CANADA: POST-PANDEMIC ECONOMIC FORTUNES DECLINE

In common with their counterparts in many other parts of the world, Canadian accounting firms and their clients are reluctant to express too much optimism about the post-Covid business landscape. *Paul Golden* reports

The contradictions of coronavirus in Canada were summed up neatly in a September 2020 study by the Angus Reid Institute, which found that a sharp increase in employment was accompanied by a gloomy outlook for personal finances.

Prior to the Covid-19 pandemic, Canadians were increasingly optimistic about their economic circumstances. The percentage of people who believed their standard of living would improve over the next 12 months had nearly doubled from 16% in 2018 to 30% in early 2020.

However, by the third quarter of last year, one in five anticipated a worsening of their financial condition – a proportion that rose to more than a quarter among those with household incomes below $25,000 per year. More than one third said their economic fortunes had declined over the last year.

In the first few months of the pandemic, the Canada Revenue Agency (CRA) responded by extending the filing and payment due dates for individual, corporate, and trust income tax returns, including instalment payments. Penalties and interest were not charged if payments were made by the extended deadline.

In March 2020, the CRA announced that electronic signatures that meet specific criteria would be accepted as having met the requirements of the Income Tax Act, while the Canadian Securities Administrators allowed temporary blanket relief for market participants granting a 45-day extension for certain periodic regulatory filings.

"The CRA also made the home office expenses deduction available to more people, and simplified the way employees claim these expenses on their personal income tax return for the 2020 tax year," says Brian Kreisman, managing partner at Crowe BGK.

Crowe MacKay partner David Gautier explains that Canada's Covid-19 economic response plan included two wage subsidy programmes, a rent subsidy, a response to individuals who had lost their job, a programme for the self-employed, a caregiver benefit, a sickness benefit, a business loan programme and a student benefit.

POSITIVE DEVELOPMENTS

Kreisman acknowledges that growth rates are down and that efficiency has suffered since the beginning of the crisis, but says there have also been some positive developments.

"Because of the deadline extension during the 2020 tax season, the workload remained consistent but was spread out over a longer period, relieving professionals of the overwork they are used to during the busy season," he explains.

In response to the various government support programmes, the firm assigned professionals from its tax group to become subject matter experts in the domain. "As a result of publishing regular tax insights on our website and becoming go-to consultants on the matter, we built goodwill with our clients, many of whom have remained open," adds Kreisman.

In terms of adapting work practices to cope with remote working, accounting firms were helped by the fact that most were already on some sort of digital transformation journey.

"We had been committed to a digital strategy for some time and were well positioned to move to remote working with little notice," says Crowe Soberman COO Susan Hodkinson.

"The beginning of the pandemic was a time of great uncertainty, and conservative financial management needed to be balanced with a people-focused staff strategy."

Gautier describes the technology solutions available as excellent, but adds that his firm found it difficult to replicate the collaboration and on-the-job training that takes place in the office.

"When it came to client communications we made the decision to over-communicate, and while in 'normal' times this would be frowned upon and even risk relationships, during the pandemic it was received with gratitude," says Stefan Ferris, CEO Crowe MacKay.

"Our clients were getting overwhelmed with the information being released by all levels of government and news channels," he adds. "So when our professionals took the time to share the updates pertinent to their business and personal matters in an accessible and simplified format, clients were able to not only understand the programmes being introduced but also ask the right questions on how they could benefit from them."

Although Morison KSi member firm McCarney Group had been operating in a cloud-based environment for more than eight years, partner Sandra Ataman says work from home was still a big adjustment. "Most of our assignments are done in teams, with staff at different levels and different disciplines working together and, prior to the lockdown, were all done in person," she says.

"Simply finding space for everyone to work was sometimes a challenge and required creativity and compromise. Investment was required in extra monitors, better home computers, more comfortable chairs and, of course, headphones."

While accepting that it was a struggle initially as the firm experimented with different technologies to see how it could properly interact, share information, review files and prepare the final reporting for clients and for submission to regulatory authorities, Ataman says the end result has been very positive as it enters its second 'busy season' with Covid restrictions.

Chad Knippel, partner at DFK member firm Kingston Ross Pasnak, reckons the pandemic will permanently change its working environment to a hybrid model, where people work from both the office and their homes.

