help through immigration.

For more details, visit Maruf's presentation and slides. For his debate with Karim Jamal on auditors of the future, and whether audit firms need **new auditors** or **new data analysts**, see Panel 3's Q&A.

Carol Paradine, CEO, [Canadian Public Accountability Board](#) (CPAB)

Auditing Accounting Estimates: Strengthening Audit Quality: ***A Regulator's View***

The Canadian Public Accountability Board (CPAB) is Canada's independent, public company audit regulator, responsible for overseeing audits performed by registered public accounting firms.

Every year, the CPAB conducts in-depth reviews of select sections of about 150 Canadian public company audit files per year. CPAB's inspection approach is risk based, so inspections examine areas that represent higher audit risk and adherence to auditing standards.

Carol spoke about the review for the first year of COVID economic disruption, documented in CPAB's ***Audit Quality Insights: 2021 Interim Inspections Report***, available on the CPAB website, which provides a snapshot of themes and insights from their 2021 audit quality assessment work.

For example, CPAB found a correlation between audit work and the quality of management estimates and judgments included by preparers in the financial statements. Where management had not done a thorough assessment of an estimate — particularly in the areas of impairment losses and credit losses — and auditors had to request that the material be updated or improved, the quality of the audit work suffered.

Estimate-associated concerns discussed in the report include these:

- Auditors' understanding and evaluation of risk associated with IT systems that feed estimates
- Internal control systems associated with estimation processes
- How well auditors assess/challenge contradictory evidence

Carol said, "We're averaging about a 7% ***significant finding*** rate at the largest firms. A significant finding is a place in the file where we believe that some deficiency in the audit work could have had a material impact on the financial statements or on the level of audit work that was performed. We expect the firms to achieve a target of no more than 10% rate of significant findings,"

On the positive side, Carol said, inspections found that audit firms provided their teams with tools and guidance focussed on the audit challenges of COVID-19. And, where on-site inventory counts weren't possible, many engagement teams carefully considered associated risks and worked out some good alternate procedures.

For the long term, however, Pam and Carol, in the Panel 3 Q&A, agreed that for on-the-job training, understanding a business, and for better oversight, **physical** inventory counts, and **in-person** challenges of management, are more valuable than virtual ones.

For many more details, listen to Carol's presentation.

Karim Jamal, PhD, University of Alberta
A History of Shocks That Changed Accounting

"Everyone wants to know what's going to happen in the future, but I thought it would be interesting to look at the past," opened Karim. From the shocks the accounting profession has had, and the reactions to them over the last 200 years, we might learn about the future, he posited.

Kamal described shocks – laws, wars, frauds, de-professionalization, and Arthur Andersen -- that either raised the stature of accounting and auditing or brought it down. For example, in the U.S., the role of competition versus regulation by professions became a court fight in the early 1970s. Unfortunately, competition won the battle.

As a consequence, Kamal said, the American Institute of Certified Public Accountants (AICPA) began watering down its code of conduct to promote competition in accounting, and the then-Canadian Institute of Chartered Accountants (CICA) Auditing Standards Board followed suit.

As auditing becomes more commercial over time, the cries for ethics, skepticism, professionalism become shrill. But on its current trajectory, maintains Kamal, auditing will become a competitive regulated business; it will not be a profession. So, who will listen?

For more presentation details, see Karim's slides and presentation. For his debate with Maruf Raza on auditors of the future, and whether audit firms need **new auditors** or **new data analysts**, see Panel 3's Q&A.

