

Effective Regulation

Proactive Engagement

Sustainable Solutions



CANADIAN PUBLIC
ACCOUNTABILITY BOARD
2012 ANNUAL REPORT

WORLD-CLASS AUDIT REGULATION

CPAB'S MISSION:

To contribute to public confidence in the integrity of financial reporting of reporting issuers in Canada by effective regulation and promoting quality, independent auditing.

Effective Regulation, Proactive Engagement, Sustainable Solutions

The Canadian Public Accountability Board (CPAB) is Canada's audit regulator, protecting the investing public's interests. As a world-class audit regulator, focused on excellence, CPAB delivers value to its various stakeholders through **effective regulation** and by promoting quality, independent auditing. As a champion of audit quality, CPAB contributes to public confidence in the integrity of financial reporting, which supports our capital markets.

CPAB can best fulfill its mandate in two ways: through inspections and through **proactive engagement** that involves a broader range of stakeholders in a discussion about and better understanding of the audit process. This requires a multi-faceted approach to stakeholder engagement and inspection methodology, including root-cause analysis, risk assessment and value-added recommendations that contribute to **sustainable solutions** designed to enhance audit quality.

CPAB is focused on four priorities:

Thought Leadership

CPAB can help enhance audit quality and investor protection by raising key stakeholders' awareness of all aspects of audit quality and by engaging them in a dialogue on related issues.

Enhanced Stakeholder Engagement

CPAB will communicate more strategically with key stakeholders to better influence change, cause sustainable improvement in audit quality and help all stakeholders, including CPAB, perform their roles more effectively.

Risk Management

Enhanced integration between risk management and inspections will help CPAB better focus its resources on the reporting issuers and firms that pose the greatest risk to the investing public.

Focused, Effective Inspections

CPAB will further enhance its inspection methodology to better identify the root causes of quality shortfalls, include broader risk assessment, and develop effective recommendations/requirements.

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Report of the Chair

In 2012, the Canadian Public Accountability Board (CPAB) continued to fulfill its regulatory mandate and mission: *Contributing to public confidence in the integrity of financial reporting by public companies in Canada through effective regulation and the promotion of quality, independent auditing.*

Investors should continue to have confidence in the integrity of public company financial statements audited in Canada. While CPAB's 2012 inspections did identify some Generally Accepted Auditing Standards (GAAS) deficiencies in firms of all sizes, we are pleased to report that audit quality has improved overall from our 2011 report. We believe this improvement is due to the action plans CPAB required major firms to implement after the disappointing results of our 2011 inspections. CPAB appreciates the effort and focus firms placed on this initiative.

While overall audit quality has improved, the improvement was greater at some firms than at others. As in past years, audit methodologies are generally sound, and the vast majority of audits are well done. We believe the most important success factor in enhancing audit quality is audit firms ensuring they have effective, sustainable processes that produce a consistent execution of the audit.

CPAB expects audit quality will continue to improve in 2013, due to the further impact of the firms' action plans. Our most recent inspection findings and recommendations to improve audit quality are

contained elsewhere in this report and in more detail in our 2012 Public Report.

New 2013-15 Strategic Plan

In 2012 the Board of Directors approved a new strategic plan. It recognizes that, in addition to audit firms and CPAB, many stakeholders affect audit quality and the quality of financial reporting. In particular, audit committees and reporting issuers' management play key roles. As CPAB enhances its engagement with these stakeholders, and provides them with more timely information on our findings, they will be better able to perform their roles. This, in turn, will help CPAB fulfill its mandate. CPAB's priorities, as set out in the new strategic plan, are discussed in detail in the Report of the CEO.

Enhancing Audit Quality Initiative

In December 2011, CPAB hosted an Audit Quality Symposium that brought together thought leaders and policy makers from Canada and around the world to discuss issues related to audit quality, including a number of audit policy proposals that had been issued by the European Commission and the US Public Company Accounting Oversight Board (PCAOB). At the end of the symposium, CPAB committed to move forward by facilitating the audit profession and other stakeholders in developing Canadian positions on various audit quality proposals.

This led to the launch in 2012 of the Enhancing Audit Quality (EAQ) initiative, a collaborative effort of CPAB and the Canadian Institute of Chartered Accountants (CICA), with significant volunteer effort from a wide

We are pleased to report that audit quality has improved overall from our 2011 report.

range of eminent persons. On behalf of CPAB, I extend my thanks to them.

The EAQ initiative has provided an opportunity for robust discussion on various audit reform proposals being discussed internationally. The EAQ working groups have considered the auditor reporting model, auditor independence, and the role of the audit committee. The deliberations of the EAQ working groups, as well as updates on various international initiatives, were the focus of CPAB's second Audit Quality Symposium in November 2012. Details are available at www.cpab-ccrc.ca.

The Audit Quality Symposium and EAQ initiative—along with ongoing participation in domestic and international discussions on audit regulation and standards—are key parts of CPAB's increased focus on thought leadership.

Increased Transparency

One issue raised by various stakeholders and by the EAQ initiative is the need to increase the transparency of CPAB's inspection results.

CPAB understands and supports the desire for greater transparency. Enhanced transparency in the communication of our inspection results, and about the key drivers of audit quality, would help key stakeholders in the audit process perform their roles more effectively. That being said, it is essential that transparency be enhanced in a way that preserves the effectiveness of CPAB's regulatory approach and does not create unintended consequences for audit quality or for reporting issuers. This issue will be a high priority for us in 2013.

Our People

CPAB's success is the result of the hard work, expertise and sound judgment of our staff. At the Board level, we welcomed Bruce Jenkins, FCPA, FCA, as a new director in 2012. Mr. Jenkins retired as Deputy Chief Executive of Deloitte & Touche LLP (Canada) in



CPAB understands and supports the desire for greater transparency.

Nick Le Pan
BOARD CHAIR



2009. He is also a former member of the CICA Board of Directors and a former Chair of the Institute of Chartered Accountants of Ontario (ICAO).

In closing, I would like to thank my colleagues on the Board of Directors for their support and efforts in 2012, especially their work on our new strategic plan. I also very much appreciate the commitment, effort and results achieved over the past year by CEO Brian Hunt, the management team and all CPAB staff.

Nick Le Pan
BOARD CHAIR

CPAB Board Members



Nick Le Pan

BOARD CHAIR

FORMER SUPERINTENDENT OF FINANCIAL INSTITUTIONS, OFFICE OF THE SUPERINTENDENT OF FINANCIAL INSTITUTIONS, OTTAWA, ONTARIO



Ian Bourne

CHAIR, BALLARD POWER INC.; VICE CHAIR, SNC-LAVALIN GROUP; DIRECTOR, CANADA PENSION PLAN INVESTMENT BOARD, WAJAX CORPORATION AND CANADIAN OIL SANDS LIMITED; RETIRED CFO, TRANSALTA CORPORATION, CALGARY, ALBERTA



Ken Crump

FORMER CHAIR, BOARD OF TRUSTEES, COAST WHOLESALE APPLIANCES INCOME FUND; FORMER VICE CHAIR, BOARD AND CHAIR, FINANCE AND AUDIT COMMITTEE, BOARD OF COMMUNITY LIVING BRITISH COLUMBIA, VANCOUVER, BRITISH COLUMBIA



Gary Porter

FORMER DIRECTOR AND CHAIR, INVESTMENT COMMITTEE OF THE ONTARIO TEACHERS' PENSION PLAN; RETIRED CO-FOUNDER OF PORTER HÉTU INTERNATIONAL, SIDNEY, BRITISH COLUMBIA



Jocelyn Proteau

CHAIR, BOARD OF BTB REAL ESTATE INVESTMENT TRUST; DIRECTOR, RICHELIEU HARDWARE INC., CO2 SOLUTIONS INC., FAMILIPRIX INC.; FORMER VICE CHAIR AND LEAD DIRECTOR, 20/20 TECHNOLOGIES INC.; FORMER CHAIR, STANDARD LIFE OF CANADA, MONTRÉAL, QUÉBEC



Alain Rhéaume

A FOUNDER AND MANAGING PARTNER, TRIO CAPITAL INC.; FORMER DEPUTY MINISTER OF FINANCE, QUÉBEC; FORMER PRESIDENT AND COO, MICROCELL TELECOMMUNICATIONS, MONTRÉAL, QUÉBEC



Guy Fréchette

CORPORATE DIRECTOR; FORMER VICE CHAIR AND MEMBER OF THE EXECUTIVE COMMITTEE AT ERNST & YOUNG LLP AND FORMER MANAGING PARTNER FOR THE PROVINCE OF QUÉBEC; MONTRÉAL, QUÉBEC



Bruce C. Jenkins

FORMER DEPUTY CHIEF EXECUTIVE, DELOITTE & TOUCHE (CANADA); FORMER DIRECTOR, CICA; FORMER CHAIR, ICAO, TORONTO, ONTARIO



Sheryl Kennedy

CEO, PROMONTORY FINANCIAL GROUP CANADA; FORMER DEPUTY GOVERNOR OF THE BANK OF CANADA, TORONTO, ONTARIO



Peter W. Roberts

FORMER CHAIR, RISK OVERSIGHT AND GOVERNANCE BOARD, CICA; FORMER CFO, SIERRA WIRELESS INC.; PAST PRESIDENT OF ICABC, WEST VANCOUVER, BRITISH COLUMBIA



Benita M. Warmbold

SENIOR VP AND COO, CANADA PENSION PLAN INVESTMENT BOARD; DIRECTOR, CANADA DEVELOPMENT INVESTMENT CORPORATION, QUEEN'S SCHOOL OF BUSINESS ADVISORY BOARD, TORONTO FINANCIAL SERVICES ALLIANCE AND ALZHEIMER SOCIETY, TORONTO, ONTARIO

Report of the Chief Executive Officer

In 2012, CPAB completed the implementation of its 2010-12 strategic plan, and developed a new plan and vision for the next three years.