"One of our learnings has been how well we have adjusted to a work from home model," he says. "That being said, we also believe that a need for collaboration and belonging will eventually draw people back to the office, once it is safe to do so."

Knippel explains that the firm has looked for ways to help clients cope with their revenue generation issues during lockdowns, while being aware of increasing payment terms and bad debts.

"Our job was to help our clients make difficult decisions that would forever impact their business, their staff, and their families," he adds. "We needed to be more than just accountants – we needed to be an empathetic ear as we spent hours upon hours working through some of the most challenging situations, strategically guiding clients through the worst days they have ever encountered."

Firms and their clients adapted quickly to the 'new normal', but there is an acceptance that the full impact of the coronavirus crisis will not become clear for some time. "Those clients doing well are optimistic for their prospects in 2021 as they have adapted," says Frank Fazzari, managing partner at MGI Worldwide CPAAI member firm Fazzari + Partners. "If they have strong balance sheets, they will survive. If they are making money, they are in most cases making more because of subsidies and the fact that a lot of expenses, such as meals and entertainment, have been eliminated."

Like many other firms, Crowe Soberman is now focused on what is next. "Our business – and that of our clients – has fundamentally changed, and we are of the view that there are multiple opportunities for continued success and growth," says Hodkinson. "There will need to be fundamental shifts in many businesses, but we are seeing enthusiasm and great energy from our clients."


Brian Kreisman, Crowe BGK


Sandra Ataman, McCarney Group


Chad Knippel, Kingston Ross Pasnak


Pat Kramer, BDO Canada

Elias Benaim, partner at Allinial Global member firm Kraft Berger, refers to a degree of trepidation about the near future on the basis that the continued financial support of the Canadian government is unknown, as is the timing of a return to normality.

"We believe 2021 and 2022 will be very challenging for Canada and the rest of the world economy," he says. "If there is any significant upward movement in borrowing cost, the financial challenges will be difficult. However, we also believe those businesses that survive will be stronger in the long term."

CAUTIOUS OPTIMISM

Many clients seemed to put projects on hold in the beginning of the pandemic, but are now pushing forward as they have learned to pivot and be agile in their business operations, says Ferris.

BDO Canada clients are cautiously hopeful about the economic prospects for the remainder of the year and the firm continues to support them through critical decisions that perhaps they were not considering addressing a year ago, says CEO Pat Kramer.

"We are finding that businesses have innovated and are focusing on technology improvements," he adds. "For some, we are helping them evaluate their operations and business models to ensure that they are focusing on the key issues and finding ways to make a positive impact."

Ataman notes that when the pandemic started there was considerable uncertainty and fear for the future. "It almost felt as if the government was coming out with new pronouncements on a daily basis," he says. "They felt random and reactionary, and for every pronouncement there was an interest group pointing out areas of neglect and oversight."

Eventually, as the situation evolved, it became clear that the government was willing to invest billions in supporting businesses and individuals. Behind all this though, has been the lurking fear that the billions of dollars of support will have to be financed somehow.

"The long-term impact of the increased debt could be crippling to future generations and the impact on fiscal and taxation policy in the current year and future years is awaited with apprehension," adds Ataman.

Knippel observes that the biggest hit in 2021 will be felt by service clients, particularly those in the hospitality sector that had to shut down for a large majority of last year – many of which continue to struggle because public health restrictions are still in place. "On the other hand, technology companies are finding ways to thrive and oil and gas companies are cautiously optimistic with the price of oil increasing and the election results in the US," he says. "Construction and manufacturing are surprisingly steady given the drop in overall GDP and the high unemployment rates across the country." ■

