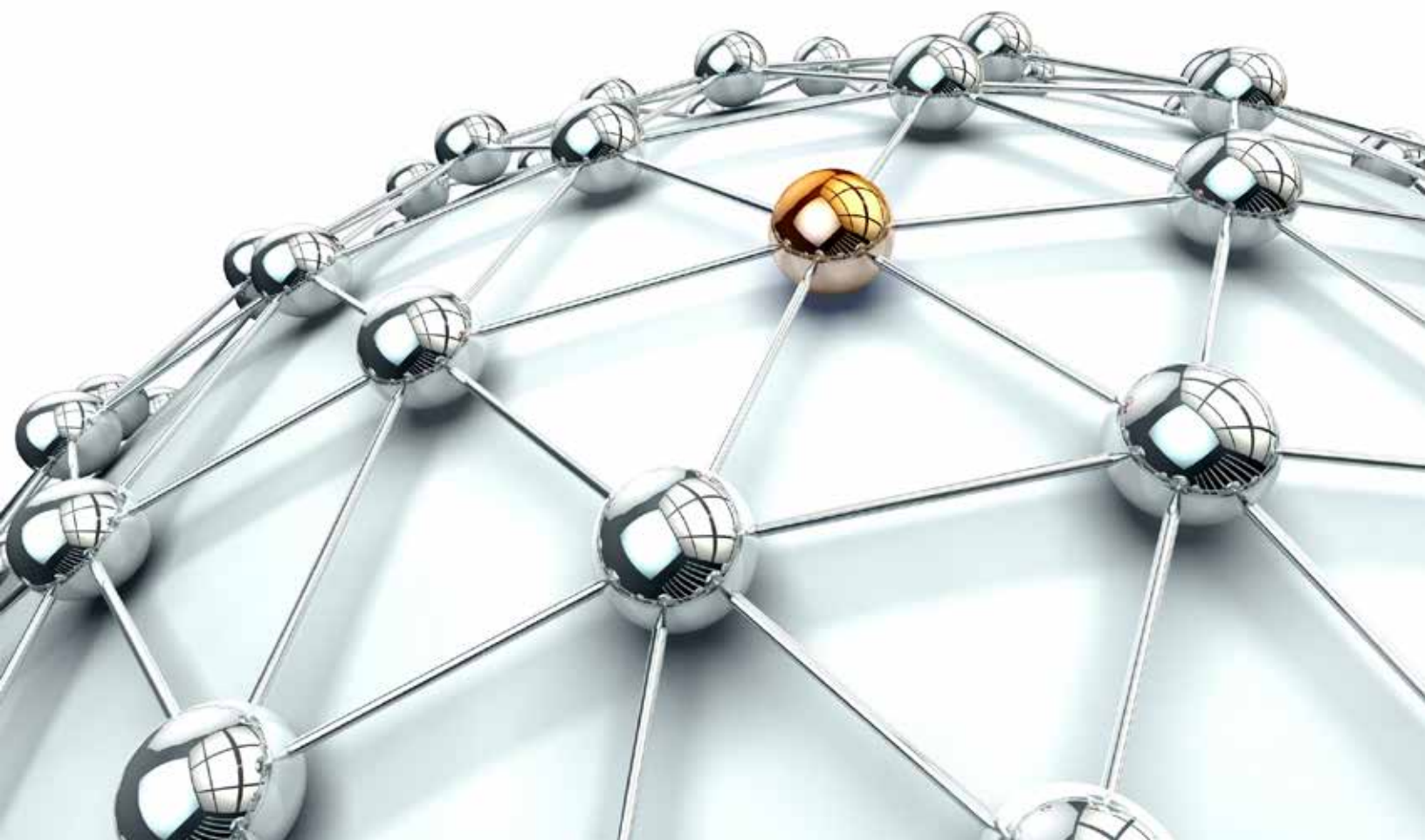


Thinking Differently About Audit Quality

2003-2013



CANADIAN PUBLIC ACCOUNTABILITY BOARD 2013 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.

CPAB IS FOCUSED ON FOUR PRIORITIES

Risk Management

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

Focused, Effective Inspections

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

Thought Leadership

CPAB helps to 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.

Stakeholder Engagement

CPAB is communicating 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.

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10 YEARS OF PROGRESS

When it was established in 2003, the Canadian Public Accountability Board (CPAB) concentrated on developing and implementing an inspection methodology and program. In 2009, the organization moved from a granular inspection focus to enhanced root-cause analysis and value-added recommendations to audit firms. CPAB also began to initiate and participate in thought leadership activities relating to audit quality, and became active in Canadian and international audit regulatory activities. CPAB's goal for 2013-15 is to build on its accomplishments to date, while enhancing its effectiveness as a proactive regulator, focused on sustainable solutions that improve audit quality.



Thinking Differently About Audit Quality

Over the past two years, CPAB has been a catalyst for discussion and collaboration on issues relating to audit quality. We, with other stakeholders, have developed a Canadian perspective on audit quality issues being discussed around the world. As a result of these activities, and through insights gained during our inspections, we are refining our focus on the drivers of audit quality. This means thinking differently about audit quality than we have in the past. It means broadening discussions of the drivers of audit quality to include such factors as audit firm culture, organizational structure and accountability for inspection results. And it means working with all stakeholders involved in the audit process to identify and introduce innovative and sustainable solutions that enhance audit quality.

REPORT OF THE CHAIR



Ten years ago the Canadian Public Accountability Board was established with a mandate to contribute to public confidence in the integrity of financial reporting by public companies in Canada through

effective regulation and the promotion of quality, independent auditing.

Throughout its 10-year history, CPAB has fulfilled this mandate through its national inspection program and other initiatives to improve audit quality, driven by a culture of continuous improvement. I am pleased that the Board of Directors plays a very active role in oversight, and in contributing ideas and support based on Board members' broad range of expertise and experience.

Implementing Our Strategy

This year, the Board reaffirmed the strategic direction set out in our 2013-15 strategic plan, including a greater focus on stakeholder engagement, with particular emphasis on enhanced communications

CPAB's 2013 inspection results have again shown improvement over the previous year.

CPAB has made great progress over the past decade. We have developed, implemented and refined a national inspection program, worked with audit firms, provincial counterparts and other stakeholders to improve audit quality and contributed to the domestic and international discussion and debate on audit quality issues.

with audit committees. A major focus of the Board has been overseeing implementation of this broadening of CPAB's strategy as a complement to our traditional inspection activity. Increased transparency of CPAB inspection results to audit committees is a key ingredient of this approach. The Board continues to believe that this strategy, executed in a way that does not undermine our regulatory model, can help others in the audit process perform their roles, and ultimately contribute to sustainable improvement in audit quality. Additional information about our stakeholder engagement activities in 2013, and other details relating to the implementation of our strategic plan, is contained in the Report of the CEO.

The Board also monitored enhancements to CPAB's risk assessment and inspection program that occurred

during the year. CPAB's 2013 inspection results have again shown improvement over the previous year.

The Board oversaw the enhanced talent management strategy at CPAB, designed to ensure we have the capability necessary to implement our new strategic direction, and continuously improve our core risk assessment and inspection programs.

