CPAB
CCRC

CANADIAN PUBLIC ACCOUNTABILITY BOARD
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

2014

WORLD-CLASS AUDIT REGULATION

Annual Report

Changing Expectations

www.CPAB-CCRC.ca

About CPAB

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

Vision

Effective regulation: Proactively identify current and emerging risks to the integrity of financial reporting in Canada, assess how auditors effectively respond to those risks, and engage those charged with governance, regulators, and standard setters to develop sustainable solutions.

Mission

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

Board of Directors

CPAB has an 11-member Board of Directors appointed by the Council of Governors.

Employees

CPAB employs approximately 50 professionals.

Locations

CPAB operates from offices in Montréal, Québec, Toronto, Ontario and Vancouver, British Columbia.

Contents

Changing Expectations

Expectations of the audit are changing. As greater focus has been placed on audit quality, the responsibilities of participants have changed, causing closer examination of and different expectations of those that are involved in financial reporting. CPAB, other regulators, audit firms, audit committees and management need to understand the impact on their respective roles and responsibilities.

Introduction

Welcome to the Canadian Public Accountability Board's (CPAB) 2014 Annual Report. This year we have modified our annual reporting approach to better align with the information needs of our stakeholders and have produced three complementary documents.

In the past, CPAB has presented its all-firm inspection findings in a public report in late March. At that time, we have also published a separate annual report comprising an operational overview and our financial statements. Stakeholders have told us that an earlier release of our annual inspection findings would help better inform audit planning, and in particular, assist audit committees review year-end results and prepare for the coming year.

Canada's Big Four firms, and their foreign affiliates, audit over 61 per cent of all reporting issuers, representing approximately 98 per cent of the country's total market capitalization. Historically, the nature of findings at the Big Four firms is consistent with our findings across all other firms. Because we believe an earlier release of this information can also provide timely insights for all firms, CPAB issued its first annual inspections report focused on Canada's Big Four (Deloitte LLP, EY LLP, KPMG LLP, PwC LLP) in November 2014.

To complete our reporting requirements, we released our 2014 public report on inspections covering all firms reviewed in 2014 on March 31, 2015, along with this 2014 Annual Report which is focused on our financials for the year ended December 31, 2014.

It is our view that this approach will meet the needs of our various stakeholders more effectively in terms of both actionable content and timing.

Message from the Chair

We encourage all firms to commit to continuing this progress at every level of their organization to safeguard this positive trend and, ultimately, the confidence of investors.

The quality of Canadian audits has improved over 2013. We encourage all firms to commit to continuing this progress at every level of their organization to safeguard this positive trend and, ultimately, the confidence of investors.

In 2014, the board affirmed management is on track against CPAB's three year strategic plan including an increased emphasis on engaging with external stakeholders, and specifically audit committees, and the development of thought leadership content. These efforts are gaining traction.

In November, CPAB convened Canada's third Audit Quality Symposium, bringing together corporate directors, audit committee chairs, business leaders, audit firms, regulators, standard setters and academics from around the world. CPAB board members participated in this robust discussion on audit quality issues, including regulatory developments impacting capital markets and emerging trends. The board and management will reflect on areas requiring further attention, including the introduction in Canada of a longer form auditor report, the interest among the director community in audit quality indicators and other information that might assist them in their oversight role such as the periodic comprehensive review of the external auditor, and an increased emphasis on the audit work of small and mid-size reporting issuers.

2015 marks the final year of CPAB's current strategic plan, at which time we will begin to shape our direction for 2016-2018, leveraging the progress made over the past three years, and including additional activity we believe will amplify our capability as a world-class audit regulator.

We said goodbye to director Peter Roberts, who stepped down from the board in December. We appreciate Peter's commitment and service and wish him all the best.

Finally, I would like to thank each of my colleagues on the board for their efforts in 2014. I wish to also acknowledge the contributions of Chief Executive Officer Brian Hunt and the entire CPAB management team and staff.

Nick Le Pan
Board Chair

Message from the CEO

Audit Quality Improving; Expectations Are Changing

Overall, results for all firms inspected by the Canadian Public Accountability Board (CPAB) in 2014 improved over 2013, largely due to the effectiveness of action plans implemented by the Big Four firms beginning in 2012, and later on by the 10 other annually inspected firms. The audit firms inspected by CPAB annually account for roughly 99.5 per cent of the total market capitalization of all public companies trading in Canada.

The Big Four firms (Deloitte LLP, EY LLP, KPMG LLP, PwC LLP), and their foreign affiliates, audit approximately 98 per cent of all Canadian reporting issuers by market capitalization. As a group, these firms continue to progress, in large part by augmenting their action plans and embedding them into their annual cycle of continuous improvement. While not all Big Four firms are in exactly the same place when it comes to implementation or results, our inspections indicate that, overall, these firms are taking action that is needed.

The 10 other annually inspected firms – comprising four national/network firms and six large regional firms that collectively audit slightly more than one per cent of all Canadian reporting issuers by market capitalization – have also worked to address audit quality gaps through action plans.

Inspection results for the four national/network firms, which audit about one per cent of all reporting issuers by market capitalization, generally improved in 2014. While progress is being made, not all firms are where they need to be when it comes to audit quality – there is still more work to do. Challenges exist among some of the six large regional firms which audit about one half per cent of all Canadian reporting issuers by market capitalization. For this group of regional firms, overall inspection results declined even though the results for some firms showed improvement. The variation in results in part reflects how far along they are in implementing their action plans – some have more work to complete than others. These firms are capable of executing quality audits in areas where they have particular expertise; in these cases we typically do not have many significant inspection findings. When they audit companies beyond those specialties, the number of significant deficiencies increases and firms need to be more diligent in these cases. We are assessing their progress and, based on CPAB's recommendations, these firms will be required to take further action.