During its first six years of operation, CPAB focused primarily on developing and implementing an inspection methodology and regime. When its last three-year strategic plan was struck in 2009, CPAB was at a key juncture in its evolution, and moved to the next stage of its development. The organization's 2009 strategic plan identified a new vision: To be viewed domestically and internationally as a world-class audit regulator. To attain this vision, CPAB defined and began to deliver on a new value proposition for its key stakeholders.

Between 2010 and 2012, CPAB made significant investments in human resource management, inspection methodology, risk management, technology and systems, stakeholder relations and regulatory affairs. It enhanced its organizational capability and achieved key legislative changes that enabled the organization to move from a granular focus on inspections to enhanced root-cause analysis and value-added recommendations to audit firms. CPAB also undertook thought leadership activities relating to audit quality and actively participated in domestic and international activities relating to audit regulation.

CPAB's 2013-2015 strategic plan builds on these accomplishments and further enhances the organization's

effectiveness in the face of heightened challenges to audit quality. Our vision now encompasses a broad-based objective, which management believes is necessary to appropriately address a number of factors in our operating environment. Our vision is:

Effective regulation: Proactively identifying current and emerging risks to the integrity of financial reporting in Canada, assessing how auditors effectively respond to those risks, identifying root causes and requiring remediation of any audit firm quality issues, and engaging those charged with governance, regulators and standard setters to develop sustainable solutions that enhance audit quality.

Our new three-year plan is designed to strengthen our organizational capability and enhance our activities in four priority areas: thought leadership, stakeholder engagement, risk management and focused, effective inspections.

We will operationalize these four priorities by:

- Embedding risk analysis and assessment more deeply into the fabric of the entire organization; this means thinking about risk and the implications of risk in all aspects of CPAB's operations
- Analyzing the root causes of audit deficiencies more effectively and making more targeted interventions, with measures that should result in sustainable improvements
- Making/placing more comprehensive value-added mandatory recommendations/requirements to/on audit firms

Our new three-year plan further enhances the organization's effectiveness in the face of heightened challenges to audit quality.

- Providing greater transparency in CPAB's communication of inspection results and the key drivers of audit quality and audit risks, to help key stakeholders in the audit process perform their roles more effectively
- Proactively engaging key stakeholders, such as audit committees, in a dialogue on a range of issues designed to enhance audit quality

CPAB will also participate in the domestic regulatory agenda and will influence the development of the international audit regulatory framework through our leadership position in the International Forum for Independent Audit Regulators (IFIAR).

A copy of the 2013-2015 strategic plan is available at www.cpab-ccrc.ca.

2012 Inspection Results

CPAB believes investors can continue to have confidence in the integrity of public company financial statements audited in Canada. CPAB's 2012 inspections show an overall improvement in audit quality, with 30 per cent fewer audit deficiencies than in the previous year. There was considerable difference among firms in the degree of improvement. A number of firms still need to make significant improvement. Firms that placed a greater focus on consistent audit execution showed the most improvement in audit quality.

Audit methodologies are generally sound, and the majority of audits are well done. However, while all firms are capable of executing quality audits, consistent audit execution is a challenge for firms, to varying degrees. CPAB believes this is the root cause of the majority of audit deficiencies identified. CPAB's 2012 inspection results are summarized in Appendix A.

CPAB will continue to expand and focus its inspection activity, and encourages everyone responsible for financial statements—preparers, audit committees and auditors—as well as the investing public, to enhance their focus on audit quality.



Firms that placed a greater focus on consistent audit execution showed the most improvement in audit quality.

Brian A. Hunt, *FCPA, FCA*
CHIEF EXECUTIVE OFFICER



Effective Regulation, Proactive Engagement, Sustainable Solutions

CPAB believes it can best fulfill its mandate to be an effective regulator in two ways: through inspections and through proactive engagement that involves a broader range of stakeholders in a discussion about and better understanding of the drivers of audit quality. This requires a multi-faceted approach to stakeholder engagement and inspection methodology, including root-cause analysis, risk assessment and value-added recommendations that contribute to sustainable solutions designed to enhance audit quality. In addition, a more robust risk management mindset and skill set must be embedded within CPAB. This includes developing position papers to heighten stakeholder

Investors can continue to have confidence in the integrity of public company financial statements audited in Canada.

awareness and knowledge of emerging risks and matters related to audit quality.

Taken together, these initiatives will advance CPAB's audit quality agenda over the next three years, as illustrated below:

2013-2015	
FROM	TO
Compliance mindset	▶ Regulator mindset
Rigorous tactical risk assessment	▶ Comprehensive risk assessment and mitigation
Granular inspection focus	▶ Enhanced root-cause analysis/ value-added recommendations/ requirements
Periodic stakeholder communication	▶ Disciplined, proactive stakeholder engagement
Responding to international regulatory developments	▶ Proactively participating in shaping the global regulatory framework
Standard inspection reporting	▶ Timely, targeted stakeholder reporting communication
Confidential disclosure	▶ Judicious transparency

This transition is examined in more detail below.

Four Strategic Priorities

CPAB's new strategic plan focuses on four priorities, which reinforce each other to further enhance audit quality.

Thought leadership

CPAB believes it can help enhance audit quality and investor protection by raising key stakeholders' awareness of all aspects of audit quality and by engaging them in a dialogue on related issues, which will also promote continuous audit quality improvements.

The 2012 Audit Quality Symposium and the Enhancing Audit Quality (EAQ) initiative referred to in the Report of the Chair added to CPAB's credibility as a thought leader over the past year. Both attracted top-level participants from a broad range of groups and geographies, and made a significant contribution to the

development of a Canadian consensus on audit quality issues and international proposals. Our goal now is to ensure the Canadian viewpoint is expressed to and understood by stakeholders involved in these international discussions. To this end, all IFIAR members and the European Commission have received the discussion papers developed by the EAQ working groups.

Increasing discussion, awareness of and insight into issues of audit quality with major stakeholders is fundamental to building a robust audit quality environment while maintaining/enhancing CPAB's effectiveness. CPAB will therefore continue to seek opportunities to convene roundtables and conferences and to collaborate with other stakeholders on initiatives to advance audit quality knowledge and practice. CPAB will also research, publish and promote discussion on emerging issues affecting audit quality, such as the:

- Changing global audit regulatory framework
- Rapid evolution of business models and financial products, and the related audit risks
- Impact of the structure and culture of audit firms on audit quality

CPAB can fulfill its mandate by leveraging the information it acquires from its core inspection activities. This can be supplemented by research, interaction and dialogue with audit committees, institutional investors and other key stakeholders. Combined with similar data from international regulators and standard setters, CPAB's findings will yield significant information the organization can use to better advise and influence standards formulation, risk identification, and business practices, and to assist other participants in the audit process.

The evolution of standards means CPAB must continually modify its policies, practices and technical training to remain current. CPAB also has a unique opportunity to influence the evolution of auditing standards at the international level and to ensure that any Canadian views are appropriately considered.

CPAB will therefore continue to comment on areas where auditing standards need to improve. In addition, CPAB is considering providing implementation guidance and CPAB expectations in Canada, in select areas where it believes the implementation of auditing standards needs to be improved.

Through its thought leadership, CPAB is in a unique position to contribute to the state of audit quality, audit committee effectiveness and international audit regulatory development.

Enhanced stakeholder engagement

Audit firms and financial statement preparers are not the only participants in the audit process. Audit committees, institutional investors and analysts also play important roles. By providing all stakeholders with better information on audit quality issues, and by engaging them in a dialogue about CPAB's findings, all stakeholders, including CPAB, can perform their roles more effectively.

To address the core issue of enhanced audit quality, CPAB must communicate more strategically with key stakeholders to better influence the changes required to drive sustainable improvement in audit quality. Specifically, we must engage with key stakeholders on the implications of challenges to audit quality and the range of appropriate responses.

Feedback from CPAB roundtables with audit committees in 2012 indicated that more transparent reporting of inspection results could help audit committee members exercise their audit oversight responsibilities more effectively, improving audit quality.

We must engage with key stakeholders on the implications of challenges to audit quality.

Audit committees want to know if there are any audit quality issues with the audits of their reporting issuers.

CPAB will therefore continue to proactively engage other regulators, and will continue to clearly articulate its concerns to audit firms and audit committees. Important elements of this engagement strategy include:

- Proactively sharing and discussing emerging risks with audit committees
- Engaging in a dialogue with audit committees about the importance of audit quality and their role and responsibilities in this regard
- Increasing the transparency of CPAB's findings, while not undermining CPAB's inspection approach or causing unintended consequences for reporting issuers

Enhanced stakeholder engagement also encompasses targeted outreach to and dialogue with institutional investors, other regulators and standard setters, domestically and internationally, to ensure Canadian audit quality considerations remain top of mind.

Risk management

An assessment of CPAB's internal universe identifies six principal categories of risk:

- Reputation (CPAB effectiveness)
- Quality/operations
- Human resources
- Technology
- Legal and regulatory, and
- Financial and other

CPAB effectiveness is an important contributor to audit quality. We support our effectiveness with a sound audit risk analysis, an effective inspection methodology, and targeted regulatory interventions to promote audit improvements where necessary. This is supported by internal CPAB quality monitoring and performance assessment framework, and a continuous improvement mindset.

Strategically, it will be important for CPAB to implement processes to keep abreast of the many risk factors affecting the organization and the quality of audits performed by the firms. These include: research and analysis of the reporting issuer population (specifically identifying outliers); ongoing environmental scanning (including media); root-cause-focused inspections; and key stakeholder engagement. These measures will help embed risk discipline in the fabric of the organization.

More specifically, gathering the right data (on the economy, changes in the profession, activities of reporting issuers, analyses in the media, and global influences), data analysis, and modelling risk scenarios will enhance CPAB's risk capability. In addition, enhanced integration between risk management and inspections will enable CPAB to better focus its resources on the reporting issuers and firms that pose the greatest risk to the investing public.

