CPAB
CCRC

CANADIAN PUBLIC ACCOUNTABILITY BOARD
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

WORLD-CLASS AUDIT REGULATION

ANNUAL REPORT 2015

www.CPAB-CCRC.ca

Introduction

Welcome to the Canadian Public Accountability Board's (CPAB) 2015 Annual Report. We have designed our annual reporting approach to meet the information needs of our stakeholders by producing three complementary documents that, combined, fulfill our legislative reporting requirements, and provide timely information on our activities.

For our 2015 public reporting cycle, CPAB published a Big Four inspections report in November 2015, an annual all firm inspections report in March 2016, and this 2015 Annual Report covering CPAB's financials for the year ended December 31, 2015.

Message from the Chair

CPAB's mandate as the regulator of audit firms of reporting issuers is important to maintaining public confidence in the integrity of financial reporting in Canada. That, in turn, benefits a large number of Canadians who directly or indirectly are investors in Canadian companies. High quality financial statements backed by high quality audits also support companies attracting capital they need to grow.

CPAB's board of directors is keenly aware of its responsibilities to oversee a world-class regulatory organization that operates effectively.

Given the mixed results of CPAB inspections this year, the board focused on CPAB interventions to make sure they forcefully create incentives for audit firms to improve. The board also closely monitored the first year roll-out of CPAB's initiative to be more transparent to audit committees about the results of CPAB inspections. A related initiative to better communicate audit issues arising from CPAB's inspections to the range of participants in the audit process also contributed to enhancing audit quality. Feedback from stakeholders indicated that these initiatives are useful. In November, the board approved a new strategic plan for 2016-2018 which builds on the progress made over the past three years. This plan does not fundamentally change direction but focuses on continuous improvement and the need to ensure a high performance team in the face of an ever-changing environment.

In April 2015 we said goodbye to director Alain Rhéaume. We appreciate Alain's commitment and service and wish him all the best.

I wish to thank my board colleagues, CPAB's Chief Executive Officer Brian Hunt, and the entire CPAB management team and staff for their efforts in enhancing the quality of Canadian audits in 2015 and look forward to continued progress in 2016.

Nick Le Pan
Board Chair

Message from the CEO

Each year CPAB inspects audit firms with 100 or more reporting issuers. Overall, our 2015 inspections indicate that consistency of execution continues to be a challenge across all annually inspected firms. Significant inspection findings increased in nine of those 14 firms, including each of the Big Four (Deloitte LLP, EY LLP, KPMG LLP, PwC LLP).

To provide some context, in 2014 CPAB's Big Four inspections were weighted to reporting issuers with larger market capitalizations, with a particular focus on audit work undertaken in foreign jurisdictions. In our report on those inspections we noted an overall improvement in audit quality. To better understand if audit quality improvements seen in recent years have been fully embedded throughout the Big Four firms, we shifted our inspections attention in 2015 to files of reporting issuers with $250 million or less market capitalizations and located in smaller centres. The characteristics of those files and the results of those inspections are consistent with our findings in the other 10 annually inspected firms.

CPAB released its annual Big Four public report on November 30, 2015, noting that firm action plans have generally helped to maintain audit quality in larger audit engagements; however, inspections of the audit files of smaller reporting issuers identified higher incidents of inconsistent quality. We are working with each Big Four firm to ensure the quality improvements we've seen over the past two years are applied effectively, regardless of the size of the issuer or the size of the market.

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 worked to address audit quality gaps through action plans. In the four national/network firms, we noted continued stability in audit quality at one firm, improvement at one firm and continuing challenges at two other firms. While existing action plans have had an impact, audit quality progress has not been adequate. Significant inspection findings for the six large regional firms also indicate an inconsistency in audit quality. CPAB generally found that overall audit quality was stable or improved at four of these firms, while we did not see improvements at two of the firms. CPAB has required those two regional firms to perform a robust root cause analysis on our findings, which we expect will result in substantive changes to their existing audit quality action plans. We have also advised these firms to review the adequacy and appropriateness of their resources.

All firms are capable of delivering quality audits; however there seems to be an overall challenge implementing quality initiatives consistently. CPAB has communicated our specific concerns and expects each firm to consider short term actions that will improve the quality of 2015 year-end audits as well as longer term actions to drive and embed required sustainable quality improvements across the firms.

