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2012

# CPA-Queen's Centre for Governance

## ANNUAL REPORT

STEVEN SALTERIO

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## **Mission Statement**

*To be the premier Centre for the thoughtful study of governance in Canada with a special emphasis on the roles of the public accountants and audit committees to whom they report.*

## **Vision and Mandate**

CA-Queen's Centre for Governance ([business.queensu.ca/centres/CA-QCG/](http://business.queensu.ca/centres/CA-QCG/)) vision is to raise the bar on Canadian governance research with respect to transparency and financial accountability and convey that research's implications to academics, students and the public at large. Situated at Queen's School of Business ([business.queensu.ca](http://business.queensu.ca)), one of the world's premier business schools, the Centre's mandate includes conducting cutting edge basic and applied research on governance dealing with such issues as fraud prevention and detection and improving the quality of Canadian securities' regulation. The Centre's premiere not for profit program mandate is the Voluntary Sector Reporting Awards that rewards voluntary sector organizations for transparent Annual Reports and financial accountability. The Centre is funded, in part, by the Institute of Chartered Accountants of Ontario.

## **Report on Centre's Activities and Accomplishments 2011-12**

### **Highlights**

#### ***Not for Profit Initiative:***

In a major step forward, the Voluntary Sector Reporting Awards professionalized its marketing and events management function in 2011-12 with the hiring of John Suart, an experienced not for profit marketing consultant, as our outsourced marketing and events management manager. Among the initiatives that John led were:

- Greater use of social media in raising the profile of the VSRA's within the not for profit community including e-mail blasts, Linked In site, short concise versions of Centre best practice advise etc.
- The first use by the program of the webinar format that provided both an educational component and a promotional component about the VSRA's. The webinar was archived and made available for viewing on the Centre website. Webinar live attendance was strong with over 200 registered participants and these participants came from Halifax to Calgary.
- Creating alliances with various networks of not for profit organizations to raise the profile of the Awards

The net result of this professionalization of the marketing of the Awards was an increase in nominations from an average of 45 per year in the first three years to over 100 nominations in 2011-12. This brought to over two hundred organizations that have taken part in the formal VSRA evaluation process and received detailed feedback about the transparency of their reporting.

In an innovation to the judging process, in 2011-12 we had a representative from those organizations who were denoted in 2010-11 as “Exemplars” in transparent reporting join the judges’ panel. “Exemplars” are those organizations that had won the Award in their category for three successive years (i.e., United Way of Greater Toronto and Sarnia-Lambton Rebound – A Program for Youth).

The 4<sup>th</sup> Annual VSRA’s were presented at a celebratory lunch at the Novatel North York on Friday November 18, 2011 with over 110 attendees, the largest attendance to date. The awards are designed to reward best practices for accountability reporting in the not-for-profit sector, and are open to registered charities that produce annual reports in Ontario. This year we recognized **World Vision** as an “Exemplar” in transparent reporting to join those organizations (i.e., United Way of Greater Toronto and Sarnia-Lambton Rebound – A Program for Youth) that were noted as such in 2010-11. A description of the awards process, the list of finalists and winners, and a list of judges with brief biographies is included as Appendix A to this report.

**Plans for future of VSRA:** In March and April 2011 the Centre Director, in consultation with the Co-Chairs of the Advisory Board, developed a plan for broadening the impact of the VSRA through engaging professional project management and marketing assistance. The goal was to attract at least 80 entrants (double the number of the 2010-11 competition). This goal was accomplished with over 100 nominations submitted to the Awards in 2011-12. However, success came at a cost, as noted in the introduction section of this report, and as will be elaborated on in the *Risks Going Forward* section. In February and March 2012 the Centre Director, in consultation with the Co-Chairs of the Advisory Board, decided to use the fifth anniversary of the program to explore the possibility of going national. The concept was to allow all national and international not for profit organizations with a substantial presence in Ontario (e.g., fundraising) enter the competition in 2013-14. To do this it was decided that the sponsor base would have to be enhanced and that 2012-13 would be dedicated to three objectives:

1. Maintain the number of quality nominations at 100 by vetting in advance nominations to ensure there was sufficient information in their reports to generate reasonable feedback during the judging process. Those nominations that were identified as not providing the minimal amount of information necessary to allow quality feedback were provided with a variety of resources to allow them to develop a report that consisted of enough information to enter the judging process in future years.
2. Obtain a national media sponsor and work with them to raise the profile of the event.
3. Develop a list of prospective sponsors who were alerted to the VSRA’s this year and develop relationships with them with the aim of asking them to co-sponsor the awards in future years.