Beyond those measures, CPAB will enhance its organizational capability by further evolving a culture of professional skepticism and intellectual rigour. This will be done by investing in professional development relative to risk assessment/management and by

leveraging CPAB's management team for ongoing discussions and updates on risk findings and trends. This will help elevate our focus, presence and impact as a regulator.

Focused, effective inspections

CPAB's current inspection methodology provides a sound basis for evaluating audit quality. This has been achieved in an environment of increasing complexity and risk. At the same time, CPAB is concerned that the business/profitability interests in the audit firms have the potential to, and may well, conflict with both audit quality and professional skepticism considerations.

These changes in the operating environment require our inspection methodology to better evaluate underlying factors that are affecting audit quality, to ensure that regulatory requirements are targeted and effective.

CPAB will therefore enhance its inspection methodology to better identify the root cause of quality shortfalls, including such factors as competence, accountability and audit firms' organizational structure. Our inspection methodology will also include broader risk assessment and effective recommendations/requirements.

CPAB Management Committee



Brian A. Hunt, FCPA, FCA
CHIEF EXECUTIVE OFFICER



Kenneth J.A. Vallilillee,
FCPA, FCA
SENIOR VICE PRESIDENT



Glenn Fagan, CPA, CA
VICE PRESIDENT



Kam Grewal, CPA, CA,
CPA (COLORADO)
VICE PRESIDENT OF STANDARDS

This approach requires continued professional development within CPAB, as it transitions strategically from being a rigorous, traditional inspector to a discriminating, effective regulator.

Organizational Capability

To support the four strategic priorities, modifications must be made to CPAB's organizational capability and design to implement an effective regulator mindset and culture, align resources and accountabilities and invest in professional development and leadership succession.

Fostering an effective regulator mindset and culture

This is a broad-based and pervasive objective that starts with changes in the inspection methodology and better risk assessment, and extends through thought leadership, resulting in better stakeholder engagement and improved audit quality. It enhances how CPAB exercises its mandate. We will foster with all staff, through our core values of *Excellence*, *Trust* and *Respect*, a set of beliefs and practices focused on identifying audit deficiencies and mitigating financial reporting risks to the investing public. Our core values will be complemented by a philosophy of *Proactivity*. From identifying emerging trends and risks, to engaging key stakeholders, to upgrading internal capabilities, proactivity will be a defining attribute of our organization.

Redesigning for optimum impact

To achieve our strategic priorities and initiatives, we have modified our organizational design to align resources and accountabilities for maximum impact and to embed a more strategic, value-added, communicative and engaged culture.

Proactivity will be a defining attribute of our organization.

Organizationally, CPAB now has four lines of business: Thought Leadership; Enhanced Stakeholder Engagement; Inspections; and Infrastructure Support. Each will receive the enhanced focus required for an effective regulator to address the complexities of a rapidly changing and challenging operating environment.

Investing in professional development and leadership succession

To transition from inspector to effective regulator, CPAB staff must further understand and embrace the rationale behind it. We must also align our policies, processes and practices with this objective. Professional development will enable this through a variety of approaches, including discussion series, simulations, special projects, and secondments.

We will continue to invest in succession planning to ensure future leadership is identified and developed. Performance appraisal, coaching and mentoring, assessment of potential, individual career development plans, and comprehensive leadership reviews will provide a best-practice approach to attracting and developing promising individuals and will serve to enhance our leadership capacity. CPAB will also need to hire in some areas to effectively execute its strategic plan.

International Partnerships

As Canadian reporting issuers expand around the world their audits become global in scope. As well, foreign owners of Canadian companies may want to bring their audit firms with them into their Canadian operations. Therefore, to promote quality auditing and protect the investing public, CPAB engages with its counterparts around the world.

We continue to enjoy an excellent working relationship with the US PCAOB.

CPAB also plans to begin discussions with the China Securities Regulatory Commission on establishing a mutually beneficial relationship, focused on information-sharing, to allow us to meet our mandate.

We will continue to invest in succession planning to ensure future leadership is identified and developed.

CPAB has provided the auditor oversight bodies in France and Germany with a draft agreement with respect to co-operation and information sharing. This agreement is based on the agreement CPAB entered into with the Netherlands Authority for the Financial Markets.

CPAB continues to be an active participant in the International Forum of Independent Audit Regulators (IFIAR). As the need for global audit oversight grows, the role of IFIAR continues to evolve. CPAB works in close collaboration with its colleagues in IFIAR to advance developments in global audit regulation. Members of IFIAR share knowledge of the audit market environment and practical experience with independent audit regulatory activity. IFIAR promotes collaboration in regulatory activity and provides a focus for contacts with other international organizations that have an interest in audit quality.

In addition to being a member of the IFIAR Advisory Council, CPAB chairs the IFIAR Global Public Policy Committee Working Group. The Working Group, which includes IFIAR members and representatives from the international networks of the largest auditing firms, discusses topics relating to audit quality.

Regulatory Issues

We continue to seek auditor oversight legislation that formally recognizes CPAB in all provinces. In 2012, the New Brunswick Securities Commission recognized us as an auditor oversight body on the same terms as British Columbia and Manitoba. We have also applied for recognition in Saskatchewan, and are

awaiting a response from the Saskatchewan Securities Commission. CPAB is now recognized as an auditor oversight body under legislation in New Brunswick, Québec, Ontario, Manitoba and British Columbia.

A Canadian Securities Administrators (CSA) working group has been formed to consider the provisions of National Instrument 52-108 Auditor Oversight. CPAB is not a member of the group, but is providing input.

Financial Results

CPAB achieved its financial objectives in 2012, earning a surplus of \$987,707 on revenues of approximately \$16 million. No fee increase was required in 2012 and none is planned for 2013. For additional information, please see the Management's Discussion and Analysis section of this report and the Audited Financial Statements.

Conclusion

CPAB's new strategic plan is designed to move the organization to a new level of effectiveness, engagement, credibility and proactivity. In 2013 we will focus on operationalizing our four strategic priorities and ensuring the organization's people, culture and organizational design support them.

Fulfilling our mission and attaining our vision will ensure CPAB's continued effectiveness in contributing to improved audit quality and investor protection, helping to maintain the integrity of Canadian capital markets.

In closing, I would like to thank Board Chair Nick Le Pan, the Board of Directors, management and staff for their support and contributions in 2012.



Brian A. Hunt, FCPA, FCA

CHIEF EXECUTIVE OFFICER

Effective Regulation – Sustainable Solutions

As at December 31, 2012, there were 296 participating audit firms registered with CPAB. During 2012, 18 new firms registered with CPAB (mostly foreign firms) and 23 terminated their registration of their own accord (usually as a result of a merger with another firm or a decision to no longer audit reporting issuers). CPAB terminated the registration of two firms for non-payment of fees.

Overview and scope

Each year, CPAB inspects all firms that audit 100 or more reporting issuers. There are now 14 firms in this category. CPAB also inspects, at least every two years, firms with between 50 and 99 reporting issuer audits. Over three years, the majority of firms registered with CPAB that are also registered with PCAOB are inspected (Securities and Exchange Commission dual registration). In 2012 CPAB also inspected three foreign participating firms located in Australia. In addition, CPAB relies to some extent on reviews of inspections performed by the relevant provincial accounting bodies (i.e., Institutes of Chartered Accountants or Associations of Certified General Accountants). These reviews are supplemented by CPAB inspections, based on a robust risk analysis described below in more detail.

During 2012, CPAB inspected 61 firms (2011 – 88) and reviewed 236 audit files (2011 – 263) to assess the effectiveness and implementation of the audit firms' policies and procedures, relative to accounting and auditing standards. The reduction in the number of firms and files inspected as compared to 2011 is

due to the special targeted review in 2011 of 14 firms with operations in foreign jurisdictions and the large number of small firm (10 or fewer reporting issuers) inspections that occurred in 2011, the first year of those types of inspections.

In 2012 CPAB conducted:

- Inspections of Canada's Big Four firms, including 128 audits performed by those firms
- Inspections of 10 firms (44 audits) that are subject to annual inspection because they audit more than 100 reporting issuers
- Inspections of 21 Regional and Local firms (36 audits)
- Inspections of three Foreign firms, including three audits
- Twenty-three follow-up inspections to ensure that CPAB's recommendations have been implemented, including 25 audit files

In addition to the inspections CPAB conducted, provincial accounting bodies inspected 51 smaller firms that audit reporting issuers. CPAB reviews their inspection reports and findings and, if deemed necessary, carries out its own inspection of a firm.

When a participating firm is domiciled in another country, CPAB will, depending on the robustness of the audit regulatory oversight in that country, endeavour to rely on that audit regulator. However, at a minimum, CPAB carries out a certain number of inspections (in coordination with the home audit regulator) of the audit files relating to Canadian reporting issuers. In 2012, based on its risk analysis, CPAB carried out inspections of three foreign firms.

Risk-based Approach

CPAB has developed a composite risk model to identify and assess reporting issuers and audit firms that may represent the most significant risks to the investing public. This model is used to mitigate risk

throughout the inspection process. CPAB develops risk profiles for reporting issuers based on a number of quantitative and qualitative factors (reporting issuer composite risk). Reporting issuers are then matched with their audit firms, which results in an audit firm reporting issuer composite risk. This risk is further refined, based on individual audit firm risk factors (e.g., prior inspection results, concentration of partners, degree of technical support) to derive the firm-level reporting issuer inspection risk assessment. This risk assessment is used to select the audit firms to be inspected in the non-annually inspected firm category. It also drives the resource allocation for all inspections. The identification of specific files to be inspected is based primarily on the composite risk of the reporting issuer. The risk assessment process is managed by CPAB's risk management team, with input from the inspection team assigned to the inspection and from CPAB management. The risk management team also conducts environmental scans throughout the year and reporting issuers of interest (due to such factors as negative media coverage, questionable accounting, high profile) may be selected for inspection.