As part of our 2015 stakeholder engagement initiative, we expanded our interaction with audit committees and will continue this effort in 2016, with a focus on mid-market cap ($100-$500 million) reporting issuers. In particular, we will assist audit committees by publishing information on how to evaluate the audit firm and audit risks, how audit committees are most effectively addressing their oversight role, and on industry-specific issues to explore with their auditors.

At the end of 2015, CPAB finalized its 2016-18 strategic plan (available at www.cpab-ccrc.ca). Over the past three years, we have made significant progress and have expanded the awareness of issues with stakeholders so that audit quality can be improved. At the same time, we continue to see challenges in the consistent execution of high quality audits.

Our new plan considers a number of issues and trends expected to impact public company auditing in the coming years, including:

- The evolution of audit firms including the increasing scope of non-audit services.
- Strong competition for audit services, putting pressure on revenue and profitability.
- A changing labor market driven by the merger of the professional bodies in Canada, leading to challenges and opportunities for attraction and retention.
- Increasing expansion by Canadian reporting issuers internationally and associated audit challenges.
- Evolution in how audits are or will be performed in the future, including the impact of emerging technologies.
- International audit policy issues including auditor tendering or rotation, limits on non-audit services and the introduction of expanded auditor reporting.
- Increased focus on, and expectations of the role of the audit committee in overseeing the auditor and enhancing audit quality.
- Weakness in commodity prices which may impact the strength and resiliency of public companies in Canada.
- Access to working papers in foreign jurisdictions – CPAB continues to engage with the relevant Canadian securities regulators to make the changes necessary to assist CPAB in obtaining access in order to fulfill our mandate of regulating participating firms.

Over the next three years, CPAB will focus on the following five strategic imperatives:

1. Field a high performance team.
2. Further build risk into CPAB culture.
3. Continue to enhance inspections.
4. Develop practical and meaningful thought leadership.
5. Expand awareness and understanding of issues related to audit quality across stakeholders.

To deliver on these imperatives, CPAB will continue to be organized in the following functional areas: Risk Management, Inspections, Thought Leadership and Stakeholder Engagement.

CPAB's effectiveness as a regulator depends on our people. The audit industry is becoming increasingly complex, particularly with economic uncertainties, a continuing trend towards globalization, a changing labor market for audit professionals, and evolution in the use of technology. These changes will impact the way both audit firms and reporting issuers run their business, which increases the importance of attracting, training and retaining individuals with the appropriate skills to perform their roles in a new and constantly innovating environment. We will continue to build a collaborative workplace culture that supports our mission and is built on values of excellence, trust and respect, renew our focus on talent, and actively manage longer term career development.

CPAB's Risk Management function will proactively identify and respond to the risk factors affecting the organization and the capital markets as a whole. Risks are not static and challenges in the audit profession, economic realities and rapid innovation require us to refine and strengthen our ability to identify and mitigate risks that could impact investor confidence markets.

CPAB's inspection methodology is risk based. We work with audit firms to develop solutions in areas where audit quality should be improved. In the past three years we updated our inspection methodology, systems and processes to be more effective, including the continuation of thematic reviews such as auditing in foreign jurisdictions. We have also increased the transparency of our significant inspection findings through the Protocol for Audit Firm Communication of CPAB Inspection Findings with Audit Committees (Protocol). Audit firms who voluntarily participate in the Protocol now share file-specific significant inspection findings with their clients' audit committees. Firms auditing well over 90 per cent of the market capitalization of reporting issuers in Canada participate in the Protocol, including 12 of the 14 annually inspected firms (including all Big Four firms, all national/network firms, and four of the six regional firms).

While these developments are positive, our current inspection results show that consistent audit quality remains a challenge in Canada. Audit firms must commit to continuous improvement at all levels of their organizations and actively work to embed a culture of quality to achieve audits that are consistently of high quality. At the same time, audit firms and financial statement preparers are not the only participants in the audit process. Audit committees, institutional investors and analysts also play important roles. There is an opportunity to enhance audit quality and investor protection by engaging in a dialogue and raising awareness about audit quality among all stakeholders.

CPAB is in a unique position to contribute to the state of audit quality, audit committee effectiveness and international audit regulatory development. We can make an important contribution to enhancing audit quality and investor protection by providing content that can help stakeholders improve audit quality and perform their role more effectively. We plan to communicate more strategically with key stakeholders to better influence change.

