

## RESEARCH ABSTRACTS

### 1-Analyzing Value Added as an Indicator of Intellectual Capital and its Consequences on Company Performance by D. Zéghal and A. Maaloul.

The purpose of this study is to analyze the role of value added as an indicator of intellectual capital (IC), and its impact on the firm's economic, financial and stock market performance. The "Value Added Intellectual Coefficient - VAICTM" method was used on 300 UK companies divided into 3 groups of industries: high-tech, traditional, and services. Empirical analysis was conducted using correlation and linear multiple regression analysis. The results show that companies' IC has a positive impact on economic and financial performance. However, the association between IC and stock market performance is only significant for high-tech industries. Our results also indicate that capital employed remains a major determinant of financial and stock market performance although it has a negative impact on economic performance.

### 2-Sampling Practices of Internal Auditors at Corporations on the Standard and Poor's Toronto Stock Exchange Composite Index by M. Maingot and T. K. Quon

The purpose of this study is to find out how often statistical and nonstatistical audit sampling practices are used by internal auditors in companies listed on the Standard and Poor's (S&P) Toronto Stock Exchange (TSX) Composite Index and how such practices are related to the training and background of the respondents. We adapted the questionnaire used by Hall, Hunton, and Pierce (2002) in their survey of U.S. auditors in public accounting, industry, and government.

Although 20 percent of companies responding do not have an internal audit department, the other 80 percent use statistical methods to plan sample sizes 15 percent (+5 percent) of the time, random sample selection methods 23 percent (+5 percent) of the time, but statistical evaluation methods only 10% (+4%) of the time. Despite the low percentage use, almost half of the respondents reported substantial training in statistical sampling and evaluation methods. Moreover, we found statistically significantly higher proportions of respondents with substantial training in audit sampling methods among companies cross-listed on U.S. exchanges compared with companies listed only on the TSX.

Finally, respondents with a chartered accountant designation tend to have a negative impact on the use of statistical methods in audit sampling, and companies cross-listed on U.S. exchanges tend to have larger internal audit departments than companies listed only on the TSX.

### 3-Overall Governance, Firm Value and Deviation from One Share - One Vote Principle by Y. Bozec, R. Bozec R., M. Dia

The objective of this study is to investigate further the interplay between corporate governance and firm performance with special focus on a situation expected to bring larger agency costs to the firm, that is, when voting rights of the dominant shareholder exceed his/her cash flow rights.

The research is conducted in Canada over a four-year period from 2002 to 2005 and uses a balanced sample of 130 firms or 520 firm-year observations. Corporate governance is measured based on the ROB corporate governance index published by *The Globe and Mail*.

The results clearly show a positive and significant relationship between the ROB governance scores and Tobin's Q when there is a separation between voting and cash flow rights. In the absence of any excess voting rights, no significant relation is found between governance and performance.

The findings suggest that regulators need to exercise caution before deciding whether or not to recommend or impose corporate governance rules for all firms since the benefits of these rules may vary among the firms. The study contributes to explaining mixed international evidence on the governance-performance relationship while directing attention to the moderating effect of the deviation from the one share - one vote principle.

## OTHER NEWS

### 1-Membership with the International Research Centre for Banking and Corporate Governance.

CGA Accounting Research Centre has become a member of the International Research Centre for Banking and Corporate Governance established by the Ukrainian Academy of Banking.

### 2-Website Update:

The CGA-Accounting Research Centre website [www.cga-arc.com](http://www.cga-arc.com) is now available in the two official languages: English and French.

### 3-Change of leadership at Telfer School of Management

Dr. Micheál Kelly has finished his term as Dean of the Telfer School of Management and is being replaced by Professor François Julien. While we are indeed delighted to welcome Professor Julien to his new duties, we deeply regret the departure of Dean Kelly. Dr. Kelly has been a solid supporter of the efforts of the CGA Accounting Research Centre. He has always shown a real interest in our efforts and will be sorely missed. We wish both Dr. Julien and Dr. Kelly continued success in their new duties.



Dr. François Julien



Dr. Micheál Kelly

## FOR MORE INFORMATION

To learn more about the CGA-ARC visit our web site at the following address:

[www.cga-arc.com](http://www.cga-arc.com)

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# NEWSLETTER

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**The CGA-ARC is located in Desmarais Building**  
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## Business and Financial Crises were the topic of Seventeenth CGA-ARC Conference

The current crises in the business and financial worlds offer a timely opportunity for accountants to reflect, innovate and reengage in a number of areas to help revive and redirect the economy. The 17th CGA-ARC conference provided an opportunity for accountants, academics and business professionals to explore the roles that they might play in risk management and strategic planning, performance measurement and monitoring, protecting company assets and shareholders wealth, and promoting good governance.