During 2012, CPAB's 31-member inspection staff was supported by seven contract consultants who primarily specialize in the areas of taxation, International Financial Reporting Standards (IFRS), valuations, and information technology.

Results of Inspections

CPAB's 2012 inspection results indicate an overall 30 per cent decline in audit deficiencies in the audit files inspected, indicating a reduced risk of restatements.

There has been an overall improvement in audit quality in the Big Four firms.

Inspection results indicate an overall 30 per cent decline in audit deficiencies in the audit files inspected.

An audit deficiency is defined as the failure to obtain sufficient appropriate audit evidence for a material account balance or transaction stream.

Big Four firms

Based on its 2012 inspection results, CPAB is pleased to report that there has been an overall improvement in audit quality in the Big Four firms. These results are encouraging.

Since most of the action plans CPAB recommended following its 2011 inspections were only implemented late in 2011, not all the audit files CPAB inspected in 2012 benefited from the changes the plans brought about. CPAB therefore expects audit quality will continue to improve in 2013, as firms will have been able to fully implement their actions plans in advance of the December 31, 2012 audits. Looking ahead, the key to further improving and sustaining audit quality lies in the effectiveness of the firms' actions under the plans, which cover such areas as reviewing organizational structure to enhance accountability for quality, and sustainable process changes that incorporate additional quality monitoring throughout the entire audit process.

CPAB is monitoring the implementation and effectiveness of these action plans as part of its 2013 inspections, and will require further actions if necessary.

Other Four National Network Firms/Regional/Local Firms

The inspection results at the Other Four National Network firms were mixed. While some firms demonstrated solid improvement in audit quality, others did not.

CPAB was pleased to note improvement in the quality of audits in certain of the Regional firms. These improvements resulted from the firms focusing on audits of reporting issuers that were within their comfort zone (i.e., within their area of expertise relating to the industry/sector of the reporting issuer and/or the nature of the transactions). This approach is very helpful in enabling firms to better execute their audits because they are familiar with the industries. Firms that focus on building or enhancing their competencies prior to undertaking audits outside of their traditional comfort zone are more successful in achieving consistent quality audits than firms that do not.

CPAB is pleased to report that, for those firms that had implemented action plans in 2011, the 2012 inspection results for these firms has improved. The National Network firms that had substandard inspection results in 2012 have been required to develop action plans to improve their audit quality.

Nature of inspection findings

Certain firms have characterized CPAB's findings as "a lack of documentation" or a "difference in professional judgment." This is not the case. More than 80 per cent of CPAB's 2012 inspection findings required the audit firm to carry out additional audit procedures to verify there was no need to restate the financial statements due to a material error. The remaining findings required the audit firms to add considerable evidence to the audit file to show they had obtained sufficient and appropriate audit evidence with respect to a major balance sheet item or transaction stream. This is the requirement of professional standards. The results

Firms that implemented action plans in 2011 had improved 2012 inspection results.

CPAB was pleased to note improvement in the quality of audits in certain of the Regional firms.

of carrying out additional audit procedures required by CPAB gave rise to five restatements, of which two were in files inspected at Big Four firms. A few of these restatements will be made when the company's next public filing takes place. This low level of restatement resulting from CPAB inspections should give comfort to the investing public regarding the integrity of public company financial statements audited in Canada.

Disciplinary Actions

Following the 2012 inspections, CPAB has placed Requirements on five firms (2011–six) and Restrictions on two firms. No review proceedings or any other proceedings were conducted relating to CPAB's disciplinary decisions in 2012 or 2011.

Management's Discussion and Analysis

Operating Results, Outlook, Principal Risks and Uncertainties

The following is a review of CPAB's operating results for the year ended December 31, 2012. This section also includes the outlook for 2013 and principal risks and uncertainties that could affect the organization.

Overview

CPAB is an independent, federally incorporated, not-for-profit corporation without share capital. Established in 2003, CPAB's mission is to contribute to public confidence in the integrity of financial reporting of public companies in Canada through effective regulation and by promoting quality, independent auditing. National Instrument 52-108 of the Canadian Securities Administrators requires that auditors of Canadian reporting issuers' financial statements be registered with and in good standing with CPAB.

CPAB carries out its mandate by conducting inspections of the firms subject to its oversight, either directly or in co-operation with other regulatory bodies in Canada and abroad. It also undertakes other activities to support its mandate, including: commenting on accounting and auditing standards most important to audit quality; participating in international activities related to enhancing audit quality and dealing with international audit firm networks; engaging with

various stakeholders; and conducting outreach to other Canadian participants in the audit process, such as audit committees. The 2012 CPAB Audit Quality Symposium was one of the ways CPAB carries out its mandate to enhance audit quality. The symposium brought together thought leaders, policy makers, corporate directors and investors to discuss issues arising from various international proposals to improve audit quality, including the auditor reporting model, auditor independence and the role of audit committees.

As at December 31, 2012, 296 (2011 – 303) public accounting firms were registered with CPAB as participants in good standing. The small decrease in the number of firms registered was due primarily to the withdrawal of participating audit firms that merged with other firms, had no Canadian reporting issuer clients, or did not expect to have any in the future.

In 2012 CPAB inspected 61 firms, compared to 88 in 2011 (including follow-up inspections). CPAB redeployed its inspection resources in 2012, inspecting more files and increasing the depth of inspections at the 14 firms CPAB inspects annually. In particular, CPAB inspected 25 files that included group audits in foreign jurisdictions, which were considered to be higher risk. A significant amount of work in 2011 on the 24 files from 14 firms that CPAB inspected for its Special Report on Auditing in Foreign Jurisdictions carried over into January/February 2012. In its overall inspection report to each firm, depending upon the deficiencies noted, CPAB may provide three to five major recommendations focused on improving the quality of the firm's audit work. If there are serious deficiencies, individually or in aggregate, CPAB would provide a series of additional, mandatory recommendations that the firm is required to implement to retain its registration status.

When CPAB finds that the number and nature of audit deficiencies is unsatisfactory and that the investing public could be at risk, it implements disciplinary action. Such action can escalate from a Requirement to a Restriction to a Sanction. Requirements, Restrictions and Sanc-

tions take effect immediately, unless the firm requests a review proceeding. In all cases, before disciplinary actions are removed, CPAB follows up to ensure that the corrective actions have been satisfactorily implemented. This includes inspecting additional audit files.

Following the 2012 Inspections, CPAB has Requirements on five firms (2011 – six) and has Restrictions on two firms (2011 – one). CPAB removed Requirements on one firm in 2012. During 2012, CPAB did not place a Sanction on a participating firm (2011 – nil). There were no review proceedings or any other proceedings conducted in respect of CPAB's disciplinary decisions in 2012 or 2011. No investigations were carried out during the year and there were no appeals, applications for judicial review or arbitrations in respect of decisions made by a review panel.

Additional information about CPAB's disciplinary powers is available in CPAB's Public Report on its 2012 inspections at www.cpac-ccrc.ca.

Operating Results

Revenues

CPAB derives its revenue from Canadian reporting issuers. Each year, CPAB invoices the registered audit firms which, in turn, bill their reporting issuer clients. The fee is designed to cover CPAB's annual operating costs and to provide a reasonable reserve for contingencies. In 2012, CPAB's base fee rate was 2.0 per cent of the audit fees both Canadian and foreign participating firms charged their reporting issuer clients, with a minimum fee of \$1,000. In 2012, 180 firms (2011 - 158) paid the minimum fee. The only exception to this fee requirement is for firms in certain foreign jurisdictions that have audit regulatory oversight bodies that are engaged in an information-sharing agreement with CPAB. These reporting issuers are charged 0.2 per cent of the firm's audit fees. The rates did not change from 2011.

CPAB had revenues of \$16.0 million in 2012, compared to revenues of \$15.9 million in 2011. The one per cent

increase was due to an increase in the audit fees firms charged to Canadian reporting issuers.

Operating expenses

Salaries and benefits for inspection and administrative staff continue to be CPAB's largest expense, totalling \$10.6 million or 70.5 per cent of 2012 total expenses of \$15.0 million (2011 – \$11.0 million or 71.1 per cent).

Excluding salaries and benefits, operating expenses in 2012 decreased approximately 0.8 per cent, to \$4.43 million, compared to \$4.47 million in 2011.

This decrease can be principally attributed to greater cost control during the year. These decreased costs were related to lower insurance and legal expenses, partly offset by an increase in amortization of property and equipment.

Overall, operating expenses amounted to \$15.0 million (2011 – \$15.5 million), decreasing \$0.42 million or 2.7 per cent from 2011. Of total operating expenses in 2012, 77 per cent related to inspection activity (2011 – 78 per cent). Of total salaries and benefits expense in 2012, 85 per cent was related to inspections activity (2011 – 81 per cent). CPAB has contracts with seven persons who are used on an as-needed basis for inspection work relating to valuations, information technology, taxation, etc. These contract amounts are included in salaries and benefits expense in 2012. The breakdown of salaries and benefits by executive, inspection and administrative staff was:

	2012		2011	
	Salaries and benefits	Number of Employees	Salaries and benefits	Number of Employees
Executive	\$2.3 million	5	\$2.3 million	5
Inspection Staff	\$7.5 million	31	\$7.9 million	31
Administrative Staff	\$0.8 million	11	\$0.8 million	10
	\$10.6 million	47	\$11.0 million	46

The excess of revenue over expenses in 2012 was \$0.99 million, compared to \$0.44 million in 2011. CPAB currently has a reserve of \$6.0 million, which represents approximately four months of operating expenses. This complies with the Board-established guideline for an appropriate reserve.

During the year, CPAB continued to make investments in its inspection methodology by enhancing its risk assessment capabilities and better focusing its inspection processes. CPAB's risk assessment approach helps it allocate its resources effectively, and the organization is well positioned to further enhance its risk assessment capabilities in 2013.