More and more, the audit environment is influenced at an international level. Many Canadian companies have been increasing their activity in foreign countries, requiring Canadian auditors to rely on the work of foreign component auditors. This is an area of concern for CPAB. While we have finalized memoranda of understanding in a number of foreign jurisdictions, we still experience limitations in accessing component audit work in certain others. This effectively results in a scope limitation: if access had occurred, additional significant inspections findings may have been identified. We continue to engage with the relevant Canadian securities regulators to assist CPAB in obtaining access in order to fulfill our mandate of regulating participating firms. Additionally, Canada's auditing standards are based on standards issued by the International Auditing and Assurance Standards Board. In addition to participating in the domestic regulatory agenda, to achieve our strategy CPAB will be actively involved in issues related to auditing and audit policy internationally through our leadership in the International Forum of Independent Audit Regulators.

CPAB has, and will continue to, focus on managing its cost structure by maintaining an appropriate focus on cost containment and productivity.

By 2018, through the strategic imperatives above, CPAB will have:

- A further developed high performance team — A consistently high performing team that effectively executes CPAB's mandate.
- A proactive and responsive Risk Management function — Appropriately identifying and mitigating risk and embedding such processes into its business activities, enabling the organization to effectively meet its mandate.
- Impactful inspections— Recommendations that better address root causes, leading to sustainable audit quality.
- Actionable insights – Practical tools and information to assist stakeholders in contributing to enhancing audit quality.
- Engaged stakeholders — Enhanced stakeholder awareness of, and engagement in, audit quality issues (with a focus on audit committees and audit firms).

But we cannot do any of this alone. Sustainable audit quality can only be achieved with the active attention and involvement of all stakeholders, including audit firms, audit committees and management of reporting issuers. The desired improvement will require collaboration and enhanced accountability in the audit process.

Finally, 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 2016 and to continued improvements in audit quality.

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

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, 2015. This section also includes the outlook for 2016 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 vision 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. At December 31, 2015, 286 audit firms were registered with CPAB. Twenty-two new firms registered (mostly foreign firms) and 26 firms voluntarily terminated their registration.

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.

When inspecting a firm, CPAB looks at both quality control elements related to the firm being inspected and a sample of audit working paper files for selected reporting issuers. 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 or areas where the audit firm may have less expertise, 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 viewed as an indication of how firms address their most challenging situations.

CPAB provides reports to firms inspected at both an individual engagement and overall firm level. These firm reports contain recommendations to address deficiencies related to engagement performance arising from either systemic/firm wide processes or specific engagement files that were inspected. Deficiencies noted in the other elements of quality control may also result in recommendations. The inspection report separately highlights CPAB's top recommendations that, when implemented, it believes would have the greatest effect on improving audit quality. It is important to note that CPAB's recommendations are not simply suggestions, but are mandatory actions that must be taken by the audit firm within 180 days of the date of the inspection report. However, for more serious findings this deadline may be much shorter. This is particularly true where there may be a potential restatement of the financial statements.

During 2015, CPAB inspected 39 firms in total (2014:42) and 179 engagement files (2014:174). For the 14 firms inspected annually, CPAB inspected 144 (2014:157) files and identified significant inspection findings in 43 of these files (2014:28). In addition, CPAB inspected 35 files at 25 other firms (2014:17 files at 28 firms) and identified significant inspection findings in 28 (2014:4) files.

The majority of CPAB's total significant inspection findings in 2015 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 resulted in 11 restatements or six per cent of files inspected (2014:6 restatements or three per cent of files inspected).

As a result of our findings, we have required the Big Four firms do the following:

- Improve the effectiveness of their systems of quality control for medium and smaller market cap companies.
- Consider region-specific issues which may be impacting audit quality.
- Evaluate the underlying cause(s) of individual file significant findings.
- Conduct a comprehensive review of quality control systems and assess whether those systems have inherent weaknesses that result in inconsistent audit execution at the engagement file level.
- Amend training and learning curriculum as necessary to address inspection findings and key insights.
- Determine appropriate next steps, including revising and amending action plans as necessary, to continue to drive consistency and improve audit quality across all engagements.