In response to requests from stakeholders for more transparency, CPAB introduced the Protocol for Audit Firm Communication of CPAB Inspection Findings with Audit Committees (Protocol) in March 2014. The Protocol requires participating audit firms to share a copy of our public reports on inspections with the audit committees of their clients (reporting issuers) as well as any file-specific significant inspection findings. We believe this is an effective way of enhancing the dialogue among audit firms, management and audit committees and will help improve audit quality. CPAB has received positive feedback from audit committees regarding the implementation of the Protocol.

The board and management reviewed and validated CPAB's 2013-2015 strategic plan with no modification to the current approach. We strengthened our capability to meet our objectives in the areas of risk management, stakeholder engagement, thought leadership and inspections, including the recruitment of a senior executive to lead our outreach program, and supplementing our inspections team with specialized experts in the areas of actuary, IT and extractive resources.

We continued to offer development opportunities for staff including training in professional areas. We also launched a recognition program to acknowledge staff for their years of service and outstanding contributions and completed a staff secondment to our US regulatory counterpart to provide opportunities to learn best practices and grow professionally.

CPAB volunteered in support of several organizations, including Sun Youth, Santa Comes to Bay Street, Adopt-a-Family, National Denim Day, and the CP24 CHUM Christmas Wish. In addition, the Keith Boocock Doctoral Scholarship, established by the board in memory of CPAB's second CEO to support improvements in audit quality, was awarded to Canadian Ph.D student Ian Burt, School of Accounting and Finance, University of Waterloo, Ontario.

A priority audience for 2014 was audit committees and members. We met with approximately 100 corporate directors from April to November. We expect that our connection with many of these individuals will build into more conversations in 2015 as we demonstrate the relevance of the audit quality issue and the value CPAB can bring to the discussion. Some audit committee members expressed interest in peer to peer discussion forums that would provide an opportunity for chairs to interact on issues and good practices – CPAB will coordinate and pilot such discussions in 2015.

We made good progress in providing input to CPA Canada, the Canadian Auditing and Assurance Standards Board and international standard setters on areas where implementation guidance of auditing standards is required.

In late November we hosted CPAB's third Audit Quality Symposium: Changing Expectations. More than 100 corporate directors, preparers, regulators, standard setters, academics and audit firm leaders took part in discussions around key audit quality issues. CPAB, CPA Canada and the Institute of Corporate Directors are working together with other stakeholders to move forward on the issues discussed.

In 2015, CPAB will continue to:

- *Build and drive an employer of choice organization of high performing professionals and subject matter experts*
- *Deliver risk-based, quality inspections*
- *Provide insights gleaned from our annual findings*
- *Facilitate discussions on how to drive sustainable quality through consistent execution, enhance audit committee effectiveness, and support the long term health of the audit profession and the value of the audit*

As we reflect on CPAB's achievements in 2014, I would like to thank CPAB's board of directors, management and staff for their contribution to our progress and their dedication to audit quality. I look forward to moving our strategic initiatives forward in 2015.

Brian Hunt, FCPA, FCA, ICD.D
Chief Executive Officer

Inspection Program Activity

CPAB Inspection Methodology

CPAB's risk-based methodology for choosing files (and the specific areas of those files) for inspection is not intended to select a representative sample of a firm's audit work.

Instead, it is biased towards higher-risk audit areas of more complex public companies, so there is a greater likelihood of encountering audit quality issues. Our inspections do not look at every aspect of every file and are not designed to identify areas where auditors met or exceeded standards. Results should not be extrapolated across the entire audit population, but instead be viewed as an indication of how firms address their most challenging situations.

At December 31, 2014, 290 audit firms were registered with CPAB. Twenty-seven new firms registered (mostly foreign firms) and 33 voluntarily terminated their registration. During 2014, in total CPAB inspected 42 firms (2013:49) and 174 engagement files (2013:195), including:

4 Big Four firms	:	98 engagement files
4 National/network firms	:	32 engagement files
6 Large regional firms	:	27 engagement files
16 Other firms	:	15 engagement files
12 Follow-up inspections	:	2 engagement files

Audit firms who voluntarily participate in the Protocol share significant file-specific inspection findings with their clients' audit committees. A significant inspection finding is a significant deficiency in the application of generally accepted auditing standards related to a material financial balance or transaction stream where the audit firm must perform additional audit work to support the audit opinion and/or is required to make significant changes to its audit approach. CPAB identified a total of 32 files containing significant inspection findings in the 174 engagement files we examined in 2014. Ten of the 14 annually inspected firms, including all Big Four firms, all national/network firms, and two of the six regional firms participate in the Protocol (one additional regional firm joined in 2015; others are currently discussing joining). Of the other firms inspected in 2014 with significant findings, one firm did not participate and two were inspected before the Protocol was in place. A complete list of firms participating in the Protocol is available on CPAB's website at **www.cpab-ccrc.ca**.