Cash Flows and Liquidity

Cash generated in 2012 was \$0.06 million (2011 – cash used \$0.03 million). At December 31, 2012 CPAB had a strong working capital position of approximately \$4.16 million (2011 – \$4.45 million).

CPAB's investment policy requires that excess cash, held from time to time, be invested in accordance with sound investment management principles. At all times, investments are made based on the requirements of safety, yield and appropriate liquidity. Investments may be made in short-term Government of Canada Treasury Bills, Canadian Chartered Bank Term Notes and top-rated Certificates of Deposit, with maturities of up to three years.

Director and Executive Compensation

CPAB endeavours to offer Executive compensation that is comparable to organizations of similar mandate, size and complexity. Each year, CPAB evaluates the market by reviewing compensation surveys conducted by the Canadian Institute of Chartered Accountants and the Toronto Board of Trade. In addition, CPAB participates in and subscribes to Mercer's *CA Professional Services Industry Compensation Survey*. CPAB also monitors public comparative information provided by provincial securities regulators. Taken together, these practices ensure that compensation continues to be comparable and competitive.

Board Members' 2012 compensation included fees of \$0.8 million (2011 – \$0.7 million) for governance responsibilities. Board Members' fees included a \$150,000 annual retainer for the Board Chair, \$40,000 annual retainers for all other Board Members and an additional \$4,000 for Committee Chairs. Meeting attendance fees were \$1,500 for each Board and Committee meeting. The Board Chair does not receive meeting attendance fees.

The Board met five times in 2012. All Board Members attended every meeting, either in person or by phone. All Board Members attended the Board's strategic planning session in September.

Executive compensation in 2012, which included all amounts paid to the CEO, CFO and next three highest-paid members of the Management Committee, totalled \$2.3 million (2011 – \$2.3 million). This includes salaries, accrued bonuses and Registered Retirement Savings Plan contributions by CPAB on behalf of staff.

Outlook for 2013

Over the past three years, CPAB has evolved its inspection methodology, systems and processes, and people to provide effective audit oversight. These changes have been positively received by stakeholders and by the international community. Going forward, CPAB's 2013-2015 strategic plan is to build on these accomplishments and further enhance the organization's effectiveness in the face of heightened challenges to audit quality.

The primary objective in the new strategic plan is to ensure audit firms reduce the high rate of audit deficiencies in files CPAB inspects in a manner that is

Over the past three years, CPAB has evolved its inspection methodology, systems and processes, and people to provide effective audit oversight.

sustainable in the longer term. To effectively address this core issue, CPAB will meet its regulatory mandate by enhancing its inspection methodology and reporting, and by contributing to sustainable improvement in audit quality through increased involvement with a broader range of stakeholders.

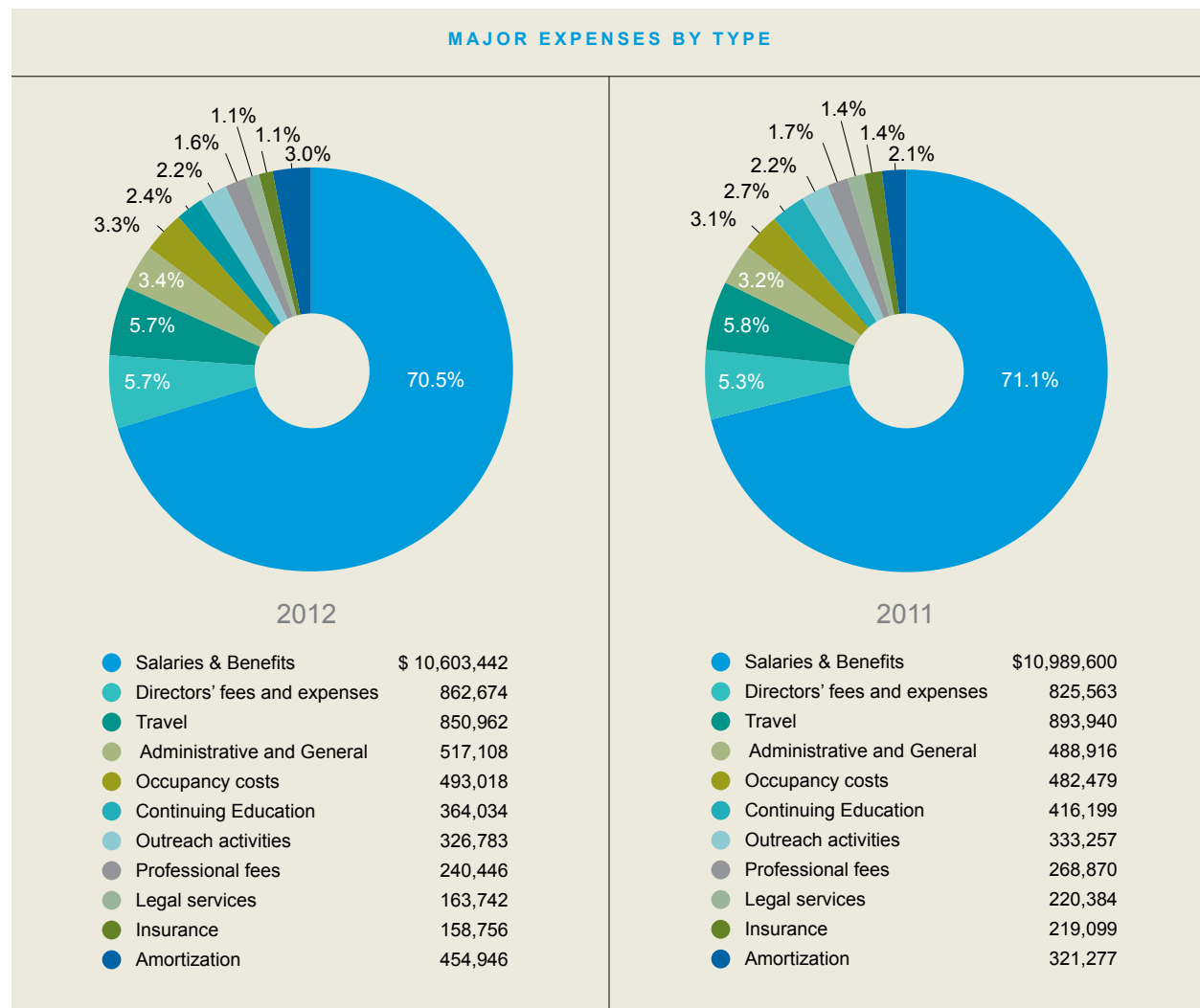
CPAB will accomplish this by focusing on four priorities:

- Thought Leadership
- Enhanced Stakeholder Engagement
- Risk Management
- Focused, Effective Inspections

CPAB will operationalize these priorities by:

- Embedding risk analysis and assessment more deeply into the fabric of the organization
- Analyzing the root causes of audit deficiencies more effectively and making more targeted interventions, with measures that will result in sustainable improvements
- Making/placing more value-added recommendations/requirements to/on audit firms

MAJOR EXPENSES BY TYPE



- Providing greater transparency in CPAB's communication of inspection results and about the key drivers of audit quality and audit risks, to help stakeholders in the audit process perform their roles more effectively
- Proactively engaging key stakeholders, such as audit committees, in a dialogue on a range of issues designed to enhance audit quality

CPAB will also continue to participate in the domestic regulatory agenda and influence the development of the international audit regulatory framework through its leadership position in the International Forum for Independent Audit Regulators.

For 2013, revenues are budgeted at \$16.8 million (2012 – \$16.0 million) and operating expenses are budgeted at \$16.7 million (2012 – \$15.0 million). In percentage terms, revenues are expected to increase by 4.7 per cent, while costs will increase by about 11.2 per cent, resulting in a break-even year. The increase in expenses reflects the cost of additional staffing and outreach activities and an increase in occupancy costs. All office leases are coming due in the near future. The Toronto office has entered into a new lease and relocated in January 2013. Fees charged to reporting issuers will remain unchanged at 2.0 per cent of the audit fees charged by the audit firm (or 0.2 per cent for reporting issuers from certain foreign jurisdictions).

CPAB anticipates capital expenditures in 2013 of approximately \$0.8 million—\$0.6 million for leasehold expenditures related to the move of CPAB's head office and \$0.2 million to upgrade the organization's information technology infrastructure and reporting systems.

Principal Risks and Uncertainties

CPAB's most important assets are its human capital and its reputation as an effective regulator. Significant risks include economic, human capital, technological and legislative forces that could have a material impact on CPAB's mission, vision, and critical success factors.

Current economic uncertainties increase the risks associated with reporting issuer failures in corporate governance, financial reporting and audits. These could create a consequent risk of loss of confidence in CPAB. The organization manages its risk through its risk analysis, which supports the allocation of resources to and the focus of its audit inspection program.

Human capital risks include a shortage of appropriately experienced and capable personnel. CPAB manages this risk by actively working to be an attractive career destination for high-quality staff.

Technologically, data security is an overarching consideration. Central to CPAB's ability to fulfill its mandate are: database design, management and security; development of and support for the participating firms' registration information system; connectivity to support the Internet; the Extranet utilized by provincial regulators; and the Intranet and other services utilized by remote users. CPAB manages this risk in various ways.

Legislative risks include the impact of legislation that may not support CPAB in meeting its mandate. CPAB is continuing to pursue legislative change in a few jurisdictions to support its standing as an independent audit regulator.

CPAB's guiding principle is zero tolerance for reputational risk, and the organization is constantly working to mitigate this risk. In 2012, the organization further enhanced its risk assessment capabilities and continues to use a robust risk analysis process to identify higher-risk audit firms and audit engagements. CPAB management has developed a risk management plan that addresses all aspects of its operations. The Board of Directors oversees this plan, which is also actively reviewed by the Audit Committee. CPAB proactively reviews and updates the plan annually. Based on the risks identified, CPAB develops and implements mitigation strategies.