For other firms inspected on an annual basis, the nature of the actions that CPAB requires the firms to undertake, as a result of our findings, is similar to that of the Big Four firms. They may vary from the Big Four actions due to differences in client base, audit quality findings and past progress on implementing recommended actions and include:

- Performing in-depth root cause analysis of our findings.
- Developing or improving existing action plans responding to conclusions reached in the root cause analysis.
- Monitoring outcomes of action plans on an ongoing basis and taking corrective actions if necessary.
- Performing targeted training on accounting and audit standards where necessary.
- Increasing resources as necessary to manage client risk profiles.

For the other firms inspected in 2015, in addition to taking actions as described above for firms inspected on an annual basis, CPAB has required the firms to:

- Perform mandatory training.
- Engage external resources to perform quality control reviews.

Failure to implement recommendations to CPAB's satisfaction within the time frame specified gives rise to disciplinary action being placed on the audit firm. When CPAB believes that the firm's quality of auditing is so substandard[1] that the investing public is at risk, disciplinary action will also be taken.

CPAB has the authority to impose discipline at three levels: Requirements, Restrictions, and Sanctions. As a general rule, CPAB begins with imposing a Requirement for the first instance of disciplinary action on a firm:

- Requirements typically involve CPAB mandating the firm to take an action, or to make a change to its audit practices, to improve audit quality. This will generally stay between CPAB and the audit firm, unless notification to the securities commissions is required otherwise by virtue of NI 52-108. If audit quality has not improved during a follow-up inspection with an audit firm with a Requirement on it, or, if CPAB feels the performance of the firm and the severity of the lack of audit quality in the first instance requires so, CPAB will impose a Restriction.
- Restrictions characteristically involve CPAB limiting the audit firm's practice in some way, and CPAB will specifically notify the securities commissions of the Restriction, in addition to the notification that may be required otherwise under NI 52-108. If there is demonstrated continued lack of improvement of audit quality with an audit firm with discipline already in place, or if in the first instance there is demonstrated egregious behavior, CPAB would impose a Sanction.
- With the imposition of a Sanction, CPAB would severely limit the audit firms practice and obligate the audit firm to notify the audit committees of its reporting issuer clients. CPAB would also notify the securities commissions.

Effective December 31, 2015, CPAB has Requirements on six firms (2014:2) and Restrictions on two firms (2014:2). CPAB actively managed disciplinary actions in 2015 to address audit quality matters. Of the six firms operating with Requirements, CPAB has:

- Limited the acceptance of new reporting issuers at five firms.
- Required certain firms to perform enhanced engagement quality control reviews or in-flight reviews.
- Required certain firms to undertake additional training for specific accounting or audit topics.
- Required certain firms to implement action plans to improve audit quality and consider hiring additional resources.
- Applied a monetary assessment to certain other firms for the recovery of CPAB's cost of monitoring approved requirements.

In addition, CPAB has required the two firms operating with Restrictions to resign from specific clients and not accept new clients in certain industries or market segments. One firm was subject to Sanction during the year and subsequently withdrew as a registered firm. No review or other proceedings were conducted in 2015.

[1] If, as a consequence of an inspection or investigation, CPAB considers that a violation event has occurred as specified under the CPAB Rule 103(hh), CPAB may give notice to any audit firm that it proposes to impose discipline on such firm, which may be one or more of the various recommendations available to CPAB in Rule 601 (a) to (k).

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 2015, 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 2015, 188 firms (2014:186) 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 2014.

CPAB had revenues of $16.4 million in 2015, compared to revenues of $16.1 million in 2014. The 1.86 per cent increase was due to an increase in the audit revenues reported by participating audit firms.

Operating expenses

Salaries and benefits for inspection and administrative staff continue to be CPAB's largest expense, totaling $11.8 million or 73 per cent of 2015 total expenses of $16.1 million (2014:$12.3 million or 73 per cent).

Excluding salaries and benefits, operating expenses in 2015 decreased approximately 6.5 per cent, to $4.3 million, compared to $4.6 million in 2014. The decrease was largely related to decreases in travel and outreach expenses.