Building a Canadian Consensus

Board members participated in CPAB's Audit Quality Symposiums. The Enhancing Audit Quality (EAQ) initiative, which flowed from the Symposiums, was a collaboration of CPAB and the Chartered Professional Accountants of Canada (formerly the Canadian Institute of Chartered Accountants). It involved representatives from the audit profession, the director community, regulators, investors and preparers.

I am very pleased with this national collaboration that should serve as a model for future work on audit quality issues, with solutions that are designed to work in Canada. I thank everyone who contributed their time, their leadership, their ideas and their judgment to these initiatives. We at CPAB are committed to working with audit firms and other stakeholders to ensure changes coming out of these initiatives are positive and contribute to enhanced audit quality.

Conclusion

CPAB has made great progress over the past decade. We have developed, implemented and refined a national inspection program, worked with audit firms, provincial counterparts and other stakeholders to improve audit quality and contributed to the domestic and international discussion and debate on audit quality issues. We continue to evolve and change,



Different Thinking

We continue to evolve and change, always seeking ways to become an even more effective regulator.

always seeking ways to become an even more effective regulator. The Board of CPAB follows best-practice governance standards, and we periodically benchmark ourselves against these standards and look for areas for continuous improvement.

I would like to thank my colleagues on the Board of Directors for their contribution and support over the past year. On behalf of the Board, I would also like to thank our CEO, Brian Hunt, the management team, and CPAB's staff for their achievements in 2013.

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.; CHAIR, SNC-LAVALIN GROUP; INTERIM CEO OF SNC-LAVALIN IN 2012; 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, RETIRED CFO, BC TELECOM, VANCOUVER, BRITISH COLUMBIA



Gary Porter

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



Jocelyn Proteau

CHAIR, BOARD OF BTB REAL ESTATE INVESTMENT TRUST; CHAIR, BOARD OF RICHELIEU HARDWARE INC.; DIRECTOR, CO2 SOLUTIONS INC., FAMILIPRIX INC., HEC MONTRÉAL; 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, LAC DELAGE, 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, CPA CANADA; FORMER CHAIR, CPA ONTARIO, TORONTO, ONTARIO



Sheryl Kennedy

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



Peter W. Roberts

FORMER VICE CHAIR, RISK OVERSIGHT AND GOVERNANCE BOARD, CPA CANADA; FORMER CFO, SIERRA WIRELESS INC.; FORMER PRESIDENT OF CPA BC, NORTH VANCOUVER, BRITISH COLUMBIA



Benita M. Warmbold

SENIOR VP AND CFO, CANADA PENSION PLAN INVESTMENT BOARD; MEMBER, QUEEN'S UNIVERSITY AUDIT AND RISK COMMITTEE; DIRECTOR, CANADA DEVELOPMENT INVESTMENT CORPORATION, QUEEN'S SCHOOL OF BUSINESS ADVISORY BOARD, TORONTO FINANCIAL SERVICES ALLIANCE, TORONTO, ONTARIO

REPORT OF THE CHIEF EXECUTIVE OFFICER



2013 marked CPAB's 10th anniversary, a milestone that provided an opportunity to reflect on what we have achieved over the past decade and to reconfirm our future goals.

While CPAB is still a relatively young organization, we have already undergone two major transitions in our ongoing development as an effective audit regulator. In our early years, we concentrated on our core business: developing and implementing an inspection methodology and program. In 2009, we moved to the second stage: attaining our vision to be viewed, at home and abroad, as a world-class audit regulator. To this end, we invested in human resource management, a broader inspection methodology, better risk management, improved technology and systems, stakeholder relations and a proactive regulatory affairs program. These investments helped move us from a granular inspection focus to enhanced root-cause analysis and value-added recommendations to the audit firms we inspect. We also began to initiate and participate in thought leadership activities relating to audit quality, and became active in Canadian and international audit regulatory leadership discussions.

Our latest transition began in 2013 with the implementation of the first stage of our 2013-15 strategic plan. Our goal is to build on our accomplishments to date, while further enhancing our effectiveness as a proactive regulator, focused on sustainable solutions that enhance audit quality.

Our 2013-2015 strategic plan, available at www.cpab-ccrc.ca, identifies four priority areas: risk management, focused, effective inspections, thought leadership and stakeholder engagement. Our progress in these four areas is discussed later in my report.



Different Thinking

Fostering an effective regulator mindset and culture

Through improved risk management, enhanced inspection methodology, new thought leadership initiatives and increased stakeholder engagement, we are transitioning from a traditional inspector to a world-class audit regulator.

2013 Inspection Results

The results of CPAB's 2013 inspections have improved over the prior year. The trend in audit quality is positive and audit firms in Canada are taking the challenge to improve audit quality seriously. While some comfort can be taken from this, there remains more to be done and CPAB has a key role to play in the audit quality journey.

The firms generally have sound audit methodologies and are committed to audit quality. Most audits are well done. However, while CPAB's 2013 inspection results resulted in four restatements of financial statements (two per cent of files inspected), the risk of restatements is still too high at some firms.

Among the firms that CPAB inspects annually¹, the Big Four² firms have all made significant progress since our "Call to Action" in 2011 and as a group have had better than a 30 per cent improvement in inspection results in each of the last two years. The Other Annual³ firms started their initiatives later and are also benefiting, with a year-over-year improvement of about 18 per cent in 2013. In most cases, when audit firms performed additional audit work, necessary to

remedy deficiencies identified by CPAB, there was no restatement of the financial statements. However, this is a reflection of the controls and processes in place at the companies being audited and does not mean that a risk of restatement did not exist.

While all firms are capable of executing quality audits, and do so regularly, consistent audit execution remains a challenge for firms, to varying degrees. Inconsistent execution leads to a majority of the audit deficiencies identified by our inspectors.

In prior years, CPAB required many firms to develop and implement action plans to address audit quality issues. These plans have been effective and are responsible for much of the improvement noted in 2013 and 2012.

Actions such as quality messaging/support by firm leadership, limiting the partners in the audit practice who can work on reporting issuers, redeploying national technical resources into practice offices, realigning staffing, changing performance review criteria as they relate to audit quality and changes to audit practices to incorporate quality initiatives have been the most effective.

Looking ahead, these firms continue to enhance their action plans and have incorporated these into their annual cycle of continuous improvement. During 2013 CPAB expanded this requirement for action plans across the firms it inspects annually.

While all firms have made progress in enhancing audit quality, there remains a longer-term challenge to ensure the changes being made are sustainable. The more deeply changes are embedded into the culture of the firm—and the longer they are in place—the more sustainable they will be over the longer term.

Changing accountabilities within the audit practice/office, limiting who can do public company audits, making additional resources available in practice offices, and better recognizing audit quality in performance reviews are good examples of how this can work in practice.

Results to date have been positive, but insufficient time has passed to conclude that changes are now permanent. CPAB will continue to monitor the situation during the 2014 inspection cycle, but remains optimistic that real, lasting change has taken place.