The conference which was held at the National Arts Centre on 16 April 2010 was very well attended. The presenters were: Carl Zehr, FCGA, Mayor of Kitchener, ON, and a Past President of CGA Ontario; Gary L. Sundem, Professor, Foster School of business, University of Washington, USA; Michelle Causton, Professor-Canadore College, Lecturer-Nipissing University, Ontario; Andrey Parlov, Professor, Simon Fraser University, B.C. and David Conklin, Lawyer company Goodmans, Lecturer-Schulich MBA program, ON. Merridee Bujaki, Professor, University of Ottawa, acted as moderator.

Alain Doucet Assistant Dean, representing Dean Kelly at the Telfer School of Management, University of Ottawa and Ron Harvey, representing the Board of Governors of CGA Ontario, both welcomed the participants to the conference.

The keynote address was given by Mayor Carl Zehr whose main theme revolved around whether accountants needed an Avatar experience. By that he meant do accountants need to look at things with a new perspective? He thinks they do. The key elements of change that require accountants to "look at things with fresh eyes" are: Performance information, Risk management, Control systems, and Ethical practices and values.



Dr. Micheál Kelly, Dean, Telfer School of Management, University of Ottawa; Carl Zehr, Mayor, City of Kitchener, Ontario, and Daniel Zéghal, Executive Director CGA Accounting Research Centre (left to right) share a moment during the Conference.



Speakers and guests at the CGA - Accounting Research Center Conference :( left to right) David Conklin, Lawyer, Goodmans; Dr. Micheál Kelly, Dean, Telfer School of Management, University of Ottawa; Michelle Causton, Professor-Canadore College, Lecturer-Nipissing University; Roger Keen, CGA Ontario, Board of Governors; Lilian Goh, Past Chair, CGA Ottawa Chapter, member of CGA-ARC's advisory committee; Gary L. Sundem, Professor, Foster School of Business, University of Washington(behind); Carl Zehr, Mayor, City of Kitchener, Ontario; Harvey Ron , CGA Ontario, Board of Governors; Tom Beechy, Schulich School of Business, York University, Toronto (behind); Merridee Bujaki, Professor, Coordinator of the Accounting, Finance and Information section, Telfer School of Management; Daniel Zéghal, Executive Director CGA-Accounting Research Centre; Andrey Pavlov, Professor, Faculty of Business Administration, Simon Fraser University(behind), and Paul Faulkner, member of CGA-ARC's advisory committee.

Improved reporting and action in these four areas are required to meet taxpayer and shareholder expectations. Progress is being made in all of these areas. Strategic planning and the use of performance indicators are recent examples of some of the progress being made. Environmental as well as financial risks are now viewed as a critical component of good governance when they are recognized and planned for. Keys to a good modern controllership are effective control systems and an organizational code of conduct to establish principles of integrity and honesty.

Professor Andrey Parlov made a presentation on the causes and consequences of the recent financial crisis. He was concerned about what caused the crisis in the American financial system and its impacts on Canada. He laid the blame for the American experience mainly on a lack of discipline in the money market particularly with respect to the financing of mortgages. Too easy credit in the mortgage market was reflected by such items as adjustable rate mortgages, 100% financing discounts on closing and various interest options. There was a general decline in underwriting standards. Financial institutions were left with defaulted mortgages for real estate which could not be sold short and bonds requiring interest payment which had to be met but with no reserve requirements of the financial institutions. Canada was reasonably quick to avoid the same crisis. Mortgage rates were tightened. In fact, an

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announcement is forthcoming from Ottawa to raise the minimum down payment from 5% to 10%. New lending rules are coming and interest rates are being increased.

The topic of Mr. Conklin's presentation was corporate governance with particular emphasis on the evolution of the roles of all of the players involved. He maintains that both accounting and managing are an art rather than a science. Accordingly these people must exercise judgment. He admits that there have been some improvements in corporate governance since the Sarbanes-Oxley legislation in 2002. Some of the improvements include: better internal controls, the independence of non-executive management, rotation of audit partners, and the provision for the withdrawal of accounting and legal services. Some areas that still need improvements are: risk management, relating compensation to actual cash flows, the need for financial institutions to self-insure, and the enhancement of the responsibility of auditors. While the auditors may try to duck liability they must, to do their job effectively, take responsibility and share judgment along with management.