***Basic Research Grants:***

A fund of at least \$30,000 a year is allocated to fund basic research on corporate governance with an emphasis on financial aspects thereof. The Centre runs three research grant programs, Small Grants (up to \$4,500), Main Grants (up to \$15,000) and Infrastructure grants to support key research infrastructure to be used in governance research. All grants follow a similar application process. The Director has the ability to approve small grants up to the sum of \$2,500 in order to focus the time commitment of the voluntary advisory board members on the larger research grants.

All research grants are first reviewed by the Director for suitability and he makes a recommendation about their academic merit to the reviewers. If the Director is the grant applicant or the supervisor of the grant applicant then the other accounting area member of the advisory board deals with the project following the same guidelines. The Director selects two members of the Advisory Board to read and comment on the proposal to determine if they agree that funding should proceed and if so, do they agree with the proposed budget. The process is iterated until agreement is reached (or the full Advisory Board would be consulted if agreement could not be reached.)

In 2011-12, one research grant was approved and one grant was in progress of being reviewed by the Centre Advisory Board at year end and was subsequently approved in early 2012-13 fiscal year. See Appendix B for grant details. It should be noted that the grants that the Director is involved in are processed in accordance with our Conflict of Interest Policy (available on the Centre's website) and that the Director is at arms-length from the approval process. Further, the entire Board is consulted when the Director is an applicant.

During 2011-12 the Centre Director assessed the success of the basic research program by examining the impact of the projects that had been funded in the first three years of the Centre's existence. See Appendix C for details. As would be expected of a research program that is designed to produce basic research rather than direct application, the process from research idea to academic publication takes several years. Hence, the Director reviewed the progress of research grants from 2008-2010 as part of his assessment of the research grants program.

Two academic articles have been published to date and four more academic papers are under or about to be submitted to leading academic research journals. In addition, as well done basic research tends to lend itself to observations about current practical matters, the various researchers report coverage of their work in conference for practitioners, media outlets from newspapers (Globe & Mail, National Post, Wall Street Journal) to radio (CBC) and local TV (CKWS) as well as academic conferences and workshops. Overall given that the basic research grants were first made in 2008 and the program is only five years old and considering the amount of research in progress, initial indications are that the research funded by this centre is both academically and practically relevant.<sup>1</sup>

Employing the discretion allowed to him by the Advisory Board and in consultation with the Centre Advisory Board Co-Chairs, the Centre Director approved a \$1,500 grant to the Queen's Accounting Association, the undergraduate student run accounting organization at QSB. This grant was to explore the question of how the Chartered Accounting profession in Canada should be governed in light of the proposed merger of the professional accounting bodies (e.g., CA, CMA and CGA). Students developed a video that was posted on YouTube in March 2012 that quickly had over 2000 views in the first month entitled "Have you heard?" The average YouTube video gets fewer than 100 views in its first month and 2000 views makes it in the top 10% of all videos posted (at the date of writing this report closing in on 4000 views). The video

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<sup>1</sup> For example, QSB's much larger research centre on knowledge transfer had only one senior academic research journal publication at the time of its last five year review. However that centre did have numerous second tier publications.

presented, in language geared to university accounting students, the key issues in this governance debate about the merger of the three professional bodies. See the video at <http://www.youtube.com/watch?v=TRfyq5OFs8k>. While not the normal governance research sponsored by the Centre, it dealt with a relevant governance issue for accounting students and appeared to have great impact as the view statistics show. Further, the video was controversial as one can see from the comments that accompany it on the You Tube site.

### **Risks going forward**

As the financial report and budget (see Tables 1 and 5) for the VSRA program show, the current level of VSRA activity is not fiscally sustainable beyond 2012-13 when NPI program's operating surpluses will have to be utilized to their fullest extent to fund the fourth and fifth years of the VSRA expanded programming. The VSRA program has been deliberately run at deficit level in 2011-12 and is projected to run at a deficit in 2012-13 as part of a plan to determine if the program can have sufficient impact to a broader audience nationally instead of regionally in Ontario. The deficit decision was made in light of surplus accumulation in the NPI that allowed for the Centre to commit resources to exploring raising the impact of this event.