4 Audit firms : **98%** Total market capitalization

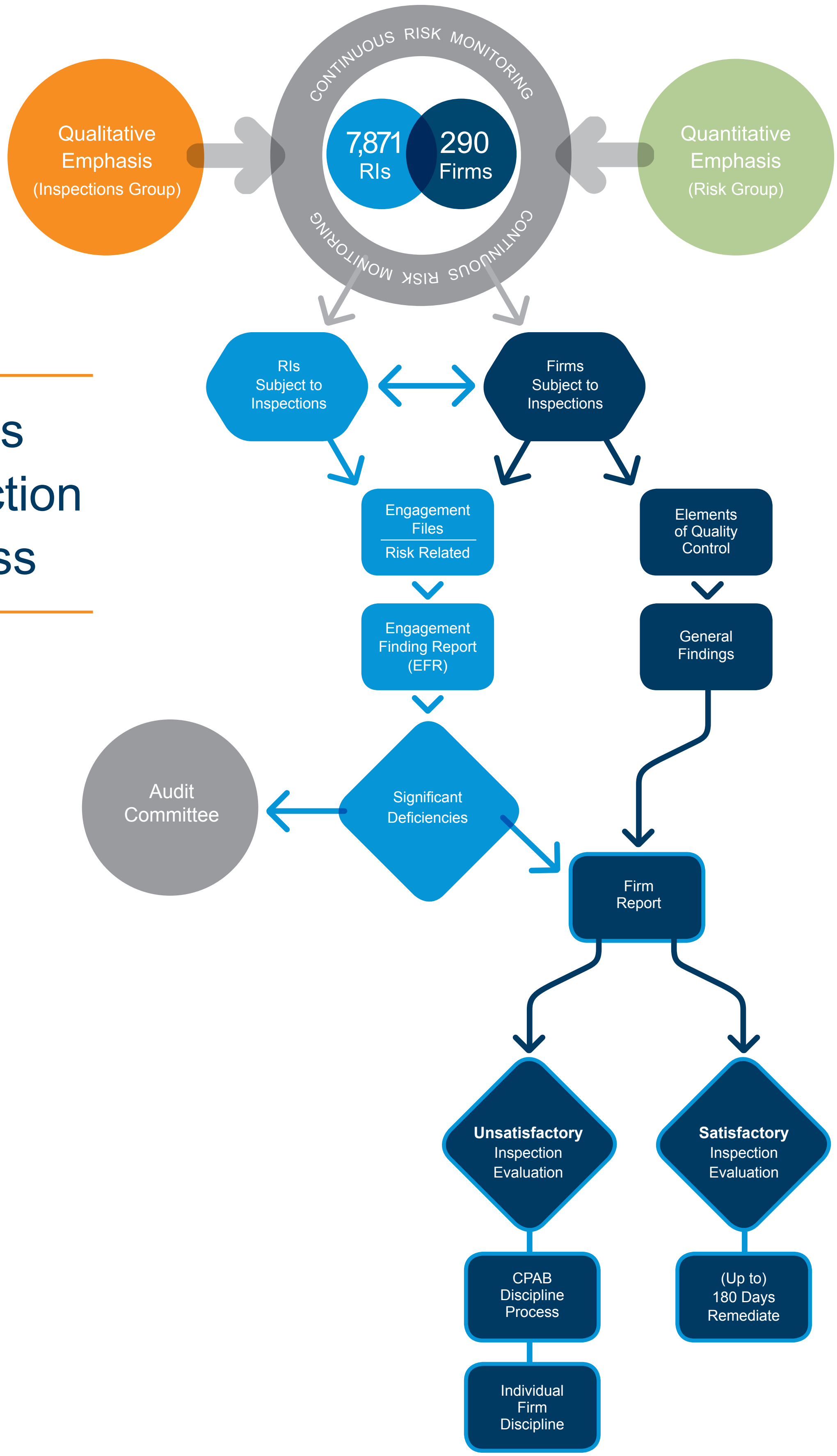
The majority of CPAB's total inspection findings in both 2014 and 2013 required the audit firm to carry out additional audit procedures to verify there was no need to restate the financial statements due to material error. The remaining findings required the audit firms to add considerable evidence to 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 requirement to carry out additional audit procedures resulted in six restatements or three per cent of files inspected (2013:four restatements/two per cent of files with findings).

CPAB has Requirements on two firms (2013:seven) and Restrictions on two firms (2013:two). CPAB actively managed disciplinary actions in 2014 to address audit quality matters and this is reflected in the reduction in the number of Requirements, primarily at firms with fewer than five reporting issuers. There are currently no Sanctions. CPAB conducted one special inspection in 2014. No review or other proceedings were conducted relating to CPAB's disciplinary decisions in 2014.