Year One of Our Three-Year Plan

In our view, CPAB's biggest opportunity to influence and accelerate the change needed to ultimately enhance audit quality is not only through our inspections, but also through engagement with key stakeholders, domestically and globally. Over the past two years, CPAB has been a catalyst for discussion and collaboration on issues relating to audit quality. We, together with other stakeholders, have developed a Canadian perspective on audit quality issues being discussed around the world. As a result of these activities, and through insights gained during our inspections, we are refining our focus on the drivers of audit quality. This means thinking differently about audit quality than we have in the past. It means broadening discussions of the drivers of audit quality to include

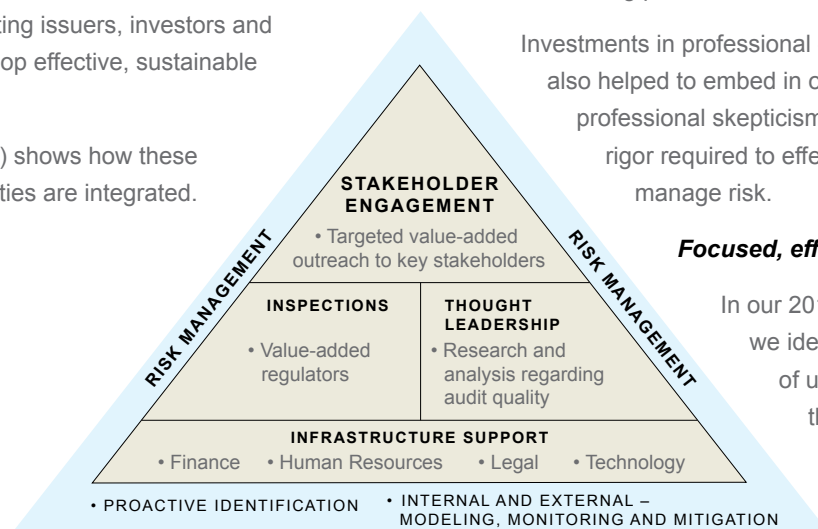
2013 – 2015	
FROM	TO
Compliance mindset	▶ Regulator mindset
Rigorous tactical risk assessment	▶ Comprehensive risk assessment and mitigation
Granular inspection focus	▶ Enhanced root-cause analysis/ value-added recommendations/ requirements
Periodic stakeholder communication	▶ Disciplined, proactive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

such factors as audit firm culture, organizational structure and accountability for inspection results. It means working with all stakeholders involved in the audit process to identify and introduce innovative and sustainable solutions that enhance audit quality.

As described in our 2013-15 strategic plan, CPAB has adopted a multi-faceted and integrated approach to fulfilling our mandate as an effective audit regulator.

A robust risk management mindset within our organization enhances our inspection activities, which is the core of what we do. **Focused, effective inspections** provide an opportunity to analyze the root causes of audit deficiencies and to deliver actionable recommendations to firms to improve audit quality. Further, our inspection findings inform and inspire discussion and understanding of the drivers of audit quality. Through **thought leadership** activities, including research, publishing position papers and commenting on international auditing standards, CPAB is a key contributor to audit quality discussions and debate. At the same time, proactive **engagement with a broad range of stakeholders** is crucial to achieving our inspection, risk management and thought leadership objectives. We want to heighten stakeholder awareness of emerging risks and issues relating to audit quality, and to work with audit firms, audit committees, reporting issuers, investors and regulators to develop effective, sustainable enhancements.

The diagram (right) shows how these key strategic activities are integrated.



Four Strategic Priorities

Risk management

CPAB continues to embed a risk-based assessment culture and practices throughout our organization. We continue to establish processes to effectively identify and, where possible, mitigate the multiple risk factors that affect both our organization and the quality of audits performed by the firms we inspect.

Internally, CPAB has six main categories of risk: reputation; quality/operations; human resources; technology; legal/regulatory, and financial/other. In 2013, we reviewed and updated our crisis management and business continuity plans. Our audit committee conducts a risk review twice a year, and management has implemented a quarterly process to consider risk and adjust our activities accordingly.

We continue to refine and incorporate a variety of processes to identify risk factors relating to audit quality, including environmental scanning, analyzing the reporting issuer population, root-cause focused inspections and key stakeholder engagement. Improved integration between our risk management and inspection areas has helped us direct our resources to the reporting issuers and firms that pose the most risk to the investing public.

Investments in professional development have also helped to embed in our culture the professional skepticism and intellectual rigor required to effectively assess and manage risk.

Focused, effective inspections

In our 2012 Public Report, we identified a number of underlying factors that may affect audit quality, including

inconsistent audit execution, insufficient application of professional skepticism and inadequate supervision and review. We also expressed concern that audit firms' commercial interests may conflict with audit quality considerations.

Based on these findings, we enhanced the methodology for our 2013 inspections to better identify the root causes of quality shortfalls. As mentioned above, we also enhanced our risk assessment activity and refined our criteria for risk assessment in firm and file selection.

To address the disappointing inspection results in 2011, CPAB required the Big Four firms to implement action plans to improve audit quality. These plans contributed to an overall improvement in the 2012 and 2013 inspection results. All other firms inspected annually have also developed action plans. The firms have assessed the success of their individual plans and have refined them accordingly. CPAB monitors these action plans monthly.

Our transition from a more traditional inspector to a world-class regulator that analyzes root causes and makes actionable recommendations to firms will continue in 2014. Ongoing professional development of our staff is key to this evolution.

Thought leadership

CPAB's 2011 and 2012 Audit Quality Symposiums led to the Enhancing Audit Quality initiative, a collaboration between CPAB and the Chartered Professional Accountants of Canada. The EAQ initiative issued its final report in May 2013.

The EAQ initiative contributed significantly to the development of a Canadian consensus on audit quality issues and international proposals. It also created significant interest among stakeholders, as evidenced by a webinar—co-hosted by CPAB and the Institute of Corporate Directors (ICD)—that attracted 450 participants. We have shared the EAQ report with international bodies working on audit quality



Different Thinking

Outreach to audit committees

Audit committees have a critical role to play in enhancing audit quality. Through newsletters, articles, presentations, our new website and the Protocol for Audit Firm Communication of CPAB Inspection Findings with Audit Committees, we have significantly enhanced our outreach to audit committees.

initiatives, including members of the International Forum for Independent Audit Regulators (IFIAR) and the European Commission.

The EAQ report called for specific steps that audit committees and audit firms should take to enhance audit quality. These include performing a comprehensive review of the external audit firm at least once every five years, conducting annual assessments of the external audit firm, and providing increased transparency to audit committees on CPAB's inspection findings. CPAB and CPA Canada worked on three projects that responded to these EAQ initiative recommendations. We are also being assisted by the ICD, whose participation is critical to the success of these three initiatives.

Annual assessment of the external audit firm

Together with a group of experienced audit committees, identified through the ICD, CPA Canada has developed guidance on the annual assessment of audit firms, based on the initial guidance provided in the EAQ final report. CPAB provided input on this project.

Comprehensive review of the external audit firm

CPA Canada has also developed new guidance and tools to help audit committees conduct a periodic comprehensive review of an audit firm. This will include guidance on the preparation and content of the audit committee's public report on the review. CPAB also provided input to CPA Canada on this project.

Increased transparency of CPAB's inspection findings

In response to requests from audit committees for additional information about CPAB's inspection findings, CPAB partnered with audit firms and audit committee members to develop a protocol for increasing the inspection information made available to audit committees. After comprehensive consultations throughout 2013, the Protocol for Audit Firm Communication of CPAB Inspection Findings with Audit Committees (Protocol) was finalized and released in February 2014.