Further, to get a better understanding of the "true" cost of this event, this year we kept track of how much of the Centre's Program Assistant's time was being spent on the VSRA. As Table 1 shows, even with a minimal salary allocation of 25% (and time records indicate that it might be substantially more than that) of the Program Assistant salary to the program; program revenues (\$70,000) do not meet the program expenses (\$93,000) at the 2011-12 level of operations leaving a deficit of \$23,000 in the VSRA program.

As noted in the overview, the PWC Foundation informed the Centre in March 2012 that it will not be renewing its prize grant in 2013-14 at the current level of \$25,000. The Foundation states that according to its criteria for funding such sponsorships, a commitment in the \$10,000 range would be more appropriate to a program of this magnitude.

In addition, base budget funding for the VSRA program needs to be secured as the Centre's current grant for the NPI does not support the infrastructure needed to run the program at its current level. The NPI surplus allowed for the expansion of the program but will have been expended by the end of the 2012-13 fiscal year (see budget in Tables 4 and 5). The current base funding provided by the ICAO for the NPI is insufficient to maintain and grow the program. Continuation of this event depends on a renewal of the support agreement with PWC Foundation under suitable financial terms including supporting program infrastructure and the location of additional sponsors willing to contribute prize money and contribute to the infrastructure costs. Hence, the future of the VSRA beyond the next fiscal year, 2012-13, is in substantial doubt and the fifth year may be the final year for this Centre program.

With respect to the basic research grants, the key risks going forward are two-fold:

- Lack of success by the researchers funded in discovering new knowledge that is publishable. This is a low probability event given the analysis of the research conducted to date as seen in Appendix C.
- Lack of innovative new proposals for research funding. Proposals have dwindled in the last two years from three to five a year to two this year. However, quality, if anything, is

a high level. In 2011-12 there was one substantive new proposal approved from a PhD student that is supervised by the Director. Further, the Director and the PhD student have an outstanding large scale grant request under evaluation at year end that was subsequently approved. However, post year end, two proposals have been received and informal indications are that other proposals are in the works. This issue will have to be monitored on a go forward basis. At present the Director believes that the lower level of applications just might reflect the research cycle of faculty members who are interested in governance issues.

### ***Advisory Board:***

The Advisory Board members are:

- David Saunders, Dean QSB
- Richard Clark CA, Deloitte, Greater Toronto Area Audit Practice Leader, Queen's alum with extensive public company client list
- Brian Leader FCA, Vice-President Learning, ICAO
- Tom O'Neill FCA, former CEO of PWC, Queen's alum who is currently a board member and audit committee member for such Canadian companies as Loblaw and BCE.
- Steve Salterio FCA, Director, *ex officio*
- Teri Shearer CPA, Accounting Faculty Member and Associate Dean, QSB (appointed in September 2010) who has been active at the Board and Board Chair level of a number of significant sized not for profits
- Ken Wong, Faculty Member, QSB and active board member of public and private companies. AMA "Marketing Legend" 2006.

The role of the Advisory Board is two-fold. First, to review applications for grant funding by contributing their subject matter expertise to the decision making process. Second, the Board is a source of advice for the Director on matters pertaining to running the Centre and its programs. This is achieved through formal Board meetings (the first held in May 2010) and individual advice to the Director.

### ***Financial Accountability Reports to the Dean and the ICAO:***

- Statement of Receipts and Expenditures including accruals for year ended April 30, 2012 (Table 1)
- Statement of Financial Position as of April 30, 2012 (Table 2)
- Details of accruals regarding research grants (Table 3)
- Proposed budget for 2012-13 (Table 4)
- Voluntary Sector Reporting Awards Proposed Budget 2012-2013 with budgets and actuals for 2011-2012 (Table 5)

**Table 1: Annual Financial Report CA-  
Queen's Centre for Governance  
Statement of Receipts and Expenditures  
For year ended April 30, 2012**