CPAB Statement of Operations

(UNAUDITED)

<i>Year Ended December 31 (000's),</i>	<i>2012 Actual</i>	<i>2012 Budget</i>	<i>2013 Budget</i>
REVENUE			
Fees	\$ 15,949	\$ 16,100	\$ 16,700
Interest income	76	50	65
	16,025	16,150	16,765
EXPENSES			
Salaries and benefits	10,603	11,034	11,853
Directors' fees and expenses	863	931	909
Travel	851	954	920
Administrative and general	517	556	603
Occupancy costs	493	503	659
Continuing education	364	605	340
Outreach activities	327	637	392
Professional services	240	220	250
Legal services	164	200	240
Insurance	159	220	164
Amortization of property and equipment	455	390	395
	15,036	16,250	16,725
Excess (Deficiency) of Revenue Over Expenses for the Year	\$ 989	\$ (100)	\$ 40

Commentary on the 2013 CPAB Operating Budget

The 2013 Operating Budget (the 2013 Budget) shows CPAB continuing to fulfill its mandate effectively during challenging times, while looking more outward as an organization.

For 2013, revenues, which cover operating expenses, are budgeted at \$16.8 million, as compared to actual and budgeted revenues of \$16.0 million and \$16.2 million, respectively in 2012. CPAB derives its revenue from Canadian reporting issuers. Each year, CPAB invoices the audit firms registered with it a fee, which they may, in turn, bill to their reporting issuer clients. The fee is designed to cover CPAB's annual operating costs and to provide a reasonable reserve for contingencies. In 2012 CPAB's base fee rate was 2.0 per cent of the audit fees both Canadian and foreign participating firms charged their reporting issuer clients. CPAB's base fee rate for 2013 will remain unchanged.

CPAB's operating expenses for 2013 have been budgeted at \$16.7 million. This represents an increase of 11 per cent from total actual operating expenses of \$15.0 million and three per cent from total budgeted operating expenses of \$16.3 million in 2012. The largest increase in the 2013 Budget, relative to 2012 actual and budgeted expenses, is for increased salaries. The salary increase of \$0.4 million between actual and budget for 2012 is due to timing in hiring staff during the year. The increase of \$0.8 million between the budget in 2012 and 2013 is due to market-driven salary increases, together with two additional staff.

Continuing education expenses are expected to decrease in 2013 compared to 2012 actual and budget expenses. The decrease is related to less spending on IFRS training because CPAB has developed the necessary skills internally. As a result of developing in-house expertise, CPAB required less external professional development training (re: IFRS) in 2012 than was budgeted.

CPAB's Toronto office lease was expiring in 2014. Consequently, CPAB entered into a new lease commencing in 2013. Occupancy costs are expected

to increase, largely due to market conditions, by approximately \$0.2 million.

Outreach activities expenses are budgeted to increase to \$0.4 million in 2013, from \$0.3 million in 2012. CPAB continues to be more outward-looking and is building on the progress made through its 2012 initiatives, CPAB will enhance its outreach further in 2013 to key stakeholders, including audit committees, investors and standard setters. CPAB had budgeted \$0.6 million for outreach activities in 2012, but this was scaled back early in the year after initial efforts with audit committees and CPAB's joint involvement in the Enhanced Audit Quality initiative with the CICA provided insights into newer and better outreach strategies for enhancing audit quality.

Overall, the 2013 Operating Budget shows CPAB will have a break-even year, which by the end of 2013 should leave CPAB with a cumulative undistributed surplus of approximately \$6.0 million, which provides a reserve in line with CPAB's objective of approximately four months of total annual operating expenses.

The Strategic Plan for 2013-2015 focuses on outreach as one of its main objectives. To succeed in outreach, CPAB intends to further develop a number of key capabilities, the most significant of which are an effective communications strategy and competency in its implementation.

To address the challenges ahead, CPAB's new Strategic Plan focuses on four priorities going forward:

- Thought Leadership
- Enhanced Stakeholder Engagement
- Risk Management
- Focused, Effective Inspections

In addition to building on the work done in 2012 and reaching out to key stakeholders this year, CPAB will continue to make investments in human resource development, technology and systems, risk management and regulatory affairs to ensure it continues to be positioned to deliver value as a world-class audit regulator.

Statement of Management's Responsibility

The annual financial statements and all financial and other information contained in this Annual Report are the responsibility of the management of the Canadian Public Accountability Board.

Management has prepared the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, applying best estimates and judgments based on currently available information. The significant accounting policies are described in Note 2 to the financial statements. Financial information contained in this Annual Report is consistent with that shown in the financial statements.

Management is responsible for the integrity and reliability of financial information, and has established systems of internal procedural and accounting controls designed to achieve this. These systems also reasonably ensure that assets are safeguarded from loss or unauthorized use.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board has created an Audit Committee to help it with these responsibilities. The Audit Committee met with the auditors, both with and without management present, to review the activities of each, as well as to review the financial statements.

Fuller Landau LLP has been appointed by the Provincial Audit Regulator Members as CPAB's auditors to express their opinion on the fair presentation of the financial statements. Fuller Landau LLP has had full and unrestricted access to the Board of Directors and management to discuss matters pertaining to their audit. The Audit Committee undertakes annually a formal review of the auditors' performance and makes a recommendation to the Board of Directors, which in turn makes a recommendation to the Provincial Audit Regulator Members, with respect to their reappointment for the coming year.



Brian A. Hunt, FCPA, FCA
CHIEF EXECUTIVE OFFICER



John Mastrella, CPA, CA
SENIOR DIRECTOR, INTERPROVINCIAL RELATIONS
AND CHIEF FINANCIAL OFFICER

Independent Auditors' Report

To the Members of

Canadian Public Accountability Board / Conseil canadien sur la reddition de comptes

We have audited the accompanying financial statements of the Canadian Public Accountability Board/Conseil canadien sur la reddition de comptes, which comprise the statement of financial position as at December 31, 2012, and the statements of changes in net assets, operations, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Canadian Public Accountability Board/Conseil canadien sur la reddition de comptes as at December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Other Matter

The financial statements of the Canadian Public Accountability Board/Conseil canadien sur la reddition de comptes for the year ended December 31, 2011, were audited by another auditor who expressed an unmodified opinion on those statements on February 14, 2012.



CHARTERED ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS

TORONTO, ONTARIO, FEBRUARY 12, 2013

Statement of Financial Position

	December 31, 2012	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 401,541	\$ 343,349
Investments (note 4)	5,300,000	5,400,000
Accounts receivable (note 4)	28,821	50,914
Sales tax recoverable	132,520	87,230
Prepaid expenses	223,926	161,867
	6,086,808	6,043,360
Investments (note 4)	1,000,000	—
Property and equipment (note 5)	871,253	722,550
	\$ 7,958,061	\$ 6,765,910
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,866,991	\$ 1,589,705
Unamortized tenant inducements	116,967	190,809
NET ASSETS		
Invested in property and equipment	871,253	722,550
Unrestricted	5,102,850	4,262,846
	5,974,103	4,985,396
	\$ 7,958,061	\$ 6,765,910

SEE ACCOMPANYING NOTES.

APPROVED ON BEHALF OF THE BOARD:



, DIRECTOR

Nicholas Le Pan, CHAIR



, DIRECTOR

Kenneth Crump

Statement of Changes in Net Assets

<i>Year Ended December 31,</i>			<i>2012</i>	<i>2011</i>
	<i>Invested in property and equipment</i>	<i>Unrestricted</i>	<i>Total</i>	<i>Total</i>
Net assets, beginning of year:	\$ 722,550	\$ 4,262,846	\$ 4,985,396	\$ 4,544,617
Excess of revenue over expenses for the year	—	988,707	988,707	440,779
Purchase of property and equipment	603,649	(603,649)	—	—
Amortization of property and equipment	(454,946)	454,946	—	—
Net Assets, End of Year	\$ 871,253	\$ 5,102,850	\$ 5,974,103	\$ 4,985,396

SEE ACCOMPANYING NOTES.

Statement of Operations

<i>Year Ended December 31,</i>	<i>2012</i>	<i>2011</i>
REVENUE		
Fees	\$ 15,948,372	\$ 15,847,820
Investment income	76,246	52,543
	\$ 16,024,618	\$ 15,900,363
EXPENSES		
Salaries and benefits	10,603,442	10,989,600
Directors' fees and expenses	862,674	825,563
Travel	850,962	893,940
Administrative and general	517,108	488,916
Occupancy costs	493,018	482,479
Continuing education	364,034	416,199
Outreach activities	326,783	333,257
Professional services	240,446	268,870
Legal services	163,742	220,384
Insurance	158,756	219,099
Amortization of property and equipment	454,946	321,277
	15,035,911	15,459,584
Excess of Revenue Over Expenses for the Year	\$ 988,707	\$ 440,779

SEE ACCOMPANYING NOTES.

Statement of Cash Flows

<i>Year Ended December 31,</i>	<i>2012</i>	<i>2011</i>
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	\$ 988,707	\$ 440,779
Add back (deduct) non cash items:		
Amortization of property and equipment	454,946	321,277
Amortization of tenant inducements	(73,842)	(73,842)
Net change in non-cash working capital items (note 7)	(59,508)	105,834
Cash generated from operations	1,310,303	794,048
INVESTING ACTIVITIES		
Purchase of short-term investments	(12,800,000)	(10,500,000)
Redemption of short-term investments	12,900,000	9,800,000
Purchase of long-term investments	(1,000,000)	—
Purchase of property and equipment	(603,649)	(123,673)
Net change in non-cash working capital items (note 7)	251,538	—
Cash used in investing activities	(1,252,111)	(823,673)
Cash and cash equivalents generated (used) in the year	58,192	(29,625)
Cash and cash equivalents, beginning of year	343,349	372,974
Cash and Cash Equivalents, End of Year	\$ 401,541	\$ 343,349

SEE ACCOMPANYING NOTES.