The new Protocol is intended to enhance audit committee oversight of the auditor, raise awareness of issues impacting audit quality and value to capital markets, promote continuous improvement, and enhance audit quality overall.

The Protocol comprises two key elements:

1. Audit firms will share reporting issuer audit file-specific inspection findings with audit committees: Significant inspection findings, the audit firm response, and the disposition from CPAB's Engagement Findings Report (EFR) will be shared by the audit firm with the audit committee, with a copy to CPAB.
2. Audit firms will share the annual CPAB Public Report with audit committees: This will provide the basis for dialogue among the audit firm, the audit committee and management on how the firm and the engagement team are responding to audit quality issues identified in the Public Report.

The primary benefit of sharing specific inspection information is to improve audit quality through enhanced discussions among the auditor, the audit committee and management. This will allow the audit committee to more effectively oversee the work of the auditor and to promote a culture of continuous improvement. The EAQ initiative, inspired by CPAB's Audit Quality Symposiums, has created a model for discussion and collaboration on audit quality issues. Instead of various bodies across the country publishing a plethora of position papers expressing their individual viewpoints, the EAQ initiative saw key stakeholders

CPAB MANAGEMENT COMMITTEE



Brian A. Hunt
FCPA, FCA, ICD.D
CHIEF EXECUTIVE OFFICER



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



Glenn Fagan
FCPA, FCA
VICE PRESIDENT



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

working together to articulate a national perspective, establish a Canadian agenda and influence change. CPAB believes this is a valuable model that should be used to address emerging issues.

CPAB continues to identify issues relating to audit quality, with a view to publishing position papers and encouraging discussion. In addition to the post-EAQ projects described above, our current areas of focus include:

- Consistency of audit execution
- Auditing in foreign jurisdictions
- Professionalism vs. commercialism

In addition, CPAB will continue to comment on auditing standards, identifying areas for improvement, influencing the development of auditing standards at the international level, and making sure Canadian views are taken into account.

We are building a culture of consultation at CPAB, both internally and externally, and we will continue to seek opportunities to collaborate with stakeholders, both nationally and internationally, on audit quality initiatives. CPAB is planning to convene its third Audit Quality Symposium in the fall of 2014.

While we made progress this year toward meeting our thought leadership goals, this area is a top priority in 2014.

Stakeholder engagement

Increased targeted outreach to our key stakeholders—audit firms, audit committees, reporting issuers, investors and regulators—was a major focus in 2013. We developed a comprehensive strategic communications/stakeholder engagement workplan for 2013-14 and are in the process of implementing its various activities.

CPAB's major annual publication is the Public Report. Released on April 4, 2013, the Public Report on our 2012 inspections was sent by email to 2,500 stakeholders and selected financial media. In mid-April, we published information about our Public

Report findings, as well as a link to the first issue of our *Focus on Audit Committees* newsletter, in the ICD *Eyes on Governance* e-newsletter, which reaches 7,000 ICD members. We distributed a second *Focus on Audit Committees* newsletter in May. Public forums on our 2012 inspection findings were held in May in Montréal, Calgary and Vancouver and we also made presentations to the CPA Canada User Advisory Council and CPA Canada Financial Reporting and Accounting Conference.

Outreach to audit committees was a particular focus in 2013. In addition to our audit committee-focused newsletters and work on the transparency protocol for sharing CPAB's inspection findings with audit committees, we attended meetings with audit committee members organized by audit firms. We also made audit committee-related presentations to the Directors College, the CPA Canada Audit Committee Conference and the New Zealand Financial Markets Authority.

A CPAB-authored article "Why a high-quality audit is every board member's business" was the lead story in the September issue of the ICD *Director Journal* magazine.

In the winter of 2013, we updated and re-launched our website, incorporating a new design and structure that makes it easy for visitors to find content of particular interest to them. With information organized by stakeholder and by topic, our new website includes CPAB-authored material and CPAB-curated content from a variety of sources, making it Canada's go-to destination for the latest news on auditor oversight and audit quality. Through social media and other tools, the website is also a catalyst for dialogue and engagement among key stakeholders on audit quality issues in Canada and around the world.

Our second survey of CPAB stakeholders was conducted in the spring/summer of 2013. Carried out by an independent third party, the survey measured levels of awareness and familiarity with CPAB and assessed perceptions of CPAB's performance. It consisted of

one-on-one interviews with CEOs/managing partners/audit leaders of the Big Four audit firms and the other 10 audit firms we inspect annually. It also included an online survey of engagement partners and managing partners at firms reviewed less than once a year.

The survey results indicated general recognition among CEOs/managing partners/audit leaders that CPAB makes a positive contribution to audit quality in Canada. They said our inspections prompt firms to place a greater focus on audit quality and many acknowledged having undertaken a thorough review of internal practices and protocols as a result of our work. That being said, some members of this group expressed concerns about the growing complexity of financial reporting, the resources required to meet CPAB's requirements and the detailed nature of our inspections.

Overall, while respondents mainly agreed that the quality of audits has improved since our inception, they expressed concern that the public remains unaware of CPAB and of the improvements that have been made to audit quality.

We take the survey results very seriously and have met with the firms to discuss their feedback. We will continue to work to raise awareness of CPAB and of issues relating to audit quality, and to make value-added recommendations and requirements to audit firms.

Organizational Capability

We have modified our organizational capability and design to support our four strategic priorities.

CPAB is now organized into four business lines: Risk Management; Inspections; Thought Leadership, and Stakeholder Engagement. This reorganization, which reflects our strategic priorities, has helped us align resources and accountabilities more effectively.

Professional development and succession planning remain high priorities for CPAB. In 2013, staff participated in two major internal training sessions, selected external training programs, numerous special

projects, and an international secondment. To ensure that future leadership is identified and developed, we are designing a leadership development curriculum to complement the professional development program. In 2014, we will continue to strengthen the linkage between personal development and staff assignment so that, to the extent possible, staff will receive assignments of increasing and varying complexity to complement their personal growth plans and enhance their skills. We will continue to employ best-practices human resource management to position CPAB as an employer of choice.

Our improved risk assessment, refined inspection methodologies, thought leadership initiatives and stakeholder engagement and collaboration are helping us implement an effective regulator mindset and culture, which contributes to improved audit quality. Through our core values of *Excellence, Trust, and Respect*, complemented by a commitment to proactivity, we fulfill our 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.

International Partnerships

CPAB continued to expand its international partnerships in 2013, concluding a memorandum of understanding with France's audit regulator in June and a co-operative arrangement with Germany's audit regulator in September. These agreements, which deal with co-operation and information sharing, are based on the agreement we entered into with the Netherlands in 2012.

In April, I and other CPAB representatives travelled to China, where we met with officials from the China Securities Regulatory Commission (CSRC) and Ministry of Finance. During this positive introductory meeting, we shared information on CPAB's legal structures, organization and inspection methodology. We were pleased to welcome Chinese officials to CPAB's offices in December to continue the

discussions. We are optimistic that we will establish a process to move toward an agreement for co-operation on audit oversight over 2014.

CPAB continues to have a strong working relationship with our US counterpart, the Public Company Accounting Oversight Board (PCAOB).