	Total	Research Centre	Contemporary Accounting Research (CAR)	VSRA	Total	Budget
	2010-11	2011-12				2011-12
<b>Revenue</b>						
Donations - ICAO regular	\$35,000	\$35,000			\$35,000	\$35,000
Donations – ICAO Not for Profit Initiative	45,000			\$45,000	45,000	45,000
PWC Foundation Re. VSRA prizes (Note 1)				25,000	25,000	25,000
CAAA re CAR	25,000		25,000		25,000	25,000
Transfer from within QSB	9,990	1,518			1,518	15,000
	\$114,990	\$36,518	\$25,000	\$70,000	\$131,518	\$145,000
<b>Expenses</b>						
Admin Prof & Tech Salary (50% CAR Editor's Assistant and 50% Centre Program Assistant)	\$53,524	\$13,799	\$27,597	\$13,799	\$55,194	\$57,000
Voluntary Sector Reporting Awards (see Table 5)	41,738			\$79,205	\$79,205	81,950
Research grants paid and accrued (see Table 3)	21,375	22,532			22,532	30,000
Student CA profession governance	0	1,365			1,365	1500
Miscellaneous: postage, office supplies, parking passes for visitors etc.	2,942	1,086			1,086	2000
	\$119,579	\$38,782	\$27,597	\$93,003	\$159,382	\$172,450
<b>Net surplus(-deficit)</b>	<b>-\$4,589</b>	<b>-\$2,264</b>	<b>-\$2,597</b>	<b>-\$23,003</b>	<b>-\$27,864</b>	<b>-\$27,450</b>
Opening operating account balance	\$63,973				\$59,385	\$59,385
Closing operating account balance	\$59,385				\$31,521	\$31,935

**Abbreviations:**

ICAO = Institute of Chartered Accountants of Ontario

CAAA = Canadian Academic Accounting Association

CAR = Contemporary Accounting Research

QSB = Queen's School of Business

**Notes:**

1. The PWC Foundation grant in 2010-11 flowed directly to the recipients from PWC and did not pass through the accounts of the Centre. Due to certain operational difficulties encountered in 2011-12 the grant passed through the Centre's accounts. There has been no increase in the amount of the PWC support over the five years of the program.

**Table 2: Annual Financial Report  
CA-Queen's Centre for Governance  
Statement of Financial Position  
As at April 30, 2012**

<b>Assets</b>		
Cash		\$193,342
<b>Total Assets</b>		<b><u>\$193,342</u></b>
<b>Equities and Accruals</b>		
• CAR grant received in advance (note 2)	\$27,433	
• ICAO grant received in advance (note 2)	80,000	
• Research grants accrued (see Table 3)	<u>30,768</u>	
Total		<b><u>\$128,201</u></b>
Surplus: Operating	\$31,521	
Contributed surplus (note 3)	<u>23,620</u>	
Total		<b><u>\$65,141</u></b>
<b>Total Equities and accruals</b>		<b><u>\$193,342</u></b>

**Notes:**

1. The Centre follows an accrual basis of accounting. See list of accruals in Table 3.
2. Both the ICAO grant and the CAR grant (from the CAAA) for the next fiscal year arrived prior to the Centre's April 30<sup>th</sup> year end. The revenues received in one year are matched with the expenditures that occur in the following year.
3. The contributed surplus arises from grants that have been made and expensed per matching to the year granted yet for a variety of reasons either not been fully expended or withdrawn by authors in subsequent periods. This surplus can only be drawn down to fund future research projects.
4. Financial statements dated April 30, 2011 have been reformatted to reflect this year's disclosure and presentation style.
5. The Centre Director receives no stipend for Centre activities; hence all funds granted are used to support Centre programs.

**Table 3: Annual Financial Report  
Accruals for Research Grants As  
at April 30, 2012**

<b>Projects in Process</b>	<b>Accrued Amount</b>
<i>KERP plans and the Provision of Incentives in Financially Distressed Firms: Professor Wei Wang</i>	\$3,868
<i>Audit Committee Effectiveness, Audit-Client Management Negotiation and Earning Quality Yan Luo PhD candidate supervised by Professor Steven Salterio</i>	\$2,500
<i>Determinants of Compliance and Effectiveness in a "Comply or Explain" Governance Regime: Canadian Institutions under Change Yan Luo PhD candidate and Professor Steven Salterio</i>	\$14,400
<i>Projects related to Organizational Fraud, two projects by Professor Pamela Murphy and Clinton Free</i>	\$10,000
<b>Total Accruals: research grants per Statement of Financial Position</b>	<b>\$30,768</b>