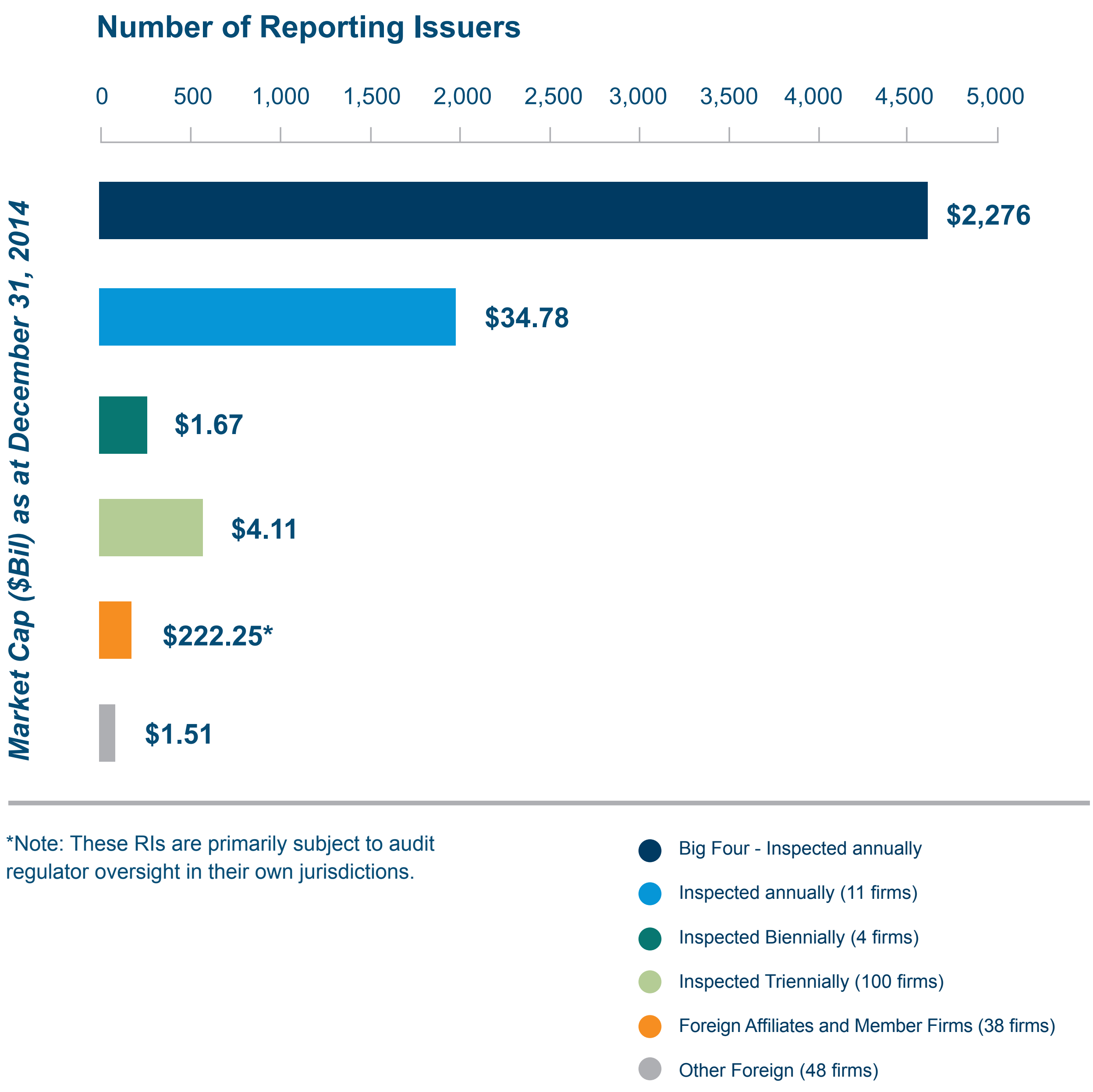
Inspection Methodology

CPAB's risk-based methodology for choosing files (and the specific areas of those files) for inspection is not intended to select a representative sample of a firm's audit work. Instead, it is biased towards higher-risk audit areas of more complex public companies, so there is a greater likelihood of encountering audit quality issues. Our inspections do not look at every aspect of every file and are not designed to identify areas where auditors met or exceeded standards. Results cannot be extrapolated across the entire audit population, but instead be viewed as an indication of how firms address their most challenging audit situations.

CPAB's Inspection Process



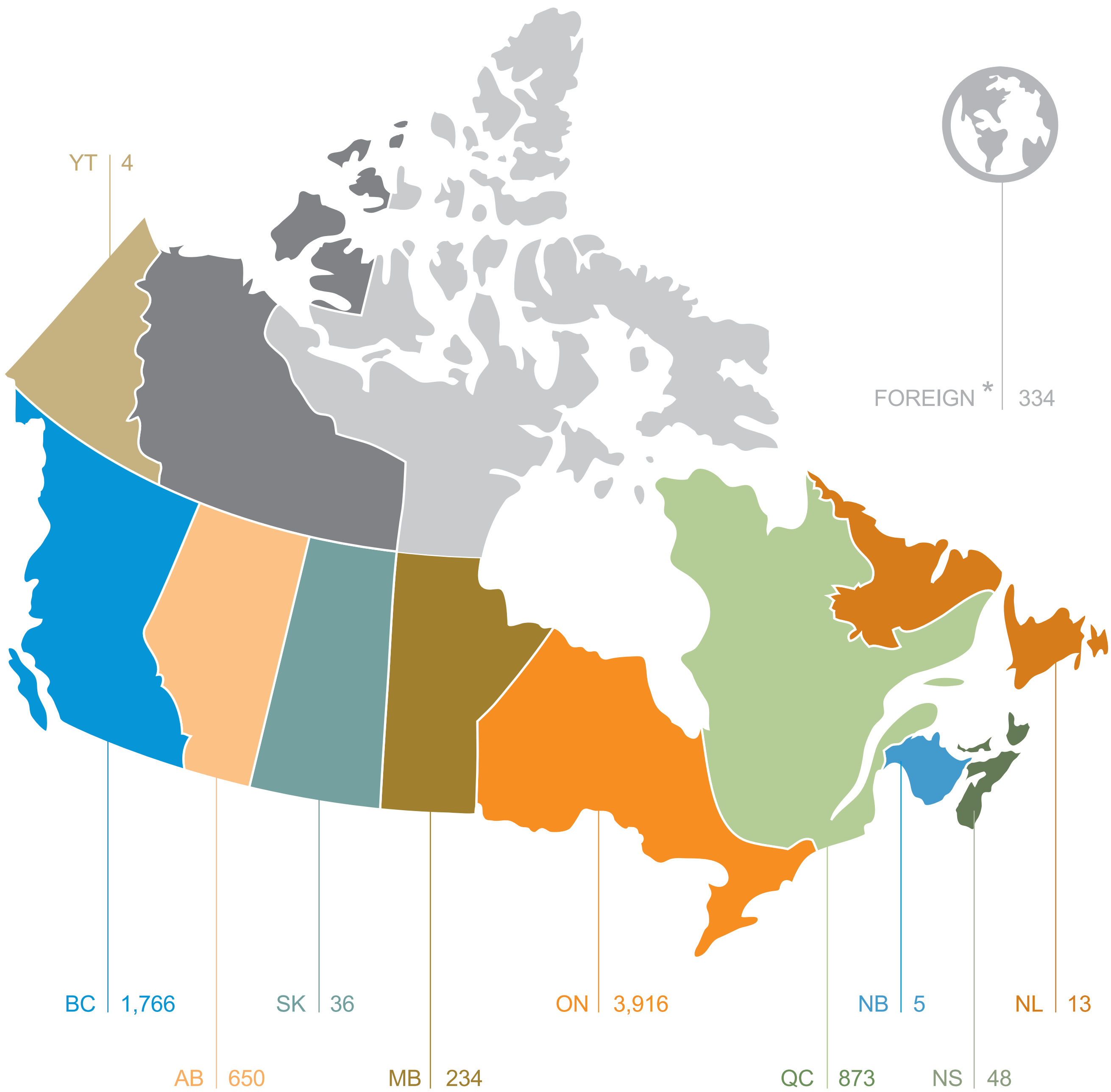
Distribution of Canadian Reporting Issuers (RI) by Audit Firm Inspection Frequency