If accounting and financial reporting are to achieve the importance and value that they deserve, their integrity and reliability are essential. This was the theme of the presentation given by Professor Gary Sundem. Accounting and financial reporting are important at both the corporate and society levels. For the company, accounting provides management with the information that they need to make decisions. They can be informed as to how well they are doing. At the society level, financial information makes the capital markets work. The integrity and reliability of financial information is most critical. Government regulation may not be the answer as it has so far had only varying and marginal results. Professional regulation has shown some positive results but it must be remembered that these regulations are being aimed into a revenue driven environment. The inclusion of topics such as ethics in the academic milieu has improved but its impact has been limited due to the "get rich quick" attitude of students.

Professor Michelle Causton's presentation revolved around the "expectations gap". What do accountants really do and what do people think that they can and should do. In the 1930s, financial statements fed the needs of mainly knowledgeable investors. However, by the 1960s the stock market became more publicly owned. Too, mutual funds and pension funds powered more money into the markets. The expectation gap really became most evident with the ENRON scandal and the accounting professions seemingly slower to react. This gap is growing. Auditors are being looked to predict the future but are reluctant to do so. The accounting profession is going to be judged on its integrity and judgment. Among the factors contributing to the expectations gap include the issue that accounting standards are still



Presenters were able to network with University of Ottawa's guests during the conference: (left to right) Alain Doucet, Assistant Dean, representing Dean Kelly at the Telfer School of Management, University of Ottawa; Ron Harvey, CGA Ontario, Board of Governors; Carl Zehr, Mayor, City of Kitchener, Ontario; Sandy Chris, City of Kitchener, Ontario; Paul Faulkner, member of CGA-ARC's advisory committee; Lynn Sveinbjornson, CGA Ontario, Business Development Manager, and Daniel Zéghal, Executive Director CGA-Accounting Research Centre.

not common between countries. More clarity is needed in financial statements. Many realities are not disclosed in financial statements. Accounting rather than being a science is more a reflection of human endeavors.

## DISTINGUISHED SPEAKER SERIES

The Accounting Research Centre sponsored the following presentations by distinguished speakers:

- 1- Professor Desmond Tsang, McGill University, "SEC Intervention and Industry Guidance: The effect on Non-GAAP Financial Disclosures".
- 2-David McPeak, International Federation of Accountants, "International Accounting Education Standards: The Next Steps".
- 3- Professor Noel Hyndman, Queen's University at Belfast, "Accruals accounting in the public sector: a road not always taken".
- 4- Dr. Cheryl S. McWatters, University of Alberta's School of Business, "Local and Global Merchant Networks: Accounting Across Space and Time".

## VIEWS FROM THE DISTINGUISHED SPEAKERS

### "International Accounting Education Standards: The Next Steps"

by David McPeak

This presentation highlighted the International Accounting Education Standards Board's response to evidence that suggests the environment of the accountancy profession is becoming increasingly more diverse, segmented, globalized, and regulated. In anticipation of this new environment the IAESB is revising the following education pronouncements: the *Framework for International Education Standards* and its suite of eight International Education Standards. The impact of these revisions were examined in terms of opportunities and challenges which the IAESB is facing when setting standards in the area of accounting education. In addition, ongoing work by the IAESB in the area of professional skills and general education is discussed in light of recent findings which indicate that professional skills, such as critical thinking, continue to be important for accounting students. Consideration was given to how these changes impact the academic community and what opportunities exist for research, teaching and liaising with IFAC member bodies.

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The presentation focused on the role and objectives of the International Federation of Accountants (IFAC) with particular emphasis on the International Accounting Education Standards Board (IAESB). The objectives of this Board involve the improvement of accounting education and the provision of assistance in the adoption of international accounting standards. Because of the globalization of the accounting profession, the Board is anxious to be able to establish some mobility for members of the profession.

The IAESB has developed a framework study where in its explanation the concepts of international accounting standards and puts its standard setting efforts in with this concepts. There are many challenges facing accounting education (a variety of roles, career paths, and educational systems). Many differences exist but there is no enforcement of standardization. The framework seeks ways to establish sets of standards in order to improve trust in the accounting profession. The diversity of education model must be achieved yet a set with accounting education standards must be established to apply to all accounting roles with added standards unique to each accounting specialization.

The board has a number of projects to undertake. The first one involves the development of professional skills. Some of the issues involved in this project includes: critical thinking skills; risk-based judgments; audit quality and threats to skills of the audit team; the responsibility for developing professional skills and the skills required of the professional educator.

Another project involves ways and means of exercising quality control over the academic community and the construction of different development models.