Questions from the Panel 3 Q&A

For the verbatim answers to the following questions, see the Panel 3 Q&A:

- ☐ **For Maruf Raza and Kamal Jamal:** In the past, when auditors have needed information, say, from a bank or a lawyer, they've used a professional body to write a letter on behalf of the whole profession. Could CPA Canada do that so that auditors can get information from third-party entities like Amazon?
- ☐ **For Pam Fowler:** We've talked about accountants leaving auditing practice, but, is there a process for moving back for transitioning into audit practice?
- ☐ **For Maruf Raza:** Why have accountants taken so long to recommend that cryptocurrencies be treated as a different kind of asset class?
- ☐ **For Kamal Jamal:** When you walked through the history of shocks that changed accounting, you didn't include technology. Why not?
- ☐ **For Carol Paradine:** From an inspection perspective, did you notice any challenges associated with virtual inspections?
- ☐ **For Pam Fowler:** What are some of the criteria you use to establish professional skepticism in a remote environment?
- ☐ **For Maruf Raza:** Alleviating the labour shortage could involve becoming more reliant on technology, but how do you address the risk of over-reliance on technology, in order to take on more work? **Maruf Raza** and **Karim Jamal** debate who to hire: traditional accounting majors or data analysis majors?

PANEL 4: GOVERNANCE CHALLENGES UNDER EXTREME UNCERTAINTY

***Shân Atkins**, Director, Aurora Cannabis*
***John Gordon**, Audit Committee member, Topaz Energy & Cardinal Energy*
***Carol Hansell**, Senior Partner, Hansell McLaughlin Advisory Group*
***Peter Dent**, Partner & President, Deloitte Forensic Inc.*

> *"We don't teach governance to marketing specialist students at university, and we don't teach it to organizational-behaviour specialist students. But we do require professional accounting students to understand governance more than virtually all other disciplines, including law." Len Brooks*

Shân Atkins, Director, Aurora Cannabis

Governance Challenges: Lessons from the Pandemic ***from a Director's Perspective***

Shân served on boards of directors during the financial crisis, the subsequent recession, and now the pandemic, so she has certainly had an education in governance under uncertainty. From this perspective, Shân shared how the role of a director has changed over 20 years, much because of changes over the last two.

In particular, Shân said, virtual board meetings and virtual AGMs are here to stay because of their cost savings and efficiencies.

In her opinion, three topics will likely dominate the board agenda in most companies over the next few years:

- **Human capital management.** How to attract, retain, and maintain engagement with today's workforce is such a big issue that it isn't limited to the HR and compensation committee of the board. In addition, senior executive recruiting has forever changed because of experiences over the last two years: it is quicker and virtual. Shân expects first-, second-, and third-round conversations to remain virtual, though finalizing a candidate will return to in-person meetings.
- **Cybersecurity.** Cyberattacks are increasing, Shân said. Despite best efforts to educate work workers and protect organizations, organizations are still extremely vulnerable to cybercrime. So, all of Shân's boards talk about cybersecurity in every meeting. Some talk about forming special cybersecurity committees. "A chief information officer (CIO) is now a very sought-after title for just about every company that that is thinking about new talent in the boardroom," Shân added.
- **ESG.** ESG is becoming a much more important part of the board agenda in every company Shân is involved with. Boards are asking, "Are we doing enough? Are we doing the relevant things? Are we measuring with integrity? How will we make sure that the information that we're reporting is actually correct? Auditors are being called upon to verify the information in these disclosures, and that is not going away.

From the Panel 4 Q&A, on whether organizations should be paying more attention to corporate culture issues, Shân responded:

> *"It's really important that our organizations behave appropriately, and that people feel that they are in an environment where the right behavior is not only encouraged, but it's the only way to behave."*
>
> *Other panelists, too, she said, have said hallway conversations and in-person meetings within organizations are important. Employees emulate behaviours they see leaders performing.*
>
> *"When those encounters can't happen, purposeful communication about expected behaviours becomes even more important…We communicate about financials frequently—Why not ethical behaviour?"*

For more information, see Shân's presentation and Panel 4's Q&A.