**Table 4: Annual Financial Report CA-  
Queen's Centre for Governance  
Proposed budget for fiscal year 2012-13  
(May 1, 2012 to April 30, 2013)**

	<b>Budget</b>	
<b>Revenue</b>	<b>2012-2013</b>	<b>Explanation</b>
ICAO research Centre	\$35,000	In accordance with ICAO-QSB agreement that was renewed in 2012 for a further seven years
ICAO Not for Profit Initiative	45,000	
PWC Foundation re VSRA	25,000	In accordance with PWC-ICAO-QSB agreement*
CAAA re CAR	27,422	CAAA grant to support to CAR Editor's Assistant per CAAA-QSB agreement will expire on April 30, 2014
Transfer from within QSB	15,000	QSB support for Centre Program Assistant
	\$147,422	
<b>Expenses</b>		
Admin Prof & Tech Salary	\$59,000	Centre assistant salary and benefits; CAR Editor's assistant salary and benefits
Travel and representational expenses	1,500	Travel regarding Centre representation at ICAO events and meetings
Voluntary Sector Reporting Awards 2012	85,450	See breakdown in Table 5.
Research grants	30,000	Annual amount for research grants after Centre administrative expenses including \$4000 for not for profit research
Miscellaneous: office supplies, postage, parking passes for visitors etc.	2,000	
	\$177,950	
<b>Net surplus(deficit)</b>	<b>-\$30,528</b>	
Opening net operating surplus	\$33,954	
<b>Closing projected net operating surplus</b>	<b>\$3,426</b>	

\*PWC Foundation officials have indicated that 2012-13 is the last year of their commitment of \$25,000 per year to fund the VSRA prizes to recipients. Continued viability of the VSRA program is dependent on a renewed PWC agreement and obtaining additional funding. The outcome of such an exercise cannot be determined at this time.

**Table 5:  
VSRA 2013 Proposed Budget with Comparison to 2012 Actual and Budget**

	<b>2012*</b>	<b>2012</b>	<b>2013</b>
	<b>Budget</b>	<b>Actual</b>	<b>Budget Proposed</b>
<b>Luncheon</b>	\$9,000	\$8,744	\$10,000
<b>Plaques and misc. award expenses</b>	\$1,500	\$909	\$1,500
<b>PWC Foundation Awards**</b>	\$25,000	\$25,000	\$25,000
<b>Publicity</b>	\$2,500	\$2,164	\$2,500
<b>Award announcements</b>	\$10,000	\$10,655	12,000
<b>Research assistants***</b>	\$4,000	\$4,409	\$4500
<b>Travel of judges</b>	\$4,000	\$2,813	\$3000
<b>VSRA Director of Technical Scoring (must be a CA) Honourium</b>	\$9,000	\$9,000	\$10,000
<b>Coordinator of marketing and project management</b>	\$16,950	\$15,511	\$16,950
<b>Total Budget and Actual</b>	<b>\$81,950</b>	<b>\$79,205</b>	<b>\$85,450</b>

\*Awards event within fiscal year. In 2011-12 the awards event took place in 2011. In 2012-13 the Awards event will take place in February 2013. The Awards event was rescheduled to facilitate nominations.

\*\* PWC Foundation Awards are included as an expenditure that is offset by a direct grant from the Foundation to fund the prizes awarded. There is no contribution to administration of the program built into the funding. 100% of award money flows directly to recipients. PWC Foundation officials have indicated that 2012-13 is the last year of their commitment of \$25,000 per year to fund the VSRA. Continued viability of the VSRA program is dependent on a renewed PWC agreement and obtaining additional prize funding. The outcome of such an exercise cannot be determined at this time.

\*\*\* This does not include charges for time of a PhD student Research Assistants who put in 80 hours in administering program and paid for out of Director's fellowship.

\*\*\*\*Other costs not included in the above budget:

- Centre Director's time to set up, supervise, aid with technical scoring and judging process, aid with press relations, lunch etc.
- ICAO time regarding administrative support, hosting judges' day (including room breakfast and lunch) and press relations including both external and internal to ICAO publicity.