There is, finally, a requirement for more research in a number of areas. They include:

- what non-technical skills are required of the professional accountant
- required is a statement of membership obligation and how members have complied
- a quality control system must be identified for accounting education
- a model is need for developing accounting technicians.

### "SEC Intervention and Industry Guidance: The Effect on Non-GAAP Financial Disclosures"

by Dr. Desmond Tsang

The presentation examines how the U.S. Securities and Exchange Commission (SEC) intervention in 2003 regarding non-GAAP disclosures affects the reporting of Funds from Operations (FFO), an industry guided non-GAAP performance measure commonly reported by Real Estate Investment Trusts (REIT).

The SEC intervened with Regulation G in 2003 with a requirement for full disclosure if earnings were reported without full employment OF GAAP. Some 82 % of firms in the REIT group reported some form of FFO without full adherence to GAAP. Opponents to this approach referred to FFO as "earnings before bad staff" hence the need for SEC intervention.

Firms in the REIT group in order to qualify for the title must invest 75% in real estate assets and a dividend payout is required at 90%. The FFO concept that they use, based on industry evidence, measures earnings but in doing so eliminates depreciation in calculations as well as losses/gains from extraordinary items and some other measures. At times the differences between normally computed net income and FFO can be significant.

The objectives of the study were to examine how the US SEC intervention affected the reporting of FFO from firms in the REIT group.

To support the conclusion of the paper a series of three hypotheses was analyzed and confirmed through the use of mathematical model. The hypotheses were:

- The frequency of firms reporting FFO declined subsequent to the SEC intervention.
- The adoption of SEC disclosure requirements reduced the incidence of opportunistic behavior in the measurement of FFO
- The FFO measure is more value-relevant following the SEC intervention.

While the study concludes that the quality of disclosure improved significantly subsequent to the promulgation of the SEC disclosure requirement, a number of specific findings were also possible:

1. Companies are more likely to follow the industry guidance in defining FFO.
2. All exclusions from FFO have become more transitory.
3. Companies are less likely to manage the FFO measure to beat or meet analysts' forecasts.
4. The market perceives the FFO measure as now being more value-relevant.

Generally, the findings of the study suggest that, with sufficient industry guidance, the SEC can best achieve its objective of improving the quality of non - GAAP reporting without the unintended consequences of deterring from reporting value-relevant non - GAAP information.

## SAMPLE OF PUBLICATIONS

"Investigating Transparency and Disclosure Determinants at Firm-Level in MENA Emerging Markets", D. Zéghal, H. Ben Othman, *International Journal of Accounting Auditing and Performance Evaluation*, Vol.7, 2010.

"Overall Governance, Firm Value and Deviation from One Share - One Vote Principle", Bozoc, Y., Bozoc R., Dia M., *International Journal of Managerial Finance*, 2010(forthcoming).

"An Analysis of the Explanatory Paragraphs of the Auditors Going-Concern Reports and Footnotes of Bankrupt Companies under SAS No. 59", D. Zéghal, M. Maingot, *The IUP Journal of Accounting Research & Audit Practice*, Vol. IX, No. 1 & 2, 2010, pp.84-102; and Social Science Research Network e Library, May 1, 2010 <http://ssrn.com/abstract=1597525>

"Analysing Value Added as an Indicator of Intellectual Capital and its Consequences on Company Performance", D.Zéghal, A. Maaloul, *Journal of Intellectual Capital*, Vol.11, No.1, 2010, pp.39-60, <http://www.emeraldinsight.com/Insight/viewContainer.do?sessionid=D78E935C5CC8006B8A6FE81CBD59C81C?containerType=Issue&containerId=15002467>

"Board of Directors' Independence and Executive Compensation Disclosure Transparency: Canadian Evidence", D. Zéghal, W. Ben Amar, *Journal of Applied Accounting Research*, accepted for 2011, Vol.12, No.1.

"Corporate Governance and Bankruptcy Filing Decisions", D. Zéghal, K. Lajili, *Journal of General Management*, Vol.35, No.4, summer 2010, pp.3-26.

"Earnings Management Effect in Different Stock Market Cycles", D. Zéghal, A. Daneshfar and M.J.Saei, *Journal of Business & Economics Research*, Vol.7, No.8, August 2009, pp.1-9.



The Executive Director of CGA-ARC and guests at the conference: (left to right) Daniel Zéghal, Executive Director CGA-Accounting Research Centre; Jean L. Laporte, COO, Transportation Safety Board of Canada; Beverly Labbate, CGA Chair, Ottawa Chapter, and Sherry Sharpe, CRA.