*Note: These RIs are primarily subject to audit regulator oversight in their own jurisdictions.

Canadian Reporting Issuers by Geography

As of December 31, 2014



* Foreign RIs are Canadian reporting issuers headquartered outside Canada primarily audited by foreign participating firms.

Management's Discussion and Analysis

Operating Results, Outlook, Principal Risks and Uncertainties

The following is a review of the Canadian Public Accountability Board's (CPAB) operating results for the year ended December 31, 2014. This section also includes the outlook for 2015 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, and engaging with various stakeholders in the audit process such as audit committees.

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 2014, 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 2014, 186 firms (2013:191) 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 2013.

CPAB had revenues of $16.1 million in 2014, compared to revenues of $16.9 million in 2013. The four per cent decrease was due to a decrease 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 $12.3 million or 73 per cent of 2014 total expenses of $16.9 million (2013:$11.9 million or 71.3 per cent).

Excluding salaries and benefits, operating expenses in 2014 decreased approximately 4.2 per cent, to $4.6 million, compared to $4.8 million in 2013. The decrease was largely related to decreases in professional and legal services, offset by an increase in outreach activities.

Overall, operating expenses amounted to $16.9 million (2013:$16.6 million), increasing $0.3 million or 1.8 per cent from 2013. Of total operating expenses in 2014, 76 per cent related to inspection activity (2013:77 per cent). Of the total salaries and benefits expense in 2014, 86 per cent was related to inspections activity (2013:87 per cent). CPAB has contracts with eight 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 2014. The breakdown of salaries and benefits by executive, inspection and administrative staff was:

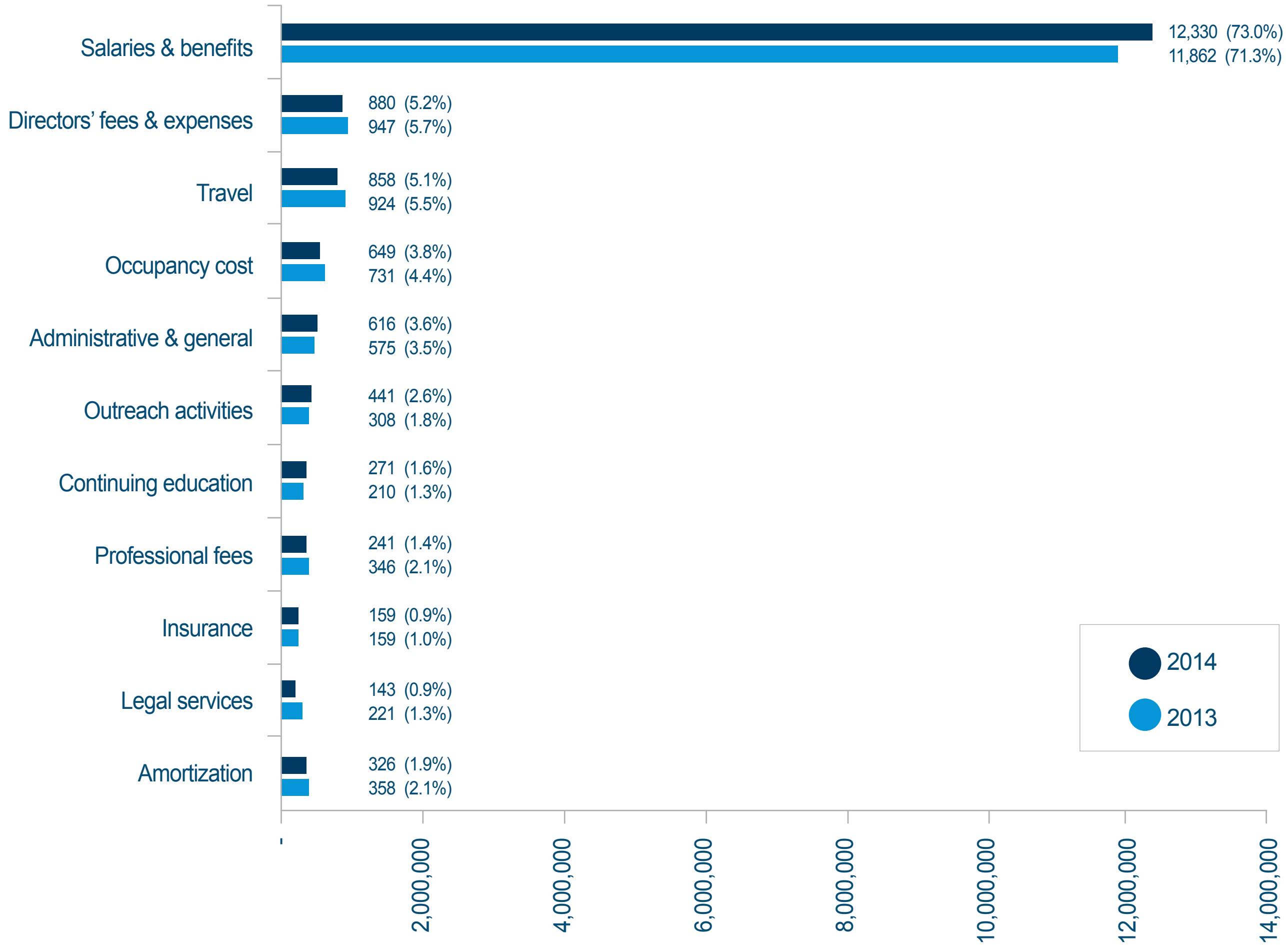
Operating Results

	2014	2013	2014
	Salaries and benefits	**Salaries and benefits**	**Number of employees**
Executive	$2.3 million	$2.5 million	5
Inspection staff	$8.2 million	$7.8 million	30
Administrative staff	$1.8 million	$1.6 million	14
	$12.3 million	**$11.9 million**	**49**

The excess of expenses over revenue in 2014 was $0.8 million, compared to the excess of revenue over expenses of $0.2 million in 2013. CPAB currently has a reserve of $5.4 million, which represents approximately three months of operating expenses. This complies with the board-established guideline for an appropriate reserve.

Major Expense by Type

(000's)



Cash Flows and Liquidity

Cash generated in 2014 was $2 million (2013:cash used $0.21 million). At December 31, 2014 CPAB had a strong working capital position of approximately $4.6 million (2013:$5.1 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 of Canada and the Toronto Board of Trade. In addition, CPAB participates in and subscribes to Mercer Canada's 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' 2014 compensation included fees of $0.8 million (2013:$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 2014. All board members attended every meeting and the board's strategic planning session in September, either in person or by phone, except one director who requested a leave of absence which the board granted and as a result missed three board meetings and the strategic planning session.

Executive compensation in 2014, which included all amounts paid to the CEO, CFO and next three highest-paid members of the executive committee, totaled $2.3 million (2013:$2.5 million). This includes salaries, accrued bonuses, registered retirement savings plan contributions, and benefits paid by CPAB on behalf of staff.

Outlook for 2015

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 continue to be 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:

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

CPAB will operationalize these priorities by:

- Continuing to embed risk analysis and assessment more deeply into the organization
- Continuing to analyze the root causes of audit deficiencies and making 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 perform their roles more effectively
- Proactively engaging key stakeholders, such as audit committees, in a dialogue on 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 of Independent Audit Regulators (IFIAR).

For 2015, revenues are budgeted at \$16.3 million (2014:\$16.1 million) and operating expenses are budgeted at \$16.3 million (2014:\$16.9 million). Revenues are expected to increase slightly and costs are expected to decrease compared to 2014, resulting in a break-even operating position for 2015. 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 2015 of approximately \$0.3 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 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.

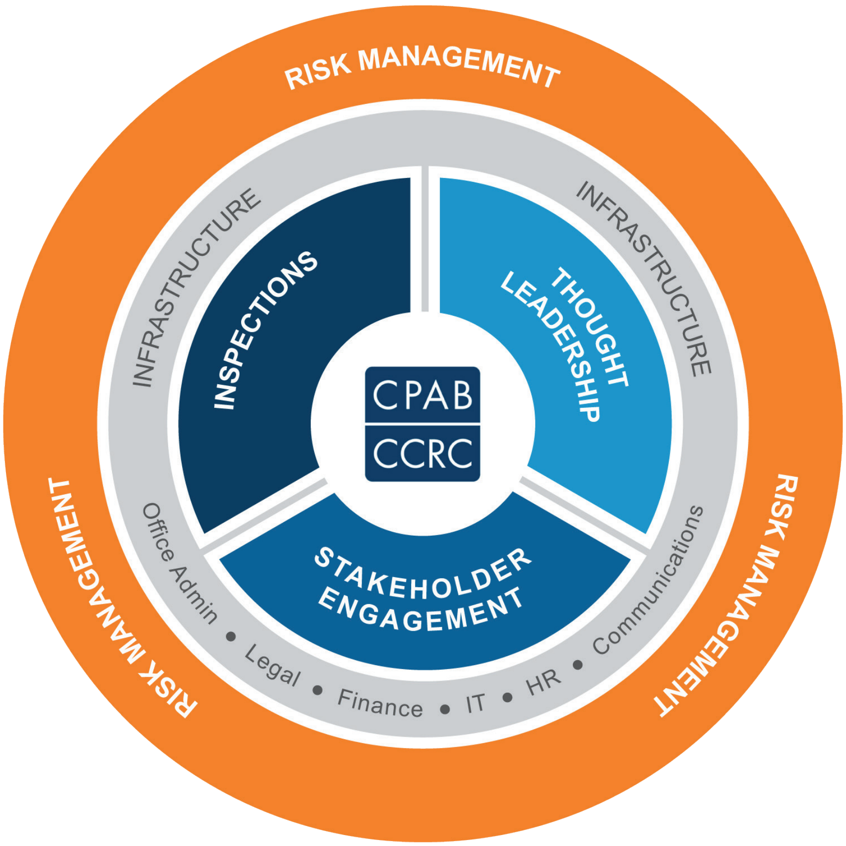
Human capital risks include a shortage of appropriately experienced and capable personnel. CPAB manages this risk by actively working to be an attractive career destination for high-quality staff.

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 used by provincial regulators, and other services used by external stakeholders. 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 2014, 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 risk and audit committee of the board. CPAB proactively reviews and updates the plan annually. Based on the risks identified, CPAB develops and implements mitigation strategies.