John Gordon, Audit Committee member, Topaz Energy & Cardinal Energy

Governance Challenges Under Extreme Uncertainty: ***An Audit Committee Perspective***

> *"Once a crisis happens or uncertainty happens, it's really too late to deal with it. Think about it in advance." John Gordon*

John spoke about how boards should learn from the past to survive the next crisis or uncertainty, not by re-planning how to do better with last one, but by ensuring an appropriate depth of talent and by succession planning in anticipation of attrition. For example, should a new board member have a background from IT? ESG?

He also looked at three possible areas of future uncertainties that could affect corporations:

- Increasing influence of populism and short-term thinking by decision makers that can sometimes overwhelm business logic.
- Unprecedented levels of informal transparency. ("Everyone has a phone.") An organization must think of stakeholders in decisions today, otherwise, it might see itself on social media tomorrow.
- Increased cyber-related risk. The part of that that comes to the audit committee agenda is the safety of information and what policies and controls are in place to keep it safe.

From the Panel 4 Q&A, on training around ethical conduct, especially to help deal with cybercrime, John said:

> *"From a governance point of view, often the first step is to ask management to explain to the board if good systems, processes, training, and staff are in place to support [an ethical culture].*

> *"I've never heard a management team respond to that question with anything but very positive reviews of themselves, but I think we shouldn't be over-reliant on that. We could strengthen that conversation by having a third party or member of the board with background expertise probe a little to give another perspective."*

Building relationships among the board members and senior management is important, in advance of a crisis or uncertainty, because informal conversations can be valuable in raising issues. The earlier issues are brought to a member of the audit committee or the audit committee chair, the better, John said.

In the Panel 4 Q&A, Shân Atkins added to this, saying that while a director's job is governance, not management, knowing people, and having channels of communication in the organization, can be incredibly powerful. Especially if something uncomfortable happens, people in the organization can then reach out to on the board if, for whatever reason, they don't want to use the whistleblower line.

For more information, see John's presentation and Panel 4's Q&A.

Carol Hansell, Senior Partner, Hansell McLaughlin Advisory Group
On The Boardroom Table: ***A Lawyer's and Governance Consultant's Perspective***

"Many organizations are at the beginning of their journey." Carol Hansell

Carol focussed on topics discussed at boards she deals with as a lawyer and governance consultant. She says that most organizations are at the beginning of the journey on these topics.

Truth and reconciliation

First is a heightened awareness and investment in truth and reconciliation and the need for consultation with indigenous communities. More directors now are asking how their organizations — from an operations perspective, from an investment perspective, and from a social perspective — are engaging in consultation with the indigenous communities with which they interact. The supreme court reaffirmed that the federal government has a fiduciary duty to safeguard the interests of indigenous people with respect to indigenous peoples' land.

Diversity and ESG

Diversity and ESG are other issues that that boards are dealing with. Diversity is complicated because diversity balances require data gathering that requires some form of disclosure, but that raises privacy issues.

Carol raised similar ESG concerns to those voiced by Shân Atkins. For the "G" of environmental, social, governance, how is climate-change risk overseen in the organization? How are social issues overseen? Carol added that increased acceptance of the Task Force on Climate-Related Financial Disclosures (TCFD) and Sustainability Accounting Standards Board (SASB) have helped organizations by providing a reporting framework and how-to guidance. [For more information, see *PAC 2020 on ESG Challenges Facing Professional Accountants*.]

With both diversity and ESG, some organizations have disclosed aspirational goals, but some investors are holding organizations accountable and look for third-party validation of what they claim to be doing to meet those goals.

Misinformation

Misinformation is a big issue. Boards should worry about where their organization and employees are getting their information. What publics say about a corporation or corporate issue can be tweeted in seconds, whether true or not. That's a major risk.

"One solution is to try to advance **digital literacy**," Carol explained, "meaning understanding where the information is coming from, both at a corporate level and an individual level, and being able to look at that information more critically than we might have looked at public information 20 years ago." She continued, saying, "Typically we would accept things that were printed in major print media, but that is not our information source for the most part anymore."

For more information, see Carol's slides and presentation.

