

NEWSLETTER

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**The CGA-ARC
is located in
Vanier Building
Room 351F.**



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School of Management

ANNUAL CONFERENCE FOCUSED ON DEVELOPMENTS IN ERM

As a part of its continuing commitment to the accounting profession, the Accounting Research Centre presented a dialogue on a new and exciting development in the fields of financial management and management generally. The topic was Enterprise Risk Management (ERM). ERM represents an integrated and rigorous approach to the management of risks from all sources that might affect the achievement of an organization's objectives or present an opportunity to improve profits.

A gathering of over 150 executives, accountants and academics turned out to hear a distinguished panel of speakers discuss the developments in the practice of Enterprise Risk Management. The speakers were: Dr Frank Martens, Director, PriceWaterhouse Coopers; Dr Michael Dobler, Chair for Accounting and Auditing, Ludwig-Maximilians University of Munich; Dr Rashad

Abdel-Khalik, Professor, Director for the Centre of International Education and Research in Accounting, University of Illinois-Urbana Champagne; Dr Elizabeth Demers, Professor, University of Rochester; and Dr Ken Standfield, Chairman of The International Intangible Management Standards Institute. Dr Merridee Bujaki, Professor, University of Ottawa, was moderator for the Conference.

On behalf of CGA Ontario, Ms Diane Burgess, Executive Director and CEO of that organization welcomed the speakers and audience to the conference. Noting the international flavour and geographical dispersion of the panel of speakers, she felt that it was a credit to this Research Centre and in particular, its executive director, Daniel Zeghal, that such a widely diverse and

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Guests and speakers at the CGA-ARC conference: (left to right) Daniel Zeghal, Professor, Executive director CGA-ARC, University of Ottawa; Michael Dobler, Professor, Chair of Accounting and Auditing, Ludwig-Maximilians University of Munich; Paul Faulkner, member of CGA-ARC advisory council, Elizabeth Anne Demers, Professor, University of Rochester; Diane Burgess, Chief executive officer, CGA Ontario; Ken Standfield, Chairman, International Intangible Management Standards Institute; Bruce Hutton, President, CGA-Ontario; Frank Martens, Director, PriceWaterhouseCoopers; in front- Rashad Abdel-Khalik, Professor, Director of the Centre of International Education and Research in Accounting, University of Illinois-Urbana-Champaign



Diane Burgess, MBA, CGA, Chief executive officer, Certified General Accountants of Ontario, welcomes speakers and guests to CGA-ARC's annual conference

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indeed talented group could be attracted to address this conference.

To start, Dr Frank Martens presented a brief history of current trends in corporate governance and within that framework, developments in the area of risk management. In the 1990s moves were made to improve corporate governance. Among these was the enhancement of the role of the board of directors by strengthening its terms of reference. The role and responsibilities of audit committees were strengthened to provide them with greater independence and also to give them the oversight task for risk management. Within the area of risk management, the COSO document was accepted as the standard for ERM. In addition, Enterprise Risk Management was achieving more and more acceptance both academically and in practice. An interesting trend is that the role of chief risk officer appears to be falling to the professional accountants in either the finance or internal audit areas.

A German perspective on risk reporting was provided by Dr Michael Dobler. Since 1999 Germany has mandated the reporting of risk. Accounting standards have been established to set out disclosure requirements for the explanation and quantification of risk. Despite the efforts of these accounting and disclosure standards, Dr Dobler still considers the whole issue of forecasting and reporting risk to be problematical. The problem rests on the unverifiable nature of risk forecasts. This problem remains whether risk reporting is made mandatory or voluntary. Some managers, fearing the implications of self-fulfilling forecasts often provide opting-out clauses in their risk report. Regulations won't solve all of these problems.

The presentation by Dr Rashad Abdel-Khalik was based on the curriculum for a course on derivatives and reporting risk. One of the first things that students of such a course would have to learn is the difference between business risk and market risk. The former often arises from operating risks that are due to people or systems. The latter are due to such things as changes in commodity prices or adjustments to the cost of money. Approaches such as insurance, diversification, financial derivatives and hedging can be used to mitigate the impacts of market risk. The valuation of and accounting for derivatives would be included in this course which would be related to the COSO Framework of Enterprise Risk Management.

Dr Elizabeth Demers in her presentation on risk management discussed the integration of risk management activities in the property and casualty (P&C) insurance industry. In her study of the activities of this industry, she found that specialized accrual

disclosure was available and that the industry's main risk management choices were visible. The dimension of the industry's risk was a function of its underwriting activities, asset inventory, capital structure and reinsurance work. Her analyses were able to predict insurance loss reserves. Risk management choices were simultaneously determined and underwriting activity was positively associated with risk.

Intangible risk management was the topic of this final presentation by Dr Ken Standfield. Intangible risk management relates mainly to people (employees and customers) and the risk factors of knowledge, relationships and processes. The intangible risks of poor service, lack of knowledge on the part of employees, or poor product quality can impact customer satisfaction, employee motivation and/or branch reputation and sustainability. The approach to the management of intangible risks requires a human capital focus. Risk is reduced by having happy and knowledgeable employees.