We also continue to be an active member of the International Forum of Independent Audit Regulators. CPAB chairs the IFIAR Global Public Policy Committee Working Group, which includes IFIAR members and representatives of the largest auditing firms' international networks, and which discusses issues relating to audit quality. In 2013, the Working Group discussed inspection findings, root causes of audit deficiencies and proposed solutions, and is also exploring how consistency of audit execution can be integrated into the Group's work plan.

IFIAR members also agreed to a number of changes to its Charter in 2013. The most significant of these is that IFIAR intends to express views/opinions on audit quality matters. In the past, all IFIAR members were required to agree; under the revised Charter, 90 per cent must agree. Minority views will also be expressed.

CPAB will continue to work with IFIAR and other international bodies in 2014 on issues closely related to fulfilling our mandate.

Regulatory Issues

In 2013, Saskatchewan, Yukon and the Northwest Territories recognized CPAB as an auditor oversight body, and we are working with the Alberta Securities Commission on that province's recognition of CPAB as an auditor oversight body as well. We are now recognized as an auditor oversight body under legislation in British Columbia, Manitoba, New Brunswick, the Northwest Territories, Ontario, Québec, Saskatchewan and Yukon. We continue to seek oversight legislation that formally recognizes CPAB in all provinces.

Financial Results

We achieved our financial objectives in 2013, recording a surplus of \$0.2 million on revenues of approximately \$16.9 million. No fee increase was requested in 2013 and none is planned for 2014. CPAB is committed to productivity, effectiveness and cost-efficiency, and our success in this regard is demonstrated by the fact that we have significantly increased our activities over the past three years without raising fees. For additional information, please see the Management's Discussion and Analysis section of this annual report and the audited financial statements.

Conclusion

Our focus in 2013 was to continue to move our organization to a new level of effectiveness by operationalizing our four strategic priorities and aligning our organization to support them. While we made good progress, we need to bring even greater focus in 2014 to our thought leadership and stakeholder engagement activities.

Our accomplishments in 2013—and over the past 10 years—are the result of the contributions of CPAB's Board of Directors, management and staff. I would like to thank our current Board members, especially Board Chair Nick Le Pan, our management team, and every member of staff for their support over the past year.



Brian A. Hunt, FCPA, FCA, ICD.D
CHIEF EXECUTIVE OFFICER

1. In CPAB's view trends are best measured against the population of 14 firms inspected each year. These firms account for about 99.5 per cent of the market capitalization of listed reporting issuers.
2. Big Four firms include: Deloitte LLP, EY LLP, KPMG LLP and PwC LLP.
3. Other Annual firms include: Next Four firms (BDO LLP, Grant Thornton LLP, MNP LLP and Raymond Chabot Grant Thornton S.E.N.C.R.L.) and Regional firms (Collins Barrow Toronto LLP, Davidson & Company LLP, DMCL LLP, MacKay LLP, Manning Elliott LLP and Smythe Ratcliffe LLP).

INSPECTION ACTIVITY

Innovative Actions – Sustainable Improvement

As at December 31, 2013 there were 297 participating audit firms registered with CPAB. During 2013, 21 new firms registered with CPAB (mostly foreign firms) and 20 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).

Overview and scope

Each year CPAB inspects all firms that audit 100 or more reporting issuers and at least every two years, inspects firms with between 50 and 99 reporting issuer audits. There are 19 firms with greater than 50 reporting issuers and CPAB inspected 17 of these firms in 2013. Over three years, the majority of firms registered with CPAB that are also registered with the Public Company Accounting Oversight Board are inspected (Securities and Exchange Commission dual registration). In addition CPAB relies to some extent on inspections performed by the relevant provincial accounting bodies, particularly when these firms audit less than five reporting issuers. These reviews are supplemented by CPAB inspections, based on a robust risk analysis described below.

During 2013 CPAB inspected 49 firms (2012 – 61) and conducted focused inspections on 195 audit files (2012 – 211) to assess the effectiveness and implementation of the audit firms' policies and procedures relative to accounting and auditing standards. In 2012 we also conducted limited assessments of an additional 25 files for application of CAS 600. In 2013, the reduction in the number of firms and total files inspected reflects a combination of factors. Inspection activity cannot solely be measured by the number of firms and files inspected since we are now taking a broader perspective, assessing such factors as action plans, firm structure, internal monitoring etc., which are necessary to get at the underlying issues relating to audit quality. For more details, the CPAB 2013 Public Report is available at www.cpab-ccrc.ca.

In 2013 CPAB conducted:

- Inspections of Canada's Big Four¹ firms, including 105 audits performed by those firms
- Inspections of 10 firms² (49 audits) that are subject



Different Thinking

Focused, effective inspections

We have moved from a granular inspection focus to enhanced root-cause analysis and value-added, actionable recommendations to the audit firms we inspect. Our inspection findings inform and encourage discussion and understanding of the drivers of audit quality.

to annual inspection because they audit more than 100 reporting issuers

- Inspections of 18 Regional and Local firms (30 audits)
- Inspections of two Foreign firms, including two audits
- 15 follow-up inspections to ensure that CPAB's recommendations have been implemented, including nine audit files

In addition to the inspections CPAB conducted, provincial accounting bodies inspected 71 (2012 – 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, endeavor 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 2013, based on its risk analysis, CPAB carried out inspections of two foreign firms.

Risk-based Approach

CPAB has developed a Composite Risk model that is used to identify the reporting issuers and audit firms

that may represent the most significant risks to the investing public. By assessing the reporting issuer's risk on a standalone basis (Reporting Issuer Risk) with risk factors associated with the audit firm (Firm Risk), CPAB develops a comprehensive view of risk for reporting issuers. These are used to identify audits that have the highest risk of a material error or misstatement. This model takes into account: the general economy; the industry in which the reporting issuer operates; the reporting issuer's financial stability, size and foreign exposure; management's track record; the audit firm's risk profile, and the engagement partner's experience, including past inspection results.

The Firm Composite Risk assessment is used in determining the non-annual audit firms inspected each year. It is also instrumental in deciding the number of files inspected at each firm. In turn, the Reporting Issuer Risk helps identify the specific files to be inspected at each firm.

The risk assessment process is managed by CPAB's risk management team, with input from the individual inspection teams and CPAB management. The risk management team also conducts ongoing environmental scans and reporting issuers of interest (due to such factors as negative media coverage, questionable accounting, industry concerns, high profile, etc.) may be selected for inspection at any time during the year.

In 2013, CPAB's 30-member inspection staff was supported by five contract consultants who primarily specialize in the areas of taxation, valuations and information technology.

Results of Inspections

In CPAB's view, trends are best measured by assessing the inspection results for the 14 firms CPAB inspects annually. These firms account for approximately 99.5 per cent of the market capitalization of listed reporting issuers.

In 2013, CPAB inspected 154 audits in this annual group and can report a continued overall improvement in audit quality. Most significantly, all firms demonstrated progress and have action plans in

place to continue this in 2014. Not all firms have achieved the same level of success in reaching their audit quality goals, and action plans remain a critical part of this process.

The quality of audits in Canada continues to improve. The firms generally have sound audit methodologies and believe in audit quality. Most audits are well done. In most cases, when audit firms performed additional audit work necessary to remedy deficiencies identified by CPAB, there was no restatement of the financial statements. However, this is a reflection of the controls and processes in place at the companies being audited and does not mean that a risk of restatement did not exist.