## **Appendix A: Voluntary Sector Reporting Awards 2011-12**

In the first round of the competition, technical screeners evaluate the annual reports for technical merit (i.e. did they have the minimal elements that made it possible for them to be judged). The highest scoring annual reports then advanced to the second stage of the competition, where the reports are scrutinized by a panel of experts (see judges listed below). All entrants are provided with a copy of the technical screeners' completed checklist so they can see where they met expectations or fell short and, hopefully, use that feedback to improve future annual reports. In addition all participants receive an overview of the judges' general comments on finalists' annual reports. Each finalist also receives a tailored analysis of the judge's comments about their report in addition to the technical checklist and general report. The bolded organizations were the winner in their category

### **National or international organizations headquartered in Ontario**

Amnesty International

Canadian Feed the Children

Juvenile Diabetes Research Foundation

Mennonite Economic Development Associates

The Nature Conservancy of Canada

**World Vision Canada (also warranted the "Exemplar" designation for three consecutive Awards)**

### **Total revenues over \$10 million**

#### **Canadian Paraplegic Association Ontario**

Hamilton Community Foundation

Ontario March of Dimes/March of Dimes of Canada

Vita Community Living Services of Toronto

### **Total revenues over \$1 million and up to \$10 million**

#### **DeafBlind Ontario Services (co-winner)**

Food Banks Canada\*

Kingston Literacy and Skills

**United Way Kingston, Frontenac, Lennox & Addington (co-winner)**

\* Given the organization's relatively small size compared to others in the National and International organization category, it was also judged in this size appropriate category.

### **Total revenues up to \$1 million**

Brant Community Foundation

Girls Incorporated of Durham

**Hospice King (Operating as Hospice King-Aurora)**

## **2011-12 Panel of Judges**

Ideally judges serve two to three years before rotating off the Panel. This year's judges are a distinguished group, knowledgeable about the voluntary sector from perspectives of accounting and auditing, philanthropy, research and marketing:

### **Mr. Donald J. Bourgeois**

Don Bourgeois is one of Canada's leading authorities on charities and not-for-profit organizations. He has a private practice with focus on charitable and not-for-profit law. Previously he was Counsel to Carters Professional Corporation, a boutique law firm specializing in charitable and not-for-profit law, and was General Counsel and Director of Legal Services, Alcohol and Gaming Commission of Ontario. Mr. Bourgeois is the author of *The Law of Charitable and Not-for-Profit Organizations*, *The Law of Charitable and Casino Gaming*, and *Charities and Not-for-Profit Administration and Governance Handbook* in addition to being the Editor and Chair of *The Philanthropist Journal*.

### **Mr. Patrick Johnston**

Patrick Johnston is Principal and Founder of BOREALIS Advisors. Patrick has served as Chief Executive of a range of organizations including the Walter and Duncan Gordon Foundation, the Canadian Centre for Philanthropy (now Imagine Canada), the Canadian Council on Social Development and the National Anti-Poverty Organization. His past Board service in Canada includes the Public Interest Advocacy Centre, the United Way/Centraide Canada, Canada World Youth, Philanthropic Foundations Canada and the Weiler Trust. At the international level, Patrick was a member of the Board and the Global Philanthropy committee of the Washington based Council on Foundations.

### **Ms. Alison Knight FCA**

Alison Knight is a Queen's University Graduate who won the Gold Medal in her graduating Commerce class. She became a chartered accountant and later a Fellow of the Institute. She most recently was the first Chief Administrative Officer for the Anglican Diocese of Toronto and had previously held senior research, consulting, financial services and marketing positions for such firms as Deloitte & Touche, Royal Trust, Avco Financial Services and Equifax. She also has served on many boards, both corporate and voluntary sector based.

### **Dr. W. Morley Lemon FCA CPA**

Morley Lemon has been a major force in accounting and auditing education in Ontario since the 1970's. His best-selling audit textbook was used by literally thousands of students preparing to become professional accountants. Morley, in addition to being Professor Emeritus at the University of Waterloo's School of Accounting and Finance, is a former Director of the School and an award winning teacher. He is a former member of the Institute of Chartered Accountants of Ontario Council and has been elected a "Fellow" of the ICAO and received the ICAO "Award of Outstanding Merit." Since his retirement he has taught internationally and continues to carry out an active research program. Morley has served on several not-for profit boards of organizations over the years including as the chair of the board of a public hospital.

