ThinkTWENTY20
The Magazine for Financial Professionals

The *ThinkTWENTY20* Report
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Empowering financial professionals for the future of work

Report on Economic Indicators

Every financial professional is concerned about the economy, particularly the prospects for recession and growth. In our monthly *ThinkTWENTY20 Report*, we offer some insight into the most important economic indicators.

Prospects for growth in Canada

The composite leading indicator, originally developed by the OECD, is a blend of leading indicators designed to point to the short-term direction of the overall economy. An index above 100 indicates a positive shift coming in the economy and under 100, a negative shift.

The most recent reading in Canada shows a level of 98.82. It's been trending upwards since early 2023, after falling below 100 in August 2022. It is slightly lower than that of the US, which was at 99.78 in March of 2024.

Gross domestic product (GDP) per capita has been used a major indicator of economic health and productivity for generations. Real GDP grew 1.1% in 2023. During that same year, Canada's population grew 3.2%, an increase of over 1,271,000 people, roughly equivalent to the size of Calgary (Statistics Canada, 2022). With population growth outpacing output growth, GDP per capita has trended lower and is now 2.5% below pre-pandemic levels.

It's clear that recent trends in GDP in Canada have been impacted by slower economic growth and significant population increases driven by immigration. Real GDP per capita has declined in five of the past six quarters. There is a historical relationship between GDP per capita and labor productivity, stressing the need for improvements in business productivity to reverse recent declines.

Labour productivity is the primary driver of GDP per capita growth, raising challenges posed by slower capital spending and declining investment per worker. Restoring a positive trend in GDP requires reducing the barriers to innovation and competition, particularly in industries such as telecommunications, which make extensive use of technology.

Moreover, there is a shifting landscape in capital investment, with a rising importance attributed to intangible assets like software and data, an area where the accounting profession has lagged for decades. Industries heavily reliant on digital technologies were more resilient during the pandemic, indicating the potential for large-scale productivity improvements through the adoption of new competitive technologies.

There are also questions about the types of business investment that will lead to sustained improvements in productivity. Attracting higher levels of capital investment and lowering market-related barriers could help bolster output growth and offset potential declines in relative living standards. The tax environment created by our governments is crucial to these efforts.

This summary leans heavily on the referenced article below which provides a comprehensive analysis of the factors influencing Canada's GDP per capita trends and offers insights into potential strategies for returning to long-term growth trends. See https://www150.statcan.gc.ca/n1/pub/36-28-0001/2024004/article/00001-eng.htm

Report on AI

In 2023, investment in generative AI skyrocketed. There is much evidence, supported by new studies, that show that AI tangibly boosts worker productivity. With all the publicity around AI last year, the public became more aware of generative AI, and studies suggest that they are responding with nervousness. Many expressed concerns about AI’s ability to generate deepfakes and impact elections.

AI, however, has surpassed human performance on several benchmarks, including image classification, visual reasoning and language understanding. Yet, it trails behind humans on more complex tasks such as competition-level mathematics, visual common-sense reasoning and planning.

Moreover, AI is getting more expensive to implement. For example, OpenAI’s GPT-4 used an estimated $78 million worth of computer time to train, while Google’s Gemini Ultra cost $191 million in computer time to do the same thing.

New research from the AI Index reveals a significant lack of standardization in responsible AI reporting. Leading developers, including OpenAI, Google and Anthropic, primarily test their models against different AI benchmarks. This practice complicates efforts to systematically compare the risks and limitations of top AI models.

In 2023, several studies assessed AI’s impact on labor, suggesting that AI enables workers to complete tasks more quickly and to improve the quality of their output. These studies also demonstrated AI’s potential to bridge the skill gap between low- and high-skilled workers. Still, other studies caution that using generative AI without proper oversight can lead to diminished performance. Human oversight is always essential in using AI, as many of the limitations, such as creating answers when it does not know the real ones, have been widely discussed.

People across the globe are more cognizant of AI’s potential impact – and more nervous. A survey from Ipsos shows that, over the last year, the proportion of those who think AI will dramatically affect their lives in the next three to five years has increased from 60% to 66%. Moreover, 52% express nervousness toward AI products and services, marking a 13-percentage point rise from 2022. In America, Pew data suggests that 52% of Americans report feeling more concerned than excited about AI, rising from 37% in 2022.

Clearly challenges remain.

Source: Nestor Maslej, Loredana Fattorini, Raymond Perrault, Vanessa Parli, Anka Reuel, Erik Brynjolfsson, John Etchemendy, Katrina Ligett, Terah Lyons, James Manyika, Juan Carlos Niebles, Yoav Shoham, Russell Wald, and Jack Clark, *The AI Index 2024 Annual Report*, AI Index Steering Committee, Institute for Human-Centered AI, Stanford University, Stanford, CA, April 2024. See https://aiindex.stanford.edu/wp-content/uploads/2024/04/HAI_2024_AI-Index-Report.pdf

Report on Major Standards Activity

Auditors' Responsibility for Fraud - AASB Exposure Draft

The IAASB has released an exposure draft on Auditor Responsibilities for Fraud in auditing financial statements, with comments due by June 5. In response, the AASB has released a similar exposure draft proposing the adoption of the IAASB proposals. Comments are due on the AASB ED by May 6.

The issue of auditor responsibility for fraud has been an issue in the profession for a hundred years or more. Several legal cases took place in the early 20th century searching for an answer and, like the Kingston Cotton Mill case, offering one. Now, however, there is no easy yes/no answer to the question. Business systems and business itself have grown immensely more complex and still, of course, are changing quickly.

It's clear that there is a responsibility under existing standards, in particular, to follow the standards that pertain to fraud, such as responsibility to discuss the possibility of fraud with the audit team and the client, to evaluate the control systems the client has in place to mitigate fraud, and to ask the necessary questions and carefully evaluate the responses with professional scepticism. It's this risk assessment that is often the sticking point. It's difficult and rendered even more difficult when management lies or misleads.

AI will be helpful when the tools mature. Already there are GenAI tools available to help with Risk Management. But change is going to move on unabated and new challenges will arise with the change. So, there's a pretty good chance we (or our successors) will be discussing the auditor responsibility question in another hundred years. In the meantime, it is good to respond to the ED and provide your input. Relevant links can be found in the latest FRAS Update, which is available here.