Notes to the Financial Statements

DECEMBER 31, 2012 AND
DECEMBER 31, 2011

1. The Organization

The Canadian Public Accountability Board/Conseil canadien sur la reddition de comptes (CPAB) is a corporation without share capital incorporated under the *Canada Corporations Act*. CPAB is exempt from income tax in Canada as a not-for-profit organization under Section 149(1)(L) of the *Income Tax Act (Canada)*.

The mission of CPAB is to contribute to public confidence in the integrity of financial reporting of reporting issuers in Canada by effective regulation and by promoting quality, independent auditing. CPAB fulfills its mission principally by establishing participation requirements for public accounting firms that audit reporting issuers in Canada and by operating an effective system of quality inspections of participating audit firms.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. The most significant accounting policies are as follows:

Cash and cash equivalents

Cash and cash equivalents consists of cash and guaranteed investment certificates, with maturities not exceeding 90 days, with insignificant risk of changes in value.

Revenue recognition

CPAB charges two types of fees to public accounting firms: an Intent to Participate fee that is collected from public accounting firms on their initial application to become participating audit firms, and an annual participation fee that is collected from participating audit firms. All fees are established to recover CPAB's costs and to provide working capital for contingency purposes.

The Intent to Participate fee is a flat fee based on the number of reporting issuer clients of the applicant firm at the date of registration. Intent to Participate fees are recorded in the accounting period in which the firm is registered and fees are received.

The annual participation fee is currently based on audit fees paid by a participating audit firm's reporting issuer clients. This fee is billed annually and recognized as revenue in the year to which it relates. The fee for 2012 was set at 2.0 per cent of the audit fees charged by each participating firm to its reporting issuer clients or a minimum of \$1,000. Firms in certain foreign jurisdictions are charged a rate of 0.2 per cent.

Property and equipment

Property and equipment is recorded at cost. Amortization is provided on a straight line basis over the estimated useful lives of the assets commencing on the date when the assets are placed into service.

The estimated useful lives are as follows:

Office equipment and furniture	3 – 10 years
IT Infrastructure and networks	4 – 5 years
Computer software	3 years
Computing equipment	2 years
Leasehold improvements	Over the life of the lease

Investments

Investments, which are mostly purchased for redemption in the near term, are reported at estimated fair value. Realized and unrealized gains and losses are recognized as investment income when they arise. Transaction costs are expensed as incurred.

Leases

All CPAB's leases are operating leases. The benefit tenant inducements received at the inception of the Toronto office lease are deferred and recognized on a straight line basis over the term of the lease.

3. Financial Instruments and Risks

CPAB's financial assets include cash and fixed income guaranteed investment certificates (GICs) with major Canadian chartered banks. The cost of the GICs, plus accrued interest income, approximates the fair value of these instruments. Other financial assets and liabilities are carried at cost, which approximates their fair value due to their short term nature.

It is management's opinion that CPAB is not exposed to significant interest, currency or credit risks.

4. Investments

Investments consist of fixed income GICs with maturities exceeding 90 days.

GICs maturing within 12 months from the year-end date are classified as current:

	2012	2011
GICs – Current	\$ 5,300,000	\$ 5,400,000
GICs – Long-term	1,000,000	–
	6,300,000	5,400,000
Accrued interest	28,781	20,211
	\$ 6,328,781	\$ 5,420,211

GICs have interest rates from 1.00 per cent to 2.01 per cent (2011 – 1.00 per cent). Accrued interest income is included in accounts receivable.

5. Property and Equipment

Property and equipment, recorded at cost, is as follows:

	Cost	Accumulated Amortization	2012 Net	2011 Net
Office equipment and furniture	\$ 573,327	\$ (455,558)	\$ 117,769	\$ 172,424
IT Infrastructure and networks	1,236,119	(969,427)	266,692	350,166
Computer software	200,571	(138,853)	61,718	12,854
Computing equipment	181,810	(117,055)	64,755	19,526
	\$ 2,191,827	\$ (1,680,893)	510,934	554,970
Leasehold improvements, net			360,319	167,580
			\$ 871,253	\$ 722,550

6. Bank Credit Facility

CPAB has a bank Credit Facility of \$2,000,000 bearing interest at bank prime. Amounts owing under the Credit Facility are payable on demand. No assets have been pledged by CPAB as collateral for the Credit Facility and no charges are incurred until the facility is drawn down. At December 31, 2012 and 2011 the amount owing under the Credit Facility was \$nil.

7. Change in Non-Cash Working Capital Items

Changes in non-cash working capital items are detailed as follows:

	2012	2011
Accounts receivable	\$ 22,093	\$ (31,076)
Sales tax recoverable	(45,290)	(28,691)
Prepaid expenses	(62,059)	(45,400)
Accounts payable and accrued liabilities	25,748	211,001
	\$ (59,508)	\$ 105,834

The accounts payable and accrued liabilities shown above does not include \$251,538 related to the purchase of property and equipment.

8. Commitments

CPAB has entered into a new 11-year, six-month lease term for its Toronto head office, commencing in February, 2013. There are no asset retirement obligations associated with the new or current lease. The annual rent will be approximately \$255,000 for the term of the lease. CPAB's share of the building's operating costs is estimated to be \$274,000 per annum. Leasehold improvements of approximately \$570,000, associated with CPAB's new Toronto office, commenced in November, 2012 and are expected to be completed by the end of January 2013. The portion of leasehold improvement costs of approximately \$355,000 incurred in 2012 are recorded in property and equipment and accounts payable and accrued liabilities in these financial statements.

In 2010, CPAB entered into leases for office space in Vancouver and Montréal, which expire March 31, 2013 and October 31, 2013, respectively. The annual rent for these leases is approximately \$108,000. CPAB has entered into a new lease for Vancouver, commencing April 1st, 2013 for annual rent of approximately \$82,000.

CPAB has entered into commitments to purchase computing equipment of approximately \$57,000 in early 2013.

9. Reclassifications

Certain amounts from the prior year have been reclassified to conform to the current-year presentation. The reclassifications had no impact on excess of revenue over expenses for the year.

The State of Auditing in Canada

Public confidence in the integrity of financial reporting is fundamental to the effective operation of our capital markets. This confidence depends on quality financial audits, particularly during uncertain economic times.

Introduction

During these times, auditors need to be particularly vigilant, consistently exercising their independence, objectivity and heightened level of skepticism; characteristics investors expect in quality audits. The investing public trusts auditors to attest to the integrity of the financial statements—it is a trust that is bestowed upon auditors around the world.

Investor Confidence

CPAB believes investors should continue to have confidence in the integrity of public company financial statements audited in Canada. Audit methodologies at the firms are generally sound, and the majority of audits are well done. CPAB's 2012 inspection results show overall improvement in audit quality. CPAB's inspections resulted in only five restatements of financial statements (two per cent of files inspected).

Overall Inspection Results

Overall there was a 30 per cent decline in audit deficiencies in the audit files inspected, indicating a reduced risk of restatements. In almost all cases,

when audit firms performed the additional audit work required by CPAB to remedy deficiencies, there was no restatement of the financial statements. However, this does not mean that there was no risk of a restatement. In corporations with strong internal controls, the chances of a material misstatement remaining undetected may be low; however, there is still a risk.

While inspection results are better than in 2011, there was considerable difference among firms in the degree of improvement. A number of firms still need to make significant improvement. Since the inspection results were finalized in the late fall of 2012, CPAB has been actively involved with the leadership of these firms regarding the root causes of the inspection findings. CPAB believes that the recent additional actions taken by these firms in response to CPAB's findings will produce the necessary improvements.

While the decrease in the number of audit deficiencies is encouraging, CPAB believes firms must commit to continuous improvement at all levels of their organizations to ensure that this trend continues. This includes, in some cases, a shift in audit firm culture to encourage collaboration and enhanced accountability in order to improve audit quality. CPAB believes a multidisciplinary team approach to the audit, where different expertise is brought together and held accountable, would best serve the needs of both public companies and the investing public.

Action Plans Yield Positive Results

To address the disappointing inspection results in 2011, the Big Four firms were required by CPAB to implement action plans to improve audit quality. These plans contributed to an overall improvement in the 2012 inspection results, however, not all of the Big Four firms demonstrated the same level of improvement. Firms that focused on the drivers of consistency in audit execution performed better.

These results are encouraging. Since most of the action plans were only implemented late in 2011, not

all the audit files CPAB inspected in 2012 benefited from the changes the plans brought about. CPAB therefore expects audit quality will continue to improve in 2013, as firms will have been able to fully implement their action plans in advance of the 2012 audits. Furthermore, firms have also been able to assess the success of their individual plans based on experience to date and have refined the plans accordingly. CPAB has provided its observations on the plans, to assist the firms in this regard.

Looking ahead, further improving and sustaining audit quality depends upon the effectiveness of the firms' actions under the plans, which cover such areas as changing organizational structure to enhance accountability for quality, and making sustainable process changes that incorporate additional quality monitoring throughout the entire audit process.

In addition to their action plans, firms are also implementing CPAB's other mandatory recommendations. CPAB will continue to monitor the implementation, sustainability and effectiveness of these actions as part of its 2013 inspection program, and take action as necessary.

Other Four National Network Firms/Regional/Local Firms

The inspection results at the Other Four National Network firms were mixed. While some firms demonstrated solid improvement in audit quality, others did not. Consequently, these firms, where needed, are being required to implement action plans for 2013.

CPAB was pleased to note improvement in the quality of audits in a number of the six large Regional firms. These improvements primarily resulted from the firms focusing on audits of reporting issuers that were within their comfort zone (i.e., within their area of expertise relating to the industry/sector of the reporting issuer and/or the nature of the transactions). This approach is very helpful in enabling firms to better execute their audits

because they are familiar with the industries. Firms that undertake a rigorous engagement acceptance review process prior to undertaking audits outside of their traditional comfort zone are more successful in achieving audits of consistent quality than firms that do not.