Big Four firms

Each of the Big Four audit firms have introduced action plans to address, among other things, audit quality improvement challenges from CPAB. In most cases, these plans have been in place for two years or more and all firms have made good progress in their audit quality objectives. While some are more advanced than others, each firm is taking actions that should ensure sustainable changes, rather than just short-term fixes.

In CPAB's view, these action plans have contributed significantly to the improvement in the inspection results over the past two years and now appear to be an integral part of the annual planning cycle for each firm. However, CPAB notes that not all of the Big Four firms have demonstrated the same level of improvement. Firms that focus on the drivers of consistency in audit execution perform better than those that focus on other aspects of audit quality.

In addition to their action plans, firms are also implementing CPAB's other mandatory recommendations that are contained in the firm reports. CPAB will continue to monitor the implementation, sustainability and effectiveness of these actions as part of its 2014 inspection program, and will take action as necessary.

Other Four National Network firms/Regional/Local firms

The Other Firms inspected annually includes Four Other National/Network firms³ and six regional firms.

Four Other National/Network firms

Taken as a group, these firms showed improved inspection results in 2013. As is the case with the Big Four, not all firms have realized the same level of success. However, unlike the Big Four, there is greater variability when measuring results. These firms are assessing their progress and, after considering CPAB's other recommendations contained in their firm reports, will take appropriate action to build on the success achieved in 2013. CPAB will continue to monitor the implementation, sustainability and effectiveness of these actions as part of the 2014 inspection program and take action as necessary.

Six regional firms

These firms generally have one office and audit a large number of reporting issuers, with a focus on one or two particular specialty areas. To the extent that their practice is restricted to these areas, audit quality is good. When they audit companies outside these specialty areas there can be challenges. Taken as a group, audit quality in 2013 has improved in line with the Other National/Network firms. CPAB has made mandatory recommendations, including a requirement to implement action plans, in the firm reports that are directed at the individual needs of these firms. CPAB will monitor the implementation, sustainability and effectiveness of these actions as part of the 2014 inspection program and take action as necessary.

Nature of inspection findings

More than 94 per cent of CPAB's 2013 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 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.

The results of carrying out additional audit procedures required by CPAB as part of its 2013 inspections gave rise to four restatements (two per cent of files inspected). This low level of restatement should



Different Thinking

Action plans to improve audit quality

After disappointing inspection results in 2011, CPAB required many audit firms to implement action plans to improve audit quality. CPAB believes these action plans are responsible for much of the improvement in audit quality noted in 2012 and 2013. Firms are continuing on the journey to improve audit quality by focusing on innovative, longer-term measures.

give investors some comfort, however, the risk of restatement is still too high at some firms.

Disciplinary Actions

Following the 2013 inspections, CPAB has placed Requirements on seven firms (2012 – five) and Restrictions on two firms (2012 – two). These actions limit the practice of the firms and/or their partners in their reporting issuer audits. CPAB follows up with firms subject to its disciplinary measures and ensures the disciplinary measure is not removed until all required actions have been implemented and are effective. There are currently no Sanctions in place on any firm. No review proceedings or any other proceedings were conducted relating to CPAB's disciplinary decisions in 2013 or 2012.

1. Big Four firms include: Deloitte LLP, EY LLP, KPMG LLP, and PwC LLP.
2. Other annual firms include: BDO LLP, Grant Thornton LLP, MNP LLP, Raymond Chabot Grant Thornton S.E.N.C.R.L., Collins Barrow Toronto LLP, Davidson & Company LLP, DMCL LLP, Mackay LLP, Manning Elliott LLP, and Smythe Ratcliffe LLP.
3. Other National/Network firms include: BDO LLP, MNP LLP, Grant Thornton LLP and Raymond Chabot Grant Thornton S.E.N.C.R.L.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Results, Outlook, Principal Risks and Uncertainties

THE FOLLOWING IS A REVIEW OF THE CANADIAN PUBLIC ACCOUNTABILITY BOARD'S OPERATING RESULTS FOR THE YEAR ENDED DECEMBER 31, 2013. THIS SECTION ALSO INCLUDES THE OUTLOOK FOR 2014 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 reporting issuers 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, and engaging with various stakeholders in the audit process such as audit committees.

As at December 31, 2013, 297 (2012 – 296) 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 2013 CPAB inspected 49 firms, compared to 61 in 2012 (including follow-up inspections). 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, each of which takes 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 2013 Inspections, CPAB has Requirements on seven firms (2012– five) and has Restrictions on two firms (2012 – two). Two firms with Requirements withdrew from CPAB during the year and CPAB removed Requirements on one firm in 2013. During 2013, CPAB did not place any Sanctions on a participating firm (2012 – nil). There were no review proceedings or any other proceedings conducted in respect of CPAB's disciplinary decisions in 2013 or 2012. 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 2013 Public Report at www.cpab-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 2013, 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 2013, 191 firms (2012 – 180) 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. CPAB has not changed its base fee rate of 2.0 per cent since 2010.

CPAB had revenues of \$16.9 million in 2013, compared to revenues of \$16.0 million in 2012. The 5.0 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, totaling \$11.86 million or 71.3 per cent of 2013 total expenses of \$16.6 million (2012 – \$10.6 million or 70.5 per cent). The increase in salaries and benefits was due to additional staff hired during the year and a general market increase in staff salaries.

Excluding salaries and benefits, operating expenses in 2013 increased approximately 7.8 per cent, to \$4.78 million, compared to \$4.43 million in 2012. The increase was largely related to an increase in occupancy costs, as the organization moved its head office into new premises in January 2013.

Overall, operating expenses amounted to \$16.6 million (2012 – \$15.0 million), increasing \$1.6 million or

10.7 per cent from 2012. Of total operating expenses in 2013, 77 per cent related to inspection activity (2012 – 77 per cent). Of total salaries and benefits expense in 2013, 87 per cent was related to inspections activity (2012 – 85 per cent). CPAB has contracts with six 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 2013. The breakdown of salaries and benefits by executive, inspection and administrative staff was:

	2013		2012	
	Salaries and benefits	Number of Employees	Salaries and benefits	Number of Employees
Executive	\$2.5 million	5	\$2.3 million	5
Inspection Staff	\$7.8 million	31	\$7.5 million	31
Administrative Staff	\$1.6 million	14	\$0.8 million	11
	\$11.9 million	50	\$10.6 million	47

The excess of revenue over expenses in 2013 was \$0.22 million, compared to \$0.99 million in 2012. CPAB currently has a reserve of \$7.2 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 2014.

Cash Flows and Liquidity

Cash used in 2013 was \$0.21 million (2012 – cash generated \$0.06 million). At December 31, 2013 CPAB

had a strong working capital position of approximately \$5.1 million (2012 – \$4.16 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 one year.

Director and Executive Compensation

CPAB endeavors 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 Chartered Professional Accountants Canada 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' 2013 compensation included fees of \$0.8 million (2012 – \$0.8 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 2013. All Board Members attended every meeting, either in person or by phone, except for one Board member who missed one meeting. All Board Members attended the Board's strategic planning session in September.