**Ms. Mary Ellen Warren**

For the past 17 year Mary Ellen Warren served as the Executive Director of Sarnia Lambton Rebound – A Program for Youth, which was the winner of three consecutive Voluntary Sector Reporting Awards in the category of less than \$1 million in revenue and hence designated an “Exemplar”. She is the first judge to be appointed from among the Exemplars we have identified. In 2004, under her leadership, Rebound received the Donner Canadian Foundation's Awards for both Nonprofit Excellence in the Delivery Of Social Services and Crisis Intervention 13 years consecutively as well as the Peter F. Drucker Award for Nonprofit Management. Her appointment adds a new dimension to the judges panel being the first former award recipient to act as a judge. She currently continues to volunteer with Rebound while she works with the government of Ontario to expand the Rebound program to other Ontario communities. In addition, Mary Ellen is currently working in the Sarnia courts initiating Direct Accountability Programs for adults in the criminal justice system.

Conflict of interest note: While the judges sit on various not-for-profit boards, none of those organizations were entered into the VSRA 2011 competition.

## Appendix B: Research Grants Approved

### 1. Small Scale Grant Program

**Applicant:** Yan Luo (Supervised by Steven Salterio)

**Affiliation:** PhD Candidate, Queen's School of Business

**Title:** Audit Committee Effectiveness, Audit-Client Management Negotiation and Earnings Quality

**Summary** The research question to be addressed in this study is “Does audit committee effectiveness impact the association between audit-client management (ACM) negotiation and firm earnings quality?” I raise this question in light of field and survey research into the ACM relationship that suggests that overall audit partners and CFOs do not perceive audit committees to be an effective actor in ACM negotiations. This study will examine whether and how potential variation in audit committee effectiveness impacts the ACM negotiation to constrain aggressive financial reporting by management. This question is important as the accounting issues being negotiated are usually complex and arise from unclear or non-existent GAAP. Hence, the ACM negotiation outcomes frequently have material impact on the company's earnings quality, defined as the extent to which reported earnings reflect underlying economic effects of transactions and events on the firm. The quality of earnings information flowing to market stakeholders is an important determinant of market efficiency and impacts the availability and cost of equity capital. While regulators have been promoting that strong audit committees as means of enhancing the earnings quality (e.g. for example developing “best practice” guidelines, requiring audit committees to appoint, remunerate and terminate the auditor etc), CFOs and auditors claim that audit committees are generally peripheral to financial reporting, due to audit committees' lack of active involvement in ACM negotiation. My study addresses this discrepancy between the beliefs of regulators and the observations of practitioners. Further it provides evidence regarding the sufficiency of current “best practice” governance guidelines for audit committees that are employed in many non-US settings.

### 2. Large Scale Grant Program (application under review at year end, approved shortly after year end)

**Applicants:** Yan Luo Ph.D. candidate and Professor Steven Salterio)

**Affiliation:** Queen's School of Business

**Title:** Determinants of Compliance and Effectiveness in a “Comply or Explain” Governance Regime: Canadian Institutions under Change

We are proposing to continue to study the evolving corporate governance and audit environment in Canada with a new research project that is a logical extension of previous work funded by the Centre (see last paragraph of proposal for summary of that work). The Centre's funding of our data collection will enable us to investigate four primary research questions: 1) Do the disclosures made by a firm in a “comply or explain” corporate governance regime reflect fundamental economic differences among firms? 2) Are firms taking appropriate advantage of the “explain” provision that is allowed in that regime in order to better tailor corporate governance practices to their firm specific needs? 3) Are internal control over financial reporting

disclosures about the implementation **and** testing of controls (newly required in 2008) determined by the fundamental economic differences among firms and reflected in the quality of broader governance disclosures? and finally 4) Do audit committee and board effectiveness as measured by the corporate governance disclosures impact on the financial reporting quality (i.e. accrual quality) as well as the size of the audit fee? Specifically, we intend to collect data about Canadian public companies' management disclosures about the effectiveness of internal controls over financial reporting (ICOFR) and corporate governance "best practice" disclosure in the proxy circular in the sample period of 2009 and 2010. Findings of our study will address the discrepancy between the beliefs of regulators and the observations of practitioners on whether and how the corporate governance effectiveness influences the financial reporting process (see Cohen et al 2002 and 2010 for this debate).