Overall, operating expenses amounted to $16.1 million (2014:$16.9 million), decreasing $0.8 million or 4.7 per cent from 2014. Of total operating expenses in 2015, 74 per cent related to inspection activity (2014:76 per cent). In addition to CPAB fulltime staff we have contracts with five persons who were deployed 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 2015. The breakdown of salaries and benefits by executive, inspection and administrative staff was:

	2015	2014	
	Salaries and benefits	**Salaries and benefits**	**Number of employees**
Executive	$2.5 million	$2.3 million	5
Inspection staff	$7.6 million	$8.2 million	32
Administrative staff	$1.7 million	$1.8 million	14
	$11.8 million	**$12.3 million**	**51**

The excess of revenues over expenses in 2015 was $ 0.3 million, compared to the excess of expenses over revenue of $0.8 million in 2014. CPAB currently has a reserve of $5.8 million, which represents approximately four months of operating expenses. This complies with the board-established guideline for an appropriate reserve.

Cash Flows and Liquidity

Cash generated in 2015 was $0.1 million (2014:cash generated $2.0 million). At December 31, 2015 CPAB had a strong working capital position of approximately $5.0 million (2014:$4.6 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' 2015 compensation included fees of $0.8 million (2014:$0.8 million) for governance responsibilities. Board members' fees included a $150,000 annual retainer for the board chair, $45,000 annual retainers for all other board members and an additional $4,500 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 2015. All board members attended every meeting during the year. All board members attended the board's strategic planning session in September.

Executive compensation in 2015, which included all amounts paid to the CEO, CFO and next three highest-paid members of the executive committee, totaled $2.5 million (2014:$2.3 million). This includes salaries, accrued bonuses, registered retirement savings plan contributions, and benefits paid by CPAB on behalf of staff.

Outlook for 2016

Over the past three years, CPAB has made significant progress and has expanded the awareness of issues with stakeholders so that audit quality can be improved.

Moving forward, CPAB's goals and approach will fundamentally remain the same. Its 2016-2018 strategic plan aims to build on its past progress to further enhance the organization's effectiveness. In particular, CPAB wants to address the more systemic barriers to audit quality to drive sustainable, high quality audits. To accomplish this, CPAB will focus on the following five strategic imperatives:

1. Field a high performance team.
2. Further build risk into CPAB culture.
3. Continue to enhance inspections.
4. Develop practical and meaningful thought leadership.
5. Expand awareness and understanding of issues related to audit quality across stakeholders.

CPAB will continue to focus on developing its people and to participate actively in discussing issues related to audit quality and audit policy internationally. Specific initiatives and planned actions across each of these areas are outlined in the strategic plan document which can be accessed on CPAB's website.

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.

For 2016, revenues are budgeted at $16.6 million (compared to actual revenues 2015:$16.4 million) and operating expenses are budgeted at $16.6 million (compared to actual expenses 2015:$16.1 million). Revenues and expenses are expected to be slightly higher compared to 2015 and CPAB expects a break-even result for 2016. 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 2016 of approximately $0.5 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 including, but not limited to, the utilization of two firewalls, regularly engaging third parties to perform ethical hack and security assessments on CPAB's infrastructure and application controls, use of hard-drive encryption and GPS tracking tools on all laptops and smartphone devices, monitoring of all sites to ensure maximum uptime, managing laptop and servers through the use of KACE systems to ensure all critical patches are deployed weekly, and maintaining offsite Disaster Recovery and Backup facilities.

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 2015, 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.

2016 CPAB OPERATING BUDGET

STATEMENT OF OPERATIONS (unaudited)

YEAR ENDED DECEMBER 31 (000's)	2015 Actual	2015 Budget	2016 Budget
REVENUE			
Fees	$16,356	$16,200	$16,610
Interest Income	55	65	30
	16,411	**16,265**	**16,640**
EXPENSES			
Salaries and benefits	11,802	11,779	12,212
Directors' fees and expenses	834	809	800
Travel	752	910	852
Occupancy costs	695	721	710
Administrative and general	595	633	717
Outreach activities	433	406	402
Continuing education	248	284	250
Insurance	143	165	143
Professional services	136	79	90
Legal services	105	179	114
Amortization of property and equipment	314	300	350
	16,057	**16,265**	**16,640**
EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR	**$ 354**	**$ –**	**$ –**

Commentary on the 2016 CPAB Operating Budget

For 2016, revenues, which cover operating expenses, are budgeted at $16.6 million, as compared to actual and budgeted revenues of $16.4 million and $16.3 million, respectively in 2015. This level of revenues will result in an operating break-even position for 2016. CPAB derives its revenue from Canadian reporting issuers. Each year, CPAB invoices the registered audit firms, 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 2015 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 2016 will remain unchanged.