CANADA

NETWORKS & ASSOCIATIONS: FEE DATA

	Rank	Name	Fee income (C$m)	Fee income last year (C$m)	Growth (%)	Fee split (%)					Year end
						Audit & assurance	Accounting services	Tax	Advisory	Other	
NETWORKS	1	Deloitte*	2,821.0	2,792.3	1%	n.d	n.d	n.d	n.d	n.d	May-20
	2	KPMG*	1,806.4	1,730.0	4%	n.d	n.d	n.d	n.d	n.d	Sep-20
	3	PWC* (e)	1,752.8	1,701.7	3%	n.d	n.d	n.d	n.d	n.d	n.d
	4	EY* (e)	1,483.1	1,439.9	3%	n.d	n.d	n.d	n.d	n.d	n.d
	5	Grant Thornton*	774.4	753.2	3%	52	-	22	26	-	Sep-20
	6	BDO*	690.0	682.5	1%	n.d	n.d	n.d	n.d	n.d	Dec-20
	7	Baker Tilly International *	188.3	182.9	3%	27	31	27	9	6	Dec-20
	8	Crowe*	138.5	136.6	1%	49	9	28	10	4	Dec-20
	9	Moore Global*	116.3	104.5	11%	33	22	28	8	9	Dec-20
	10	RSM* (1)	111.4	80.0	39%	44	-	31	24	1	Apr-20
	11	Nexia International*	77.2	90.0	-14%	42	20	31	5	2	Jun-20
	12	HLB*	43.5	43.3	0%	26	36	24	11	3	Dec-20
	13	Russell Bedford International*	36.6	33.0	11%	9	73	15	2	1	Dec-20
	14	Mazars*	17.3	16.8	3%	67	8	18	7	-	Aug-20
	15	ECOVIS International* (1)	14.9	13.0	14%	22	66	11	1	-	Dec-20
	16	TGS*	13.7	13.1	4%	24	38	19	8	11	Sep-20
	17	UHY International* (2)	9.8	5.5	78%	15	30	33	16	6	Dec-20
	18	Kreston International*	3.4	3.5	-3%	30	54	8	8	-	Oct-20
	19	PKF International* (3)	1.5	0.8	88%	46	10	15	21	8	Jun-20
Total fee income/growth			10,099.9	9,822.6	3%						
ASSOCIATIONS	1	Praxity*	990.0	933.4	6%	23	24	23	24	6	n.ap
	2	DFK International* (4)	156.3	143.9	9%	37	24	21	11	7	Dec-20
	3	BKR International*	110.9	115.1	-4%	28	36	26	8	2	Jun-20
	4	Prime Global*	110.8	95.3	16%	65	-	28	3	4	May-20
	5	RSM Canada Alliance* (2)	82.0	30.6	168%	44	-	32	24	-	Apr-20
	6	IAPA*	77.3	69.6	11%	28	38	21	11	2	Dec-20
	7	Allinial Global* (5)	58.0	80.0	-28%	35	23	20	19	3	Dec-20
	8	AGN International* (e)	36.2	33.8	7%	n.d	n.d	n.d	n.d	n.d	n.d
	9	Abacus Worldwide*	20.0	n.ap	n.ap	23	33	30	13	1	Dec-20
	10	MGI Worldwide with CPAAI* (3)	16.5	13.4	23%	17	52	19	5	7	Dec-20
	11	Morison KSi* (5)	12.0	23.4	-49%	13	51	24	5	7	Dec-19
	12	GMN International*	10.0	8.6	16%	37	45	14	4	-	Sep-20
	13	Inpact*	9.2	10.9	-16%	75	3	20	1	1	Dec-19
	14	BOKS International*	5.4	5.1	5%	25	40	20	15	-	Dec-20
	15	Integra International* (5)	4.8	5.7	-15%	5	60	30	5	-	Dec-20
	16	INAA Group*	1.0	0.9	7%	7	50	26	12	5	Dec-20
	-	Antea* (5)	n.ap	0.2	n.ap	n.ap	n.ap	n.ap	n.ap	n.ap	n.ap
Total fee income/growth			1,700.3	1,569.9	8%						

Notes: (e) = *IAB* estimate, **n.d** = not disclosed, **n.c** = not collected, **n.ap** = not applicable, **n.av** = not available.
(1) Increase in fee income attributed to gaining new clients. (2) Added new member firm(s). (3) Increase in fee income attributed to organic growth. (4) Restated fee income figures for last year as they were mistakenly quoted in US rather than Canadian dollars. (5) Lost member firm(s).

*__Disclaimer:__ Only data from named or exclusive member firms in a network or association is included. Data relating to correspondent and non-exclusive member firms is not included. Where data for accounting services is not disclosed, it is included in audit and assurance.