Executive compensation in 2013, which included all amounts paid to the CEO, CFO and next three highest-paid members of the Management Committee, totaled \$2.5 million (2012 – \$2.3 million). This includes salaries, accrued bonuses and Registered Retirement Savings Plan contributions by CPAB on behalf of staff.

Outlook for 2014

Over the past year, CPAB has evolved its inspection methodology, systems and processes, and people to provide effective audit oversight in accordance with its 2013-2015 strategic plan. These changes have been positively received by stakeholders and by the international community. Going forward, CPAB will continue 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 three-year strategic plan is to ensure audit firms reduce the rate of audit deficiencies in files CPAB inspects in a manner that is sustainable in the longer term. To effectively address this core issue, CPAB will meet its regulatory mandate by continuing to enhance 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 continuing to focus on four priorities:

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

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

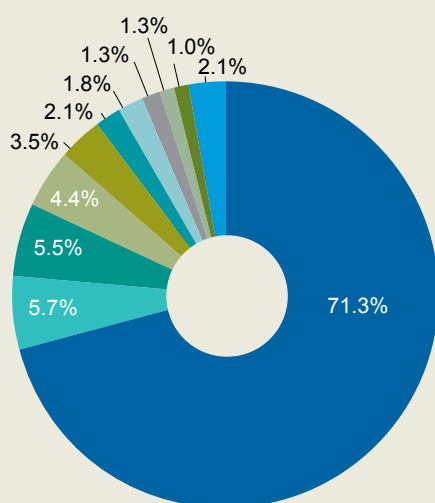
- Making/placing more value-added recommendations/requirements to/on audit firms
- Providing greater transparency in CPAB's communication of inspection results and about the key drivers of audit quality and audit risks to help

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

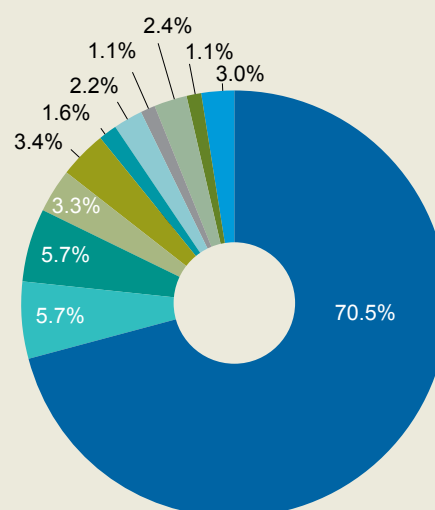
CPAB will also continue to participate in the domestic regulatory agenda and influence the development of

MAJOR EXPENSES BY TYPE



2013

Salaries & Benefits	\$11,861,670
Directors' fees and expenses	946,639
Travel	924,284
Occupancy costs	731,244
Administrative and general	575,213
Professional fees	345,676
Outreach activities	307,772
Legal services	220,619
Continuing education	209,994
Insurance	158,756
Amortization	357,826



2012

Salaries & Benefits	\$10,603,442
Directors' fees and expenses	862,674
Travel	850,962
Occupancy costs	493,018
Administrative and general	517,108
Professional fees	240,446
Outreach activities	326,783
Legal services	163,742
Continuing education	364,034
Insurance	158,756
Amortization	454,946

the international audit regulatory framework through its leadership position in the International Forum for Independent Audit Regulators.

For 2014, revenues are budgeted at \$16.0 million (2013 – \$16.8 million) and operating expenses are budgeted at \$16.6 million (2013 – \$16.7 million). In percentage terms, revenues are expected to decrease by 5.0 per cent, while costs will decrease by about 1.03 per cent, resulting in an operating deficit for 2014. The Toronto office 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 2014 of approximately \$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 is constantly working to mitigate risk. In 2013, 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 has 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 of the Board. CPAB proactively reviews and updates the plan annually. Based on the risks identified, CPAB develops and implements mitigation strategies.

2014 CPAB OPERATING BUDGET

CPAB STATEMENT OF OPERATIONS

(UNAUDITED)

<i>Year Ended December 31 (000's),</i>	<i>2013 Actual</i>	<i>2013 Budget</i>	<i>2014 Budget</i>
REVENUE			
Fees	\$ 16,778	\$ 16,700	\$ 15,950
Interest income	79	65	70
	\$ 16,857	\$ 16,765	\$ 16,020
EXPENSES			
Salaries and benefits	11,862	11,853	11,998
Directors' fees and expenses	947	909	905
Travel	924	920	787
Occupancy costs	731	659	728
Administrative and general	575	603	608
Professional services	346	250	181
Outreach activities	308	392	407
Legal services	220	240	189
Continuing education	210	340	241
Insurance	159	164	160
Amortization of property and equipment	358	395	350
	16,640	16,725	16,554
Excess (Deficiency) of Revenue Over Expenses for the Year	\$ 217	\$ 40	\$ (534)

COMMENTARY ON THE 2014 CPAB OPERATING BUDGET

The 2014 Operating Budget (the 2014 Budget) shows CPAB continuing to fulfill its mandate effectively during challenging times, while looking more outward as an organization.

For 2014, revenues, which cover operating expenses, are budgeted at \$16.0 million, as compared to actual and budgeted revenues of \$16.9 million and \$16.8 million, respectively in 2013. The decrease in revenues will result in an operating deficit for 2014, but CPAB will not increase its base fee rate and, instead, will draw down on its current reserve, since the reserve balance is currently at a higher level than is required based on management estimates. CPAB has not changed its base fee rate of 2.0 per cent since 2010. The 5.0 per cent decrease in revenues reflects a decrease in the audit fees that firms charge Canadian reporting issuers. 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 2013 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 2014 will remain unchanged.

CPAB's operating expenses for 2014 have been budgeted at \$16.6 million. This amount is similar to total actual operating expenses of \$16.6 million and a 1.0 per cent decrease from total budgeted operating expenses of \$16.7 million in 2013. There are no significant changes in expenses in the 2014 Budget, relative to 2013 actual and budgeted expenses.

Outreach activities expenses are budgeted to increase to \$0.4 million in 2014, from \$0.3 million in 2013 because CPAB will incur additional costs in 2014

for its Audit Quality Symposium. There was no Audit Quality Symposium in 2013. CPAB continues to be more outward-looking and is building on the progress made through its 2013 initiatives. CPAB will enhance its outreach further in 2014 to key stakeholders, including audit committees, investors and standard setters.

Overall, the 2014 Operating Budget shows CPAB will have an operating deficit for 2014 of \$0.5 million, which by the end of 2014 should leave CPAB with a cumulative undistributed surplus of approximately \$5.7 million. CPAB plans to maintain a minimum reserve of approximately \$5.2 million, which equals three months of cash operating expenses. Future decreases in audit fees that firms charge Canadian reporting issuers may require CPAB to reconsider the rate it charges audit firms.

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 strategic plan continues to focus on four priorities going forward:

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

In addition to building on the work done in 2013 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, ICD.D
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, 2013, 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, 2013, 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.