CPAB's Strategic Approach



2015 CPAB OPERATING BUDGET

CPAB STATEMENT OF OPERATIONS (unaudited)

YEAR ENDED DECEMBER 31 (000's)	**2014 Actual**	**2014 Budget**	**2015 Budget**
REVENUE			
Fees	$16,064	$15,950	$16,200
Interest Income	75	70	65
	16,139	**16,020**	**16,265**
EXPENSES			
Salaries and benefits	12,330	11,998	11,779
Directors' fees and expenses	880	905	809
Travel	858	787	910
Occupancy costs	649	728	721
Administrative and general	616	608	607
Professional services	241	181	149
Outreach activities	441	407	362
Legal services	143	189	179
Continuing education	271	241	284
Insurance	159	160	165
Amortization of property and equipment	326	350	300
	16,914	**16,554**	**16,265**
EXCESS OF EXPENSES OVER REVENUE FOR THE YEAR	**$ (775)**	**$ (534)**	**$ –**

Commentary on the 2015 CPAB Operating Budget

The 2015 Operating Budget (the 2015 Budget) shows CPAB continuing to fulfill its mandate effectively, while looking more outward as an organization.

For 2015, revenues, which cover operating expenses, are budgeted at $16.3 million, as compared to actual and budgeted revenues of $16.1 million and $16.0 million, respectively in 2014. This level of revenues will result in a break-even operating position for 2015. CPAB derives its revenue from Canadian reporting issuers. Each year, CPAB invoices the audit firms registered with it a fee, which they, 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 2014 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 2015 will remain unchanged.

CPAB's operating expenses for 2015 have been budgeted at $16.3 million. This amount is less than the total actual operating expenses of $16.9 million and total budgeted expenses of $16.6 million in 2014. The 2014 excess of expenses over revenues exceeded the amount in the budget in 2014 by $0.2 million due to the greater use of specialist contract reviewers in 2014 to meet inspection objectives for the year.

Overall, the 2015 Operating Budget shows CPAB will break even for 2015, which should leave CPAB with a net asset surplus of approximately $5.4 million. CPAB has indicated it plans to maintain a minimum net asset reserve of approximately $5.2 million, which equals three months of cash operating expenses. CPAB may need to reconsider the rate it charges audit firms in 2016. The rate will depend on CPAB's strategic plans for 2016-2018, as well as the level of audit fees charged by 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:

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

In addition to building on the work done in 2013 and 2014 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 a risk and audit committee to help it with these responsibilities. The risk and 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 risk and 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, 2014, 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, 2014, 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.

Fuller Landau LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
February 10, 2015

STATEMENT OF FINANCIAL POSITION

	December 31, 2014	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,204,072	$ 194,240
Investments (note 4)	3,750,000	6,700,000
Accounts receivable (note 4)	16,108	62,542
Sales tax recoverable	88,917	46,154
Prepaid expenses	223,130	234,248
	6,282,227	7,237,184
Property and equipment (note 5)	1,293,305	1,501,616
	$ 7,575,532	**$ 8,738,800**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 1,685,505	$ 2,096,915
Unamortized tenant inducements	473,651	450,163
NET ASSETS		
Invested in property and equipment	1,293,305	1,501,616
Unrestricted	4,123,071	4,690,106
	5,416,376	6,191,722
	$ 7,575,532	**$ 8,738,800**

See accompanying notes.

Approved on behalf of the Board:

______________________, *Director*

Nicholas Le Pan, Chair

______________________, *Director*

Kenneth Crump

STATEMENT OF CHANGES IN NET ASSETS

			YEAR ENDED DECEMBER 31	
			2014	2013
	Invested in property and equipment	*Unrestricted*	*Total*	*Total*
Net assets, beginning of year:	$ 1,501,616	$ 4,690,106	$ 6,191,722	$ 5,974,103
Excess of (expenses over revenue) revenue over expenses for the year	-	(775,346)	(775,346)	217,619
Purchase of property and equipment	118,628	(118,628)	-	-
Amortization of property and equipment	(326,939)	326,939	-	-
Net Assets, End of Year	**$ 1,293,305**	**$ 4,123,071**	**$ 5,416,376**	**$ 6,191,722**

See accompanying notes.

STATEMENT OF OPERATIONS

	YEAR ENDED DECEMBER 31	
	2014	**2013**
REVENUE		
Fees	$ 16,063,903	$ 16,778,006
Investment income	75,340	79,306
	16,139,243	**16,857,312**
EXPENSES		
Salaries and benefits	12,330,290	11,861,670
Directors' fees and expenses	880,231	946,639
Travel	857,907	924,284
Occupancy costs	648,535	731,244
Administrative and general	615,980	575,213
Outreach activities	440,987	307,772
Continuing education	271,358	209,994
Professional services	241,031	345,676
Insurance	158,756	158,756
Legal services	142,575	220,619
Amortization of property and equipment	326,939	357,826
	16,914,589	**16,639,693**
EXCESS OF (EXPENSES OVER REVENUE) REVENUE OVER EXPENSES FOR THE YEAR	**$ (775,346)**	**$ 217,619**

See accompanying notes.

STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31	
	2014	**2013**
OPERATING ACTIVITIES		
Excess of (expenses over revenue) revenue over expenses for the year	$ (775,346)	$ 217,619
Add back (deduct) non cash items:		
Amortization of property and equipment	326,939	357,826
Amortization of tenant inducements	23,488	61,259
Tenant cash inducements	-	271,937
Net change in non-cash working capital items (note 7)	(396,621)	272,247
Cash (used) generated from operations	(821,540)	1,180,888
INVESTING ACTIVITIES		
Purchase of short-term investments	(13,008,740)	(13,000,000)
Redemption of short-term investments	15,958,740	12,600,000
Purchase of property and equipment	(118,628)	(988,189)
Cash generated (used) in investing activities	2,831,372	(1,388,189)
Cash and cash equivalents generated (used) in the year	2,009,832	(207,301)
Cash and cash equivalents, beginning of year	194,240	401,541
Cash and Cash Equivalents, End of Year	**$ 2,204,072**	**$ 194,240**

See accompanying notes.