On behalf of the Accounting Research Centre, Dr Merridee Bujaki thanked the speakers for their excellent presentations and the audience for its attendance and attention.

During the conference, a couple of the speakers made reference to a "COSO" document. This manuscript is the "Enterprise Risk Management Framework" prepared by the Committee of Sponsoring Organizations of the Tradeway Commission which is considered to be the definitive authority on the framework, theory, standards and practice of ERM. The speakers at the conference presented important and current research on the topic and assumed that their audience was familiar with the concepts and practice of ERM. For any who are not the soon-to-be published Proceedings of this conference will include an article on the theory and practice of Enterprise Risk Management.

FIFTEENTH ANNUAL CONFERENCE WONDERS WHERE WERE THE PROFESSIONAL ACCOUNTANTS

As we turn on our TVs and read our papers, hardly a day goes by without more stories of fraud, greed, misappropriation, negligence, deceptive accounting practices, broken internal control systems, theft and dishonesty at all levels of public organizations and all sizes of business corporations.

The Accounting Research Centre has looked at these issues before but from a corporate governance perspective. At this conference in 2006, the focus will be on the professional accountants; the auditors (both internal and external), the accountants and the financial managers.

Where have they been? Why do they seem to be unable to protect taxpayers and investors? What can be done to resolve the situation? The conference will seek to find answers to these and other questions.

The panel of speakers at the conference will discuss fundamental changes involved for all parties involved in the accounting, financial and audit functions. Roles and responsibilities will be reviewed. Accounting and business education will come under review as well as any perhaps needed changes to internal controls.

The conference will be held in the Panorama Room of the National Arts Centre at 8:30 a.m. on 20 October, 2006.

SAMPLE OF PUBLICATIONS

"Enterprise Risk Management: Rethinking Risk in the 21st Century" by Paul Faulkner et Daniel Zeghal, Statements, February / March 2006.

"Disclosure of Corporate Governance Information by Canadian Banks" by Michael Maingot et Daniel Zeghal, Working Paper, 06-05, February 2006.

"The Effect of Market Cycles on Investors' Reaction to Discretionary Accruals" by Alireza Daneshfar, Mohammad J.Saei and Daniel Zeghal, presented at the International Research Conference for Accounting Educators, Bordeaux, France, 29-30 September, 2005.

"Gérer le risque à l'échelle de l'entreprise: l'autre facette de la gouvernance d'entreprise", by Kaouthar Lajili and Daniel Zeghal, Gestion, Vol. 30, Numéro 3, automne 2005, pp 104-114

"Effet de la structure des droits de vote sur la qualité des mécanismes internes de gouvernance: cas des entreprises canadiennes", by Ameer Boujenoui and Daniel Zeghal, Working Paper, 05-39, September 2005.

"Market Performance Impacts of Human Capital Information Disclosures", by Kaouthar Lajili and Daniel Zeghal, Working Paper, 05-29, July 2005.

"Work, Lifestyle and Productivity: Challenges for Individuals, Managers, Organizations and Society", Proceedings of the Thirteenth Annual Conference by Daniel Zeghal, Editor, 116 pages, 2005.

"Managing Enterprise-Wide Risk: The Order Facet of Corporate Governance", by Kaouthar Lajili and Daniel Zeghal, Working Paper, 05-28, July 2005.

"Corporate Governance and Enterprise Risk Management: Canadian Disclosures" by Kaouthar Lajili and Daniel Zeghal, Working Paper, 05-20, May 2005.

"Market Performance Impacts of Human Capital Information Disclosures" by Kaouthar Lajili and Daniel Zeghal, Journal of Accounting and Public Policy, 25(2006), pp.171-194.

"Analyse des déterminants de la gestion des resultants : cas des firmes canadiennes, françaises et tunisiennes" by D. Zeghal and H. Ghorbel, presented at the 27th Congress of AFC, Tunis, 11-12 May, 2006.

"La communication volontaire d'information par les entreprises en difficulté financière" by Walid Ben Amar et Daniel Zeghal, Working Paper, 06-14, April 2006.

"Impact de la structure de propriété et de l'endettement sur les caractéristiques du conseil d'administration : étude empirique dans le contexte d'un pays émergent", par Zeghal, D, S. Chtourou et Y. Makni , 5ème Congrès international de gouvernance, IECS Strasbourg, 15-16 mai 2006 , 27ème Congrès de Association Francophone de Comptabilité, Tunis, 10-11-12 mai 2006.

"A Going Concern Content Analysis of Audit Reports in Bankrupt Companies" by Michael Maingot and Daniel Zeghal, presented at the 29th Annual Congress of the European Accounting Association, Dublin, 22-24 March 2006.