CHARTERED ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS

TORONTO, ONTARIO, FEBRUARY 11, 2014

STATEMENT OF FINANCIAL POSITION

	December 31, 2013	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	\$ 194,240	\$ 401,541
Investments (note 4)	6,700,000	5,300,000
Accounts receivable (note 4)	62,542	28,821
Sales tax recoverable	46,154	132,520
Prepaid expenses	234,248	223,926
	7,237,184	6,086,808
Investments (note 4)	—	1,000,000
Property and equipment (note 5)	1,501,616	871,253
	\$ 8,738,800	\$ 7,958,061
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,096,915	\$ 1,866,991
Unamortized tenant inducements	450,163	116,967
NET ASSETS		
Invested in property and equipment	1,501,616	871,253
Unrestricted	4,690,106	5,102,850
	6,191,722	5,974,103
	\$ 8,738,800	\$ 7,958,061

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>2013</i>	<i>2012</i>
	<i>Invested in property and equipment</i>	<i>Unrestricted</i>	<i>Total</i>	<i>Total</i>
Net assets, beginning of year:	\$ 871,253	\$ 5,102,850	\$ 5,974,103	\$ 4,985,396
Excess of revenue over expenses for the year	—	217,619	217,619	988,707
Purchase of property and equipment	988,189	(988,189)	—	—
Amortization of property and equipment	(357,826)	357,826	—	—
Net Assets, End of Year	\$ 1,501,616	\$ 4,690,106	\$ 6,191,722	\$ 5,974,103

SEE ACCOMPANYING NOTES.

STATEMENT OF OPERATIONS

<i>Year Ended December 31,</i>	<i>2013</i>	<i>2012</i>
REVENUE		
Fees	\$ 16,778,006	\$ 15,948,372
Investment income	79,306	76,246
	\$ 16,857,312	\$ 16,024,618
EXPENSES		
Salaries and benefits	11,861,670	10,603,442
Directors' fees and expenses	946,639	862,674
Travel	924,284	850,962
Occupancy costs	731,244	493,018
Administrative and general	575,213	517,108
Professional services	345,676	240,446
Outreach activities	307,772	326,783
Legal services	220,619	163,742
Continuing education	209,994	364,034
Insurance	158,756	158,756
Amortization of property and equipment	357,826	454,946
	16,639,693	15,035,911
Excess of Revenue Over Expenses for the Year	\$ 217,619	\$ 988,707

SEE ACCOMPANYING NOTES.

STATEMENT OF CASH FLOWS

<i>Year Ended December 31,</i>	<i>2013</i>	<i>2012</i>
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	\$ 217,619	\$ 988,707
Add back (deduct) non cash items:		
Amortization of property and equipment	357,826	454,946
Amortization of tenant inducements	61,259	(73,842)
Tenant cash inducements	271,937	—
Net change in non-cash working capital items (note 7)	272,247	(59,508)
Cash generated from operations	1,180,888	1,310,303
INVESTING ACTIVITIES		
Purchase of short-term investments	(13,000,000)	(12,800,000)
Redemption of short-term investments	12,600,000	12,900,000
Purchase of long-term investments	—	(1,000,000)
Purchase of property and equipment	(988,189)	(603,649)
Net change in non-cash working capital items (note 7)	—	251,538
Cash used in investing activities	(1,388,189)	(1,252,111)
Cash and cash equivalents (used) generated in the year	(207,301)	58,192
Cash and cash equivalents, beginning of year	401,541	343,349
Cash and Cash Equivalents, End of Year	\$ 194,240	\$ 401,541

SEE ACCOMPANYING NOTES.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND DECEMBER 31, 2012

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 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 2013 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:

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

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 of CPAB's leases are operating leases. Benefit tenant inducements received at the inception of a 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.

	2013	2012
GICs – Current	\$ 6,700,000	\$ 5,300,000
GICs – Long-term	–	1,000,000
	6,700,000	6,300,000
Accrued interest	54,151	28,781
	\$ 6,754,151	\$ 6,328,781

GICs have interest rates from 1.00% to 2.01% (2012 – 1.00% to 2.01%).

Accrued interest income is included in accounts receivable.

5. Property and Equipment

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

	Cost	Accumulated Amortization	2013 Net	2012 Net
Office equipment and furniture	\$ 680,487	\$ (522,053)	\$ 158,434	\$ 117,769
IT infrastructure and networks	1,534,458	(1,105,834)	428,624	266,692
Computer software	211,557	(168,764)	42,793	61,718
Computing equipment	161,555	(131,125)	30,430	64,755
	\$ 2,588,057	\$ (1,927,776)	660,281	510,934
Leasehold improvements, net			841,335	360,319
			\$ 1,501,616	\$ 871,253

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, 2013 and 2012 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:

	2013	2012
Accounts receivable	\$ (33,721)	\$ 22,093
Sales tax recoverable	86,366	(45,290)
Prepaid expenses	(10,322)	(62,059)
Accounts payable and accrued liabilities	229,924	25,748
	\$ 272,247	\$ (59,508)

In 2012, 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 lease. The annual rent expense is approximately \$255,000 for the term of the lease. CPAB's share of the building's operating costs is estimated to be \$287,000 per annum.

In 2013, CPAB also entered into a new lease in April for office space in Vancouver and in November for office space in Montreal. The lease in Vancouver is for a term of 45 months and the annual expense is approximately \$92,000. The lease in Montreal is for a term of 72 months and the annual expense is approximately \$64,000.

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 CHARTERED PROFESSIONAL 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

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.; CHAIR, SNC-LAVALIN GROUP; INTERIM CEO OF SNC-LAVALIN IN 2012; 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, RETIRED CFO, BC TELECOM, 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. Jenkins¹

FORMER DEPUTY CHIEF EXECUTIVE, DELOITTE & TOUCHE (CANADA); FORMER DIRECTOR, CHARTERED PROFESSIONAL ACCOUNTANTS OF CANADA; FORMER CHAIR, CHARTERED PROFESSIONAL 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; FORMER VICE CHAIR, CGA CANADA; RETIRED CO-FOUNDER OF PORTER HÉTU INTERNATIONAL, SIDNEY, BRITISH COLUMBIA.

Jocelyn Proteau²

CHAIR, BOARD OF BTB REAL ESTATE INVESTMENT TRUST; CHAIR, BOARD OF RICHELIEU HARDWARE INC.; DIRECTOR, CO2 SOLUTIONS INC., FAMILIPRIX INC., HEC MONTRÉAL; 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, LAC DELAGE, QUÉBEC.

Peter W. Roberts¹

FORMER VICE CHAIR, RISK OVERSIGHT AND GOVERNANCE BOARD, CHARTERED PROFESSIONAL ACCOUNTANTS OF CANADA; FORMER CFO, SIERRA WIRELESS INC.; FORMER PRESIDENT, CHARTERED PROFESSIONAL ACCOUNTANTS OF BRITISH COLUMBIA, NORTH VANCOUVER, BRITISH COLUMBIA.

Benita M. Warmbold²

SENIOR VICE PRESIDENT AND CFO, CANADA PENSION PLAN INVESTMENT BOARD; MEMBER, QUEEN'S UNIVERSITY AUDIT AND RISK COMMITTEE; DIRECTOR, CANADA DEVELOPMENT INVESTMENT CORPORATION, QUEEN'S SCHOOL OF BUSINESS ADVISORY BOARD, TORONTO FINANCIAL SERVICES ALLIANCE, TORONTO, ONTARIO.

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2 MEMBER OF THE HUMAN RESOURCES
AND GOVERNANCE COMMITTEE

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