## **Appendix C Research Grants Program: An Assessment of Success of Research Grants made from 2008 to 2010**

Academic research can take considerable time from initiation of project to final results being published in academic journals. Along the way such research can influence both academia and practice via such means as news media (e.g. articles), academic conference and workshop presentations, practitioner presentations and other forums. The expectation would be that the oldest research projects would lead to peer-reviewed academic articles in leading journals whereas newer projects would result in working papers being produced with a variety of means of putting forward the ideas into academic and practitioner venues.

Hence, starting with the most recent grants and working back, here is an assessment of the impact of the various basic research grants made by the Centre in the 2008-2010 period:

### Small Scale Research Grant - Qiu Chen/PhD supervised by Professor Steven Salterio Role of Board Directors in Nonprofit Organizations' Expense Misallocation

**Results to date:** Dr. Chen completed her PhD in a timely fashion, secured an assistant professor position at Carleton University, and has a working paper based on the research funded in preparation for submission to a leading academic accounting journal. Dr. Chen has presented her centre funded research to practitioner and academic audiences at a variety of universities, conferences and forums.

### Small Scale Research Grant - Christie Hayne MSc/PhD supervised by Professor Clinton Free Risk Business: Are we walking the talk?

**Results to date:** Christie Hayne has completed additional data collection for this project and together with her supervisor, Clinton Free, have a working paper that is to be shortly submitted to a leading academic accounting journal.

### Large Scale Research Grant - Professors Free and Murphy The Fraud Pyramid

**Results to date:** Dr. Murphy has presented aspects of her fraud research project to a diverse set of audiences including academic, practitioner (e.g. CICA Investigative and Forensic Accounting Conference, the ICAO, Compliance & Risk Management Strategies Summit for Portfolio Managers and Fund Managers) and community organizations (e.g., Eastern Ontario CA Association, *Rotary Club of Cataraqui-Kingston*). Further aspects of her research have been featured in the *Globe & Mail*, CBC Radio Here and Now, and the *Financial Post*. An academic paper from this project is under review at a leading academic accounting journal.

### Large Scale Research Grant - Professor Wei Wang KERP plans and the Provision of Incentives in Financially Distressed Firms

**Results to date:** Dr. Wei Wang's research on this project has been featured in the *Wall Street Journal*, has been the subject of an online podcast with the American Bankruptcy Institute (see link from Centre Website) and has been presented at academic conferences and workshops. The paper is current under review at a leading finance research journal. Further Dr. Wang's work in this area was highlighted at QSB's faculty researcher series.

Small Scale Research Grant - Professors Free and Murphy Organizational Fraud Triangle

**Results to date:** The initial work under this project lead to the larger research grant reported above.

Small Scale Research Grant - Professors Purda and Skillicorn Deception in Business Documents

**Results to date:** The authors have presented their research at university research workshops, at national and international conferences as well as presenting their research through a variety of media outlets (including local TV). This research provided initial work that lead to a successful Social Sciences and Humanities Research Grant (the premiere academic research granting body in Canada for social sciences) in 2011. The academic working paper resulting from this research project is now under review at a top tier academic accounting journal.

Large Scale Research Grant - Professors Lu, Richardson and Salterio Internal Control Weaknesses

**Results to date:** This research grant has been the most successful of the Centre's to date resulting in two peer reviewed academic articles, two research reports, media stories in a variety of outlets including the first page of the Financial Post section of the national post, a large number of academic and practitioner presentations and submissions to the Ontario Securities Commission.

**Academic articles:**

Lu, H., G. Richardson & S. Salterio. Direct and Indirect Effects of Internal Control Weaknesses on Accrual Quality: Evidence from a Unique Canadian Regulatory Setting. *Contemporary Accounting Research*. (2011). 28 (2): 675-707. One of the top academic accounting journals in the world.

Salterio, S., J. Conrad and R. Schmidt. 2013. Canadian evidence of adherence to "comply or explain" corporate governance codes: An international comparison. *Accounting Perspectives*. Forthcoming.

**Research reports:**

Salterio, S. & J. Conrod. *Corporate Governance: Platitudes, Principles or Best Practices?* CA-Queen's Centre for Governance. Kingston ON. March 2009. 25 pages.

Salterio, S. *Audit Committees on Canada's "Big Board" Fall into Line; Little Guys Continue to Lag*. CA-Queen's Centre for Governance. Kingston ON. July 2008. 15 pages.