Notes to the Financial Statements

December 31, 2014 and December 31, 2013

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 Not-for-profit 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*.

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 2014 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 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.

	2014	2013
GICs	$ 3,750,000	$ 6,700,000
Accrued interest	11,931	54,151
	$ 3,761,931	**$ 6,754,151**

GICs have interest rates of 1.00 per cent (2013:1.00 per cent to 2.01 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	2014 Net	2013 Net
Office equipment and furniture	$ 687,032	$ (545,591)	$ 141,441	$ 158,434
IT infrastructure and networks	1,631,451	(1,272,835)	358,616	428,624
Computer software	211,557	(195,759)	15,798	42,793
Computing equipment	170,096	(154,564)	15,532	30,430
	$2,700,136	**($2,168,749)**	531,387	660,281
Leasehold Improvements, net			761,918	841,335
			$ 1,293,305	**$ 1,501,616**

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, 2014 and 2013 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:

	2014	2013
Accounts receivable	$ 46,434	$ (33,721)
Sales tax recoverable	(42,763)	86,366
Prepaid expenses	11,118	(10,322)
Accounts payable and accrued liabilities	(411,410)	229,924
	$ (396,621)	**$ 272,247**

8. COMMITMENTS

CPAB entered into an 11 year six month lease 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 lease in April for office space in Vancouver and in November for office space in Montréal. The lease in Vancouver is for a term of 45 months and the annual expense is approximately $92,000. The lease in Montréal is for a term of 72 months and the annual expense is approximately $64,000.

Corporate Information

Executive

Brian A. Hunt
Chief Executive Officer

Brian was involved with CPAB's creation and served as a director from 2003 to 2009. Prior to his current position at CPAB, Brian was president and CEO of the Chartered Professional Accountants of Ontario.

Glenn Fagan
Vice President, Inspections

Before joining CPAB in 2010, Glenn was Vice President, Finance or CFO for a number of public and private companies in the manufacturing, construction and service sectors. Previously, Glenn was an assurance partner with legacy PricewaterhouseCoopers LLP.

Brian P. Gabel
Vice President, Stakeholder Engagement

Before joining CPAB in 2014, Brian was VP and CFO of the Greater Toronto Airports Authority. Brian has held executive roles at various energy and utility companies, including five years as VP, Regulatory Affairs and VP and Chief Regulatory officer with Hydro One Networks Inc.

Kam Grewal*
Vice President, Thought Leadership

Prior to joining CPAB, Kam 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, John 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, John practised with KPMG LLP.

Kenneth J.A. Vallillee**
Senior Vice President, Stakeholder Engagement

Before joining CPAB, Ken was Senior Vice President, Finance with a major Canadian bank. Prior to that he was a partner and Director of Accounting Standards in Canada for an international accounting firm.

*Kam resigned in September to join EY LLP as partner.

**Ken retired in June and currently provides consulting services for CPAB.

Directors

Nicholas Le Pan, Chair

Former Superintendent of Financial Institutions, Office of the Superintendent of Financial Institutions, Ottawa, Ontario.

Guy Fréchette[1]

Corporate Director; former Vice Chair and member of the Executive Committee, Ernst & Young LLP and former Managing Partner for the province of Québec, Montréal, Québec.

Ian Bourne[2]

Chair, Ballard Power Inc.; Chair, SNC-Lavalin Group; interim CEO, SNC-Lavalin in 2012; Director, Canada Pension Plan Investment Board, Wajax Corporation and Canadian Oil Sands Limited, Calgary, Alberta.

Bruce C. Jenkins[1]

Former Deputy Chief Executive, Deloitte & Touche (Canada); former Director, CPA Canada; former Chair, CPA Ontario, Toronto, Ontario.

Kenneth Crump[1]

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; former Board Chair, Norsat International; retired CFO, BC Telecom, Vancouver, British Columbia.

Sheryl Kennedy[1]

CEO, Promontory Financial Group Canada; former Deputy Governor of the Bank of Canada, Toronto, Ontario.

Directors

Gary Porter[2]

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.

Peter W. Roberts[1] *

Former Vice Chair, Risk Oversight and Governance Board, CPA Canada; former CFO, Sierra Wireless, Inc.; former President, CPA BC, North Vancouver, British Columbia.

Jocelyn Proteau[2]

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.

Benita M. Warmbold[2]

Senior Managing Director and CFO, Canada Pension Plan Investment Board; Chair, Queen's School of Business Advisory Board; member, Queen's University Audit and Risk Committee; Director, Canada Development Investment Corporation, Toronto Financial Services Alliance, Women's College Hospital, Toronto, Ontario.

Alain Rhéaume[2]

Director, SNC-Lavalin, Resolute Forest Products and Boralex; a founder and Managing Partner, Trio Capital Inc.; former Deputy Minister of Finance, Québec; former President and COO, Microcell Telecommunications, Lac Delage, Québec.

*Peter completed his term of office as a director on December 31, 2014.
1 Member of the Risk and Audit Committee
2 Member of the Human Resources and Governance Committee

Auditors

Fuller Landau LLP

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Corporate Counsel

Stikeman Elliott LLP

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Learn More

CPAB's 2014 annually inspected firms report, 2014 Big Four inspections report, detailed information on the Protocol, and other publications for audit committees are available at **www.cpab-ccrc.ca**.

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