Source: *International Accounting Bulletin*

NETWORKS & ASSOCIATIONS: STAFF DATA

Rank	Name	Total staff		Growth (%)	Female		Partners		Professionals		Admin		Offices	
		2020	2019		Staff	Partners	2020	2019	2020	2019	2020	2019	2020	2019
NETWORKS														
1	Deloitte*	10,500	10,593	-1%	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d	60	n.d
2	PwC* (e)	7,097	7,169	-1%	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d
3	KPMG*	6,300	6,500	-3%	n.d	n.d	n.d	700	n.d	n.d	n.d	n.d	40	40
4	EY* (e)	5,214	5,267	-1%	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d
5	Grant Thornton*	4,851	4,977	-3%	2925	93	404	388	3503	3629	944	960	222	203
6	BDO*	4,360	4,440	-2%	n.d	n.d	n.d	n.d	n.d	n.d	n.d	n.d	116	117
7	Baker Tilly International*	1,235	1,171	5%	758	51	182	175	854	816	199	180	49	48
8	Crowe*	786	781	1%	405	28	102	104	562	576	122	101	13	13
9	Moore Global*	722	680	6%	379	17	87	99	515	473	120	108	11	10
10	RSM*	684	452	51%	n.d	n.d	78	54	479	311	127	87	4	4
11	Nexia International* (1)	366	476	-23%	123	8	52	62	253	336	61	78	10	9
12	Russell Bedford International*	322	297	8%	n.d	n.d	77	65	208	189	37	43	8	8
13	HLB*	241	234	3%	128	8	47	47	150	141	44	46	10	10
14	Mazars*	110	105	5%	n.d	n.d	9	10	89	83	12	12	3	3
15	TGS*	104	92	13%	63	1	12	14	65	51	27	27	3	3
16	ECOVIS International*	73	77	-5%	41	0	10	10	49	54	14	13	1	1
17	UHY International*	60	30	100%	33	1	9	6	45	20	6	4	3	1
18	Kreston International*	30	32	-6%	14	2	6	6	22	22	2	4	2	2
19	PKF International*	11	11	0%	n.d	n.d	4	4	6	6	1	1	3	3
Total staff/growth		**43,066**	**43,384**	**-1%**	**4,869**	**209**	**1,079**	**1,744**	**6,800**	**6,707**	**1,716**	**1,664**	**558**	**475**
ASSOCIATIONS														
1	Praxity*	5,416	5,195	4%	n.d	n.d	862	804	3,531	3,367	1,023	1,024	81	77
2	DFK International*	775	789	-2%	446	26	105	105	590	588	80	96	24	20
3	BKR International*	579	577	0%	n.d	n.d	42	42	487	485	50	50	21	21
4	RSM Canada Alliance*	473	192	146%	n.d	n.d	71	35	331	126	71	31	13	7
5	PrimeGlobal*	443	432	3%	n.d	n.d	37	38	340	329	66	65	7	7
6	IAPA*	408	420	-3%	n.d	n.d	67	72	264	272	77	76	12	13
7	Allinial Global*	398	425	-6%	n.d	n.d	58	83	317	215	23	127	13	21
8	AGN International* (e)	254	244	4%	n.d	n.d	n.d	33	n.d	177	n.d	34	n.d	14
9	Abacus Worldwide*	175	n.ap	n.ap	10	5	25	n.ap	120	n.ap	30	n.ap	3	n.ap
10	Morison KSi*	80	155	-48%	27	0	20	32	49	104	11	19	4	6
11	Inpact*	61	55	11%	33	3	11	10	39	36	11	9	2	2
12	GMN International*	57	64	-11%	24	1	10	10	38	45	9	9	3	3
13	MGI Worldwide with CPAAI*	49	54	-9%	n.d	6	18	14	31	32	n.c	8	3	3
14	BOKS International*	31	30	3%	9	1	6	7	22	20	3	3	1	1
15	Integra International*	22	28	-21%	n.d	n.d	4	6	13	14	5	8	2	3
16	INAA Group*	8	8	0%	n.d	n.d	2	2	3	3	3	3	1	1
-	Antea*	n.ap	3	n.ap	n.d	n.d	n.ap	1	n.ap	2	-	-	n.ap	1
Total staff/growth		**9,229**	**8,671**	**6%**	**549**	**42**	**1,338**	**1,294**	**6,175**	**5,815**	**1,462**	**1,562**	**190**	**200**

Notes: **(e)** = *IAB* estimate, **n.d** = not disclosed, **n.c** = not collected, **n.ap** = not applicable, **n.av** = not available.
(1) Lost member firm(s).

***Disclaimer:** Only data from named or exclusive member firms in a network or association is included. Data relating to correspondent and non-exclusive member firms is not included.

Source: *International Accounting Bulletin*