Peter Dent, Senior Partner, Partner & President, Deloitte Forensic Inc.
Impact of COVID-19 – Increasing Fraud Risks:
A Forensic Accountant's Perspective

> *"I'm always amazed in Canada at the tolerance we have for economic crime…much more so than our peers in the U.S., the U.K., Australia or New Zealand." Peter Dent*

With a background as a forensic accountant, Peter talked about increasing financial crime and fraud risk, particularly during the COVID-19 pandemic.

Peter began with a brief description of the fraud triangle, which describes the three key elements motivating and enabling a fraud, including: the ***opportunities*** and ***pressures*** to commit fraud or financial crime, and the ***rationalization*** of the act. COVID-19, he said, brought the following changes:

- **Pressure**. Certain sectors like hospitality, travel, and tourism were very adversely affected by the pandemic, so the pressure around financial results was very high.
- **Opportunities** to commit fraud increased, because work and hiring were done virtually. As many speakers said, and Peter reiterated, developing a relationship with a person across a boardroom table or over lunch is much easier than over a computer. That, combined with less supervision and less oversight capacity of line managers, all the way up to the senior executive and the board, increases fraud risk. Add to that the risks of remote work that provides opportunities to cybercriminals, e.g., through employees' vulnerable personal devices or use of unsafe networks (e.g., through home or coffee shops) instead of work-supplied protected network connections (i.e., a virtual private network (VPN)).
- **Rationalization** to justify a choice of action is much easier in the contact vacuum caused by the pandemic.

Pandemic-related crime will take some time to manifest itself. From a frequency standpoint, asset misappropriation is the most frequent type of financial crime, but it has the lowest relative impact. Normally, it is detected within six months. Financial statement fraud, by contrast, has the highest impact but the lowest frequency, because it requires collusion of the highest-powered people in the organization. It is not usually discovered for about 24 months, said Peter.

Peter echoed Shân Atkins' assertion that cyber fraud — including ransomware attacks — is growing exponentially. Peter says it is not just COVID-19 that is driving the increase. Instead, it's an increased focus on small and medium-sized enterprises by cybercriminals. In many cases, those organizations are vulnerable through weaknesses in security of their suppliers or vendors.

A direct correlation exists between disconnectedness between peers in an organization and unethical conduct, Peter asserted. So, of tantamount importance in preventing financial crime — or reporting it — is maintaining a very strong ethical culture within every organization. But, he asks, how many organizations are doing that?

For more on crime statistics, visit Peter's talk and slides.

From the Panel 4 Q&A, on advice to organizations to help deal with cybercrime, Peter said:

> *"Change the [ethics] training program."*
>
> *Make it in-classroom, not online, he continued. COVID-19 exacerbates vulnerability, because people who feel disconnected from their organization (e.g., through remote work or remote hiring) are less likely to report unethical behavior, because they don't have a relationship with the person to report to; they may not trust the whistleblower line; or they may not have been properly trained, he explained.*
>
> *"If your core competent staff can't explain the code of conduct or how to call the whistleblower line, then [the training program] is completely ineffective."*

Questions from the Panel 4 Q&A

For the verbatim answers to the following questions, see the Panel 4 Q&A:

- ☐ **For Peter Dent, John Gordon, and Shân Atkins:** How are you advising clients to deal with cybercrime? Are there strategies, in addition to VPN, to implement?
- ☐ **For Peter Dent:** Do you see differences in fraudulent activity based on the size of the organization affected?
- ☐ **For John Gordon:** Does the move to cloud computing present different challenges compared to computing on local, internal servers?
- ☐ **For John Gordon and Shân Atkins:** There's a saying, attributed to Peter Drucker, "Culture eats strategy for breakfast." Should we be paying more attention than we do to cultural issues in organizations? How would you, and would you, identify someone with a mindset/focus/perspective on corporate culture to add to a board of directors?

We look forward to seeing you in 2022 for the seventh annual ***Professional Accounting Futures*** conference.