Consistent Audit Execution Enhances Audit Quality

CPAB's 2012 inspections found that firms' audit methodologies generally meet Generally Accepted Auditing Standards (GAAS) requirements. While all firms are capable of executing quality audits, and do so regularly, consistent audit execution is a challenge for firms, to varying degrees. CPAB believes this is the root cause of the majority of audit deficiencies identified.

CPAB's 2012 inspections indicate that the Big Four firms that focused on consistency of audit execution and provided on-site support to their people—for example, by making national resources available at the local office level to deal with audit issues that emerged, or by changing roles and accountabilities to focus on quality—showed the most improvement. CPAB encourages all firms to continue to focus on audit execution as an important way to enhance audit quality.

Deficiencies Similar to Those Found by Other Regulators

CPAB's 2012 inspection findings are comparable to those of other audit regulators around the world. Consistent findings include concerns about professional skepticism, supervision and review, substantive analytical procedures (predicted results compared to actual results) and the quality of audit evidence in audit files.

Again, while CPAB's inspection results noted these same issues, firms are capable of and demonstrated many examples of quality work in these areas; consistency of execution is the key.

Key Considerations to Improve Audit Quality

CPAB believes that inconsistent application of professional skepticism, coupled with inadequate supervision and review, contributed to many of its more significant 2012 inspection findings. To further improve audit quality, CPAB believes firms need to:

- **Execute consistently:** Firms that placed a greater emphasis on drivers of consistency of audit execution showed the most improvement in audit quality.
- **Develop and implement action plans to support consistency:** The action plans that led to improved results were the ones that made resources more readily available at both the national and local levels and brought additional resources to bear on complex issues that emerged during the audit.
- **Reinforce an accountability culture to support consistency:** Shared accountabilities enhance audit quality. As audits become more complex, it is not realistic to hold one or two individuals accountable, when many factors affecting quality, such as access to resources, may be beyond their control. Audit quality is a team effort.
- **Strike the appropriate balance between commercialism and professionalism:** Because audit firms are both a business and a profession, firms must always be conscious of this potential conflict and make sure it does not impair audit quality.

CPAB Inspection Universe

- 163 Canadian accounting firms and 133 foreign firms currently participate in CPAB's audit regulatory program
- These firms audit approximately 4,000 reporting issuers and 3,000 investment funds.
- CPAB annually inspects the Big Four firms, which audit 98 per cent of reporting issuers by market capitalization
- 10 other firms are subject to annual inspection because they audit over 100 reporting issuers; these firms represent 1.5 per cent of reporting issuers by market capitalization
- The remaining firms, which are primarily subject to triennial inspection, represent 0.5 per cent of reporting issuers by market capitalization

In general for each firm, CPAB inspects audit files relating to higher-risk audit areas of more complex public companies or companies where the firm may have less expertise so there is a greater likelihood that CPAB will identify audit quality issues.

CPAB does not focus on identifying areas of the audit file where auditors performed to or beyond the required standards. CPAB sees many examples of quality audit work where engagement teams exhibited a high degree of professional skepticism and required management to adjust the financial statements or amend disclosures as a result of the audit. Therefore, CPAB's Public Report does not represent a balanced scorecard.

Corporate Information

CPAB Executive Team

Brian A. Hunt

CHIEF EXECUTIVE OFFICER

MR. HUNT WAS INVOLVED WITH CPAB'S CREATION AND HAS SERVED AS A DIRECTOR SINCE ITS INCEPTION. PRIOR TO HIS CURRENT POSITION AT CPAB, MR. HUNT WAS PRESIDENT AND CEO OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO.

Kenneth J.A. Vallillee

SENIOR VICE PRESIDENT

BEFORE JOINING CPAB, MR. VALLILLEE SPENT THREE YEARS AS SENIOR VICE PRESIDENT, FINANCE WITH A MAJOR CANADIAN BANK. PRIOR TO THAT, HE SPENT 10 YEARS AS A PARTNER AND AS THE DIRECTOR OF ACCOUNTING STANDARDS IN CANADA FOR AN INTERNATIONAL ACCOUNTING FIRM.

Glenn Fagan

VICE PRESIDENT

BEFORE JOINING CPAB IN 2010, MR. FAGAN SPENT ALMOST 12 YEARS AS VICE PRESIDENT, FINANCE OR CFO FOR A NUMBER OF PUBLIC AND PRIVATE COMPANIES IN THE MANUFACTURING, CONSTRUCTION AND SERVICE SECTORS. PREVIOUSLY, MR. FAGAN WAS AN ASSURANCE PARTNER WITH LEGACY PRICEWATERHOUSECOOPERS LLP.

Kam Grewal

VICE PRESIDENT OF STANDARDS

PRIOR TO JOINING CPAB, MR. GREWAL PRACTISED IN THE NATIONAL OFFICE OF PRICEWATERHOUSECOOPERS LLP, WHERE HE PROVIDED ADVICE ON ACCOUNTING, ASSURANCE AND FINANCIAL REPORTING MATTERS. HE HAS EXPERIENCE ACROSS MARKET SEGMENTS, INCLUDING TECHNOLOGY, COMMUNICATIONS AND MANUFACTURING.

John Mastrella

SENIOR DIRECTOR, INTERPROVINCIAL RELATIONS AND CHIEF FINANCIAL OFFICER

BEFORE JOINING CPAB IN 2007, MR. MASTRELLA SERVED AS A SENIOR FINANCE EXECUTIVE WITH A NUMBER OF PUBLIC COMPANIES IN THE DISTRIBUTION, REAL ESTATE, AEROSPACE, TECHNOLOGY AND HOSPITALITY INDUSTRIES. PRIOR TO HIS POSITIONS IN INDUSTRY, MR. MASTRELLA PRACTISED WITH KPMG LLP.

Directors

Nick Le Pan

BOARD CHAIR

FORMER SUPERINTENDENT OF FINANCIAL INSTITUTIONS, OFFICE OF THE SUPERINTENDENT OF FINANCIAL INSTITUTIONS, OTTAWA, ONTARIO.

Ian Bourne²

CHAIR, BALLARD POWER INC.; VICE CHAIR, SNC-LAVALIN GROUP; DIRECTOR, CANADA PENSION PLAN INVESTMENT BOARD, WAJAX CORPORATION AND CANADIAN OIL SANDS LIMITED; RETIRED CFO, TRANSALTA CORPORATION, CALGARY, ALBERTA.

Ken Crump¹

FORMER CHAIR, BOARD OF TRUSTEES, COAST WHOLESALE APPLIANCES INCOME FUND; FORMER VICE CHAIR, BOARD AND CHAIR, FINANCE AND AUDIT COMMITTEE, BOARD OF COMMUNITY LIVING BRITISH COLUMBIA, VANCOUVER, BRITISH COLUMBIA.

Guy Fréchette¹

CORPORATE DIRECTOR; FORMER VICE CHAIR AND MEMBER OF THE EXECUTIVE COMMITTEE AT ERNST & YOUNG LLP AND FORMER MANAGING PARTNER FOR THE PROVINCE OF QUÉBEC, MONTRÉAL, QUÉBEC.

Bruce C. Jenkins^{1*}

FORMER DEPUTY CHIEF EXECUTIVE, DELOITTE & TOUCHE (CANADA); FORMER DIRECTOR, THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS; FORMER CHAIR, THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO, TORONTO, ONTARIO.

Sheryl Kennedy¹

CEO, PROMONTORY FINANCIAL GROUP CANADA; FORMER DEPUTY GOVERNOR OF THE BANK OF CANADA, TORONTO, ONTARIO.

Gary Porter²

FORMER DIRECTOR AND CHAIR, INVESTMENT COMMITTEE OF THE ONTARIO TEACHERS' PENSION PLAN; RETIRED CO-FOUNDER OF PORTER HÉTU INTERNATIONAL, SIDNEY, BRITISH COLUMBIA.

Jocelyn Proteau²

CHAIR, BOARD OF BTB REAL ESTATE INVESTMENT TRUST; DIRECTOR, RICHELIEU HARDWARE INC., CO2 SOLUTIONS INC., FAMILIPRIX INC.; FORMER VICE CHAIR AND LEAD DIRECTOR, 20/20 TECHNOLOGIES INC.; FORMER CHAIR, STANDARD LIFE OF CANADA, MONTRÉAL, QUÉBEC.

Alain Rhéaume²

A FOUNDER AND MANAGING PARTNER, TRIO CAPITAL INC.; FORMER DEPUTY MINISTER OF FINANCE, QUÉBEC; FORMER PRESIDENT AND COO, MICROCELL TELECOMMUNICATIONS, MONTRÉAL, QUÉBEC.

Peter W. Roberts¹

FORMER CHAIR, RISK OVERSIGHT AND GOVERNANCE BOARD, CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS; FORMER CFO, SIERRA WIRELESS INC.; PAST PRESIDENT OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF BRITISH COLUMBIA, WEST VANCOUVER, BRITISH COLUMBIA.

Benita M. Warmbold²

SENIOR VICE PRESIDENT AND COO, CANADA PENSION PLAN INVESTMENT BOARD; DIRECTOR, CANADA DEVELOPMENT INVESTMENT CORPORATION, QUEEN'S SCHOOL OF BUSINESS ADVISORY BOARD, TORONTO FINANCIAL SERVICES ALLIANCE AND ALZHEIMER SOCIETY, TORONTO, ONTARIO.

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* BRUCE C. JENKINS WAS APPOINTED AS A BOARD MEMBER ON MARCH 26, 2012.

1 MEMBER OF THE AUDIT COMMITTEE

2 MEMBER OF THE HUMAN RESOURCES AND GOVERNANCE COMMITTEE

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