CPAB's operating expenses for 2016 have been budgeted at $16.6 million. This amount is greater than 2015 actual operating expenses of $16.1 million and 2015 budgeted operating expenses of $16.3 million due to changes in staffing mix. The 2015 excess of revenues over expenses exceeded the break-even budget by $0.4 million due to lower travel costs and slightly higher revenues. There are no significant changes in expenses in the 2016 Budget, relative to 2015 actual and budgeted expenses, except for higher salaries due to salary escalation and staff mix.

Overall, the 2016 Operating Budget shows CPAB will have a break-even operating position for 2016, leaving CPAB with a net asset surplus of approximately $5.8 million by the end of the fiscal year.

The strategic plan for 2016-2018 focuses on expanding the awareness of issues so that audit quality can be improved and aims to build on CPAB's past progress to further enhance the organization's effectiveness. In particular, CPAB wants to address the more systemic barriers to audit quality to drive sustainable, high quality audits.

To accomplish this, CPAB will focus on the following five strategic imperatives:

- Field a high performance team.
- Further build risk into CPAB culture.
- Continue to enhance inspections.
- Develop practical and meaningful thought leadership.
- Expand awareness and understanding of issues related to audit quality across stakeholders.

In addition to building on the organization's effectiveness, CPAB will continue to influence the development of the international audit regulatory framework through its leadership position in the International Forum of Independent Audit Regulators.

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
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, 2015, 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, 2015, 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 11, 2016

STATEMENT OF FINANCIAL POSITION

	December 31, 2015	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,283,191	$ 2,204,072
Investments (note 4)	4,400,000	3,750,000
Accounts receivable (note 4)	154,325	16,108
Sales tax recoverable	39,171	88,917
Prepaid expenses	197,677	223,130
	7,074,364	6,282,227
Property and equipment (note 5)	1,221,202	1,293,305
	$ 8,295,566	**$ 7,575,532**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 2,095,474	$ 1,685,505
Unamortized tenant inducements	429,649	473,651
NET ASSETS		
Invested in property and equipment	1,221,202	1,293,305
Unrestricted	4,549,241	4,123,071
	5,770,443	5,416,376
	$ 8,295,566	**$ 7,575,532**

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	
			2015	**2014**
	Invested in property and equipment	*Unrestricted*	*Total*	*Total*
Net assets, beginning of year:	$ 1,293,305	$ 4,123,071	$ 5,416,376	$ 6,191,722
Excess of revenue over expenses (expenses over revenue) for the year	-	354,067	354,067	(775,346)
Purchase of property and equipment	241,518	(241,518)	-	-
Amortization of property and equipment	(313,621)	313,621	-	-
Net Assets, End of Year	**$ 1,221,202**	**$ 4,549,241**	**$ 5,770,443**	**$ 5,416,376**

See accompanying notes.

STATEMENT OF OPERATIONS

	YEAR ENDED DECEMBER 31	
	2015	**2014**
REVENUE		
Fees	$ 16,356,478	$ 16,063,903
Investment income	54,973	75,340
	16,411,451	**16,139,243**
EXPENSES		
Salaries and benefits	11,801,866	12,330,290
Directors' fees and expenses	834,263	880,231
Travel	751,839	857,907
Occupancy costs	695,238	648,535
Administrative and general	594,772	656,086
Outreach activities	433,094	539,564
Continuing education	248,559	271,358
Insurance	143,209	158,756
Professional services	136,165	102,348
Legal services	104,758	142,575
Amortization of property and equipment	313,621	326,939
	16,057,384	**16,914,589**
EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE) FOR THE YEAR	**$ 354,067**	**$ (775,346)**

See accompanying notes.

STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31	
	2015	**2014**
OPERATING ACTIVITIES		
Excess of revenue over expenses (expenses over revenue) for the year	$ 354,067	$ (775,346)
Add back (deduct) non-cash items:		
Amortization of property and equipment	313,621	326,939
Amortization of tenant inducements	(44,002)	23,488
Net change in non-cash working capital items (note 7)	346,951	(396,621)
Cash generated (used) from operations	970,637	(821,540)
INVESTING ACTIVITIES		
Purchase of short-term investments	(11,600,000)	(13,008,740)
Redemption of short-term investments	10,950,000	15,958,740
Purchase of property and equipment	(241,518)	(118,628)
Cash (used) generated in investing activities	(891,518)	2,831,372
Cash and cash equivalents generated in the year	79,119	2,009,832
Cash and cash equivalents, beginning of year	2,204,072	194,240
Cash and Cash Equivalents, End of Year	**$ 2,283,191**	**$ 2,204,072**

See accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND DECEMBER 31, 2014

1. THE ORGANIZATION

The Canadian Public Accountability Board/Conseil canadien sur la reddition de comptes (CPAB/CCRC) 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 vision 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 2015 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.

	2015	**2014**
GICs	$ 4,400,000	$ 3,750,000
Accrued interest	11,115	11,931
	$ 4,411,115	**$ 3,761,931**

GICs have interest rates of 0.45 per cent to 1.00 per cent (2014:1.00 per cent). Accrued interest income is included in accounts receivable.

5. PROPERTY AND EQUIPMENT

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

	Cost	**Accumulated Amortization**	**2015 Net**	**2014 Net**
Office equipment and furniture	$ 697,046	$ (569,404)	$ 127,642	$ 141,441
IT infrastructure and networks	1,795,662	(1,441,207)	354,455	358,616
Computer software	211,557	(209,888)	1,669	15,798
Computing equipment	202,763	(147,829)	54,934	15,532
	$ 2,907,028	**$ (2,368,328)**	538,700	531,387
Leasehold improvements, net			682,502	761,918
			$ 1,221,202	**$ 1,293,305**

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, 2015 and 2014 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:

	2015	2014
Accounts receivable	$ (138,217)	$ 46,434
Sales tax recoverable	49,746	(42,763)
Prepaid expenses	25,453	11,118
Accounts payable and accrued liabilities	409,969	(411,410)
	$ 346,951	**$ (396,621)**

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 $66,000.

9. RECLASSIFICATION OF PRIOR YEAR COMPARATIVE FIGURES

Certain prior year comparatives have been reclassified to conform to the current year's presentation.

Corporate Information

CPAB 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, Operations

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.

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.

M. Jane Williamson
Vice President, Inspections

Before joining CPAB in March 2013, Jane was a VP in the Finance Group with Fairfax Financial Holdings Limited. Prior to that she was a financial services assurance partner with PwC LLP.

CPAB Board

Nicholas Le Pan, Chair
Ottawa, Ontario

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

Ian Bourne[2]
Calgary, Alberta

Chair, Ballard Power Inc.; Director, Canada Pension Plan Investment Board, Hydro One Limited, Wajax Corporation and Canadian Oil Sands Limited.

CPAB Board

Kenneth Crump[1]
Vancouver, British Columbia

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.

Guy Fréchette[1]
Montréal, Québec

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

Bruce C. Jenkins[1]
Toronto, Ontario

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

Sheryl Kennedy[1]
Toronto, Ontario

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

Gary Porter[2]
Sidney, British Columbia

Former Director and Chair, Investment Committee of the Ontario Teachers' Pension Plan; former Vice Chair, CGA Canada; retired co-founder of Porter Hétu International.

Jocelyn Proteau[2]
Montréal, Québec

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.

Alain Rhéaume[2] *
Lac Delage, Québec

A founder and Managing Partner, Trio Capital Inc.; former Deputy Minister of Finance, Québec; former President and COO, Microcell Telecommunications.

Benita M. Warmbold[2]
Toronto, Ontario

Senior Managing Director and CFO, Canada Pension Plan Investment Board; Chair, Smith School of Business Advisory Board (Queen's University); Director, Queen's University Board of Trustees and Women's College Hospital.

*Alain completed his term of office as a director on April 7, 2015.
1 Member of the Risk and Audit Committee
2 Member of the Human Resources and Governance Committee

Auditor

Fuller Landau LLP

151 Bloor Street West
12th Floor
Toronto, Ontario M5S 1S4

Corporate Counsel

Stikeman Elliott LLP

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Learn More

CPAB's 2015 annual inspections report, 2015 Big Four inspections report, detailed information on the Protocol, and other publications are available at **www.cpab-ccrc.ca**.

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