RESEARCH ABSTRACTS

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

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 - VAIC™” method was used on 302 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 effect 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.


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, Huntin, 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 sampling, 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.

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 where 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 is now available in the two official languages: English and French.

3-Change of leadership at Telfer School of Management

Dr. Michael Kelly has finished his term as Dean of the Telfer School of Management and is being replaced by Professor Francois 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.

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 reengineer 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. Sundun, Professor, Foster School of Business, University of Washington, USA; Michelle Causton, Professor–Gandiore College, Lecturer–Nipissing University, Ontario; Andrey Parlov, Professor, Simon Fraser University, B.C.; Daniel Zeghal, Lawyer company Goodmans, Lecturer–Schulich MBA program, ON; Meridire 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 Alan 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.

For more information

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The CGA-ARC is located in Desmarais on 5th Floor at 55 Laurier East, Ottawa ON K1N 6N5 Room DMS 7102

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 coming examples of some of the progress being made. In addition, risk management and the use of performance indicators are coming examples of some of the progress being made.

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 funded with no reserves. The financial institutions, Canada was reasonably quick to avoid the same crisis. Mortgage rates were tightened. In fact, an

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

The topic of Mr. Corkin's presentation was corporate governance with particular emphasis on the evolution of the roles of all the players involved. He maintained that both accounting and management are not an art rather than a science. Accordingly these people must exercise judgment. He admits that there has 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 need improvements are risk management, relating compensation to actual cash flows, the need for financial (risk) education, and the advancement 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 Sundrum. The accounting standards are important at both the corporate and societal 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 only varied 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 shown some positive results but it must be remembered that this gap is growing. Auditors are being looked to predict the future but are reluctant to do so. Professional judgment is to be judged on its integrity and judgment. Among the factors contributing to the expectations gap include the issue that accounting standards are still not common between countries. More clarity is needed in financial statements. Many realities are 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”.
3. Professor Noel Hyndman, Queen's University at Belfast, “Accruals accounting in the public sector: a road not taken away”.
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 McPeek

This presentation highlighted the International Accounting Education Standards Board’s response to evidence that supports the view that the environment of the accounting profession is becoming increasingly more diverse, segmented, and globalization. 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 was 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 the Accounting profession.

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