Michael Dobler, Professor, Chair of Accounting and Auditing, Ludwig-Maximilians University of Munich; Kaouthar Lajili, Professor, University of Ottawa and Merridee Bujaki, Professor, University of Ottawa, moderator for the conference, share a moment during the conference.

RESEARCH ABSTRACTS

1. "A Going Concern Content Analysis of Audit Reports in Bankrupt Companies" by Michael Maingot and Daniel Zeghal.

Auditors are required to modify their audit opinions when there is substantial doubt about their clients' ability to continue as a going concern or not. The broad objectives of this study were to detail the going concern conditions that lead auditors to issue an unqualified versus a modified opinion and to discover going concern conditions which result in a company remaining active or inactive after bankruptcy filing. A sample of 824 US publicly traded companies with assets over \$50 million filing for bankruptcy during the period 2001 to 2003, was examined. Major financial profiles of the sample companies were examined. Eleven financial features were looked at, a timeliness analysis of audit opinions was done as well as a volume and content analysis of going concern disclosures and a comparison with non going concern disclosures based on four categories - negative frauds, other financial difficulty indicators, internal matters and external matters. Scoring along these four categories, going concern indicators impacting on survival after bankruptcy were examined and was found that going concern companies disclosed more uncertainty conditions. Companies in both groups disclosed on equal amount of uncertainties during the fiscal year prior to bankruptcy filing. Also, the disclosure volume in the four categories is not different.

2. "Labor Cost Voluntary Disclosures and Firm Equity Values: Is Human Capital Information Value-Relevant" by Kaouthar Lajili and Daniel Zeghal.

This study examines the market value relevance of labor cost voluntary disclosure using a valuation model relating firm market values to book values of equity and to disclose human capital information such as labor costs, net pension liabilities and estimated average and marginal labor productivity and efficiency indicators. Results indicate that labor cost disclosing companies command higher equity market values in general and that labor productivity and efficiency measures appear to be undervalued. Both findings suggest that there might be market opportunities for firms with valuable human capital to differentiate themselves from their industry peers which might encourage further human capital disclosure in the future. More refined measures of human capital assets and investments are needed to more adequately assess a firm's human resource management decisions and performance in the capital markets.

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3. "Market performance impacts of human capital information disclosures" by Kaouther Lajili and Daniel Zeghal

This paper examines the market valuation and performance impacts of human capital-related information disclosures. Following a labor economics approach and using the annual reports of a sample of United States public companies, we construct human capital productivity and efficiency indicators and test for their informational content and value relevance following a portfolio performance approach. Results indicate that on average, firms with higher labor cost disclosures outperform their low labor cost counterparts. Estimated labor productivity and efficiency indicators also appear to be value-relevant since firms with higher value marginal products of labor, and higher marginal productivity relative to average labor costs, outperform their counterparts with lower values of both measures. We conclude that labor cost voluntary disclosures might be potentially useful in describing human capital asset formation and management and thus could be relevant to market participants particularly for firms in knowledge-based industries.

4. "Voluntary disclosure by financially distressed firms: an empirical analysis" by Walid Ben Amar and Daniel Zeghal

This study examines disclosure practices of a sample of 59 financially distressed US firms during the period 2001-2003.



More than 150 executives, professionals and academics attended the conference.

Financial distress, and eventually bankruptcy, provides an interesting setting to examine managers' incentives to communicate with outside investors. We use Botosan (1997) index to measure the disclosure level in the annual report. We do not find a significant difference between the overall disclosure level of healthy and financially distressed firms. However, the analysis of subcategories of the disclosure index shows that financially distressed firms disclose more information in the MD&A section about their future performance.

DISTINGUISHED SPEAKER SERIES

The Account Research Centre sponsored a presentation by Professor Noel Hyndman of Queens University Belfast. His topic was "The Actual Implementation of Accruals Accounting: Caveats from a Case within the UK Public Sector".

OTHER NEWS

- The CGA Ontario Board of Governors has approved a motion to provide this Accounting Research Centre with a boost in annual funding. This approach proves that the Board is extremely supportive of the Centre. They see it as a model centre and one with extraordinary potential.
- Dr Daniel Zeghal, Executive Director of the Centre has been awarded the "Best Paper Award" by the Clute Institute for Academic Research for his presentation to the 2005 IBER (Business) and TLC (Teaching) Conferences in Las Vegas, USA.
- CGA Ontario and the University of Ottawa School of Management share a long standing relationship. The financial support provided by the Association to the Accounting Research Centre now exceeds one million dollars. In recognition of this continued generosity the University of Ottawa School of Management will name one of its undergraduate case rooms in the new multi-disciplinary building (occupancy late 2007) "The Certified General Accountants of Ontario Case Room".
- Dr. Daniel Zeghal has been reappointed as an associate editor to "Canadian Accounting Perspectives". The journal is published by the Canadian Academic Accounting Association

FOR MORE INFORMATION

To learn more about the CGA-ARC visit our web site at the following address: www.cga-arc.uottawa.ca

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