CPAB
CCRC

CANADIAN PUBLIC ACCOUNTABILITY BOARD
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

WORLD-CLASS AUDIT REGULATION

ANNUAL REPORT 2016

www.CPAB-CCRC.ca

Message from the Chair

The Canadian Public Accountability Board (CPAB) regulates audit firms that audit publicly traded Canadian companies. This work contributes to investor confidence in the integrity of financial reporting. High quality financial statements, assured by high quality audits, support the stability of our capital markets. CPAB's board of directors is deeply committed to its obligation to oversee CPAB's regulation of firms performing public audits and to ensure that CPAB operates effectively and efficiently.

This year the board noted that while CPAB interventions created incentives for audit firms to improve their quality initiatives, consistent execution remains a challenge. Management has explored what the firms and CPAB should do differently to drive quality improvements deeper into firm practices. The board fully supports CPAB's initiative to modify its inspections approach to place greater emphasis on assessing the firms' quality systems. This shift will be complemented by file inspections to validate systems findings and will begin to roll out in pilot form at the Big Four firms in 2017. More detailed information on this new approach is available later on in this report.

2016 marked the first year of our new three year strategic plan. The board and management continued to build on the progress made last year, including a focus on continuous improvement and building a high performance team.

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 2016 and look forward to continued progress in 2017.

Nick Le Pan
Chair

Message from the CEO

Annually, CPAB inspects all accounting firms with 100 or more public company clients. Our 2016 inspections of the 14 firms reviewed annually (these firms and their foreign affiliates audit approximately 99.5 per cent of Canadian reporting issuers by market capitalization) indicate an overall decrease in significant findings compared to last year; however, audit quality continues to be inconsistent. The majority of CPAB's significant findings required audit firms to carry out additional audit procedures to determine the need, if any, to restate the financial statements due to material error. The remaining findings required firms to add 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.

CPAB's annual Big Four firm (Deloitte LLP, EY LLP, KPMG LLP, PwC LLP) public inspections report released in November 2016 noted an overall improvement in quality but also pointed to the ongoing theme of inconsistent audit execution. As a result, in addition to completing procedures to identify if restatements are required, evaluating root causes, and updating action plans, CPAB required these four firms to revise or amend firm guidance and methodologies to address systemic issues, identify and monitor key quality controls, and ensure issue escalation processes are effective.

Inspections results at the 10 other annually inspected firms (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) showed improvement overall, but like the Big Four firms they continue to experience challenges in consistency of audit execution. Three of the four other/national network firms improved, including the two firms that experienced challenges in 2015; one firm declined slightly. In 2015, CPAB required these four firms to take short term actions to improve the quality of their next year-end audits – these efforts appear to have had a positive impact. The challenge remains to ensure quality improvements in the past year are supported by longer term sustainable actions. The six large regional firms have also made improvements – overall audit quality was stable at four of these firms and improved at two since last year. Still, these firms need to do more to ensure that their quality initiatives are effective in supporting consistent audit execution. (Please see our 2016 Annual Inspections Report released March 29, 2017 for more details).

The firms inspected annually have implemented action plans and these initiatives have enhanced audit quality; public company audits in Canada are generally well done. Our risk-based model of inspecting specific files for significant deficiencies and identifying systemic issues has been effective in enhancing audit quality, yet consistency across firm practices and client engagements remains elusive. To further enhance audit quality CPAB has explored what the firms and we should do differently to drive quality improvements deeper into their organizations. As a result, to better identify and understand impediments to improving firm quality systems (actual workflow and monitoring that workflow) we will begin shifting our inspections focus to more operational reviews of firm structure, accountabilities, quality processes, and culture while continuing to conduct file inspections to validate systems findings. We plan to develop and implement our new approach over the next two years beginning with the Big Four firms.

The review of auditing in foreign jurisdictions continued as a concern in 2016. Most firms have implemented policies and procedures aligned with Canadian standards regarding auditing Canadian reporting issuers with operations in foreign jurisdictions. However, the work of component auditors outside of Canada is still an area that presents significant challenges for our inspection program. Our inspection activity of companies with foreign operations is often limited only to engagement files accessible in Canada – in many cases this may only represent a small portion of the audit work. As reported last year, CPAB has memoranda of understanding with a number of audit regulators in foreign jurisdictions; however, we continue to face limitations in accessing component audit work in certain others. We have proposed a regulatory way forward to the relevant Canadian securities authorities to access information and related audit working papers so we may fulfil our mandate. The Canadian Securities Administrators (CSA) are examining CPAB's proposal to determine whether legislative amendments should be considered. We look forward to working together with securities authorities and other stakeholders to address these limitations as quickly as possible.

In addition to participating in the domestic regulatory agenda, to achieve our strategy CPAB is actively involved in issues related to auditing and audit policy internationally through our leadership in the International Forum of Independent Audit Regulators (IFIAR). I served as Vice Chair of the organization in 2016 and have been nominated to chair the board of directors beginning in April 2017 – these leadership roles assist us to drive positive change regarding matters of audit quality domestically and internationally.

To increase the dialogue about audit quality, in 2016 we further expanded our interaction with audit committees, with a focus on mid-market cap ($100-$500 million) reporting issuers. As part of our Industry Forum series we held two sessions focused on the mining and oil and gas sectors – providing a venue for audit committee members to share industry-specific issues and insights. Early feedback has been positive and similar events are planned for audit committee members serving the financial, retail and mid-cap reporting issuer sectors in 2017.

To support the discussion regarding the use of audit quality indicators (AQIs) in Canada among the broader director community, CPAB launched a pilot project with the audit committees of six leading Canadian public companies to explore what they, management and their auditors are currently doing in this arena. Our observations to date tell us that AQIs have significant potential to positively impact audit quality. We encourage audit committees, management and audit firms to continue to explore how AQIs can be integrated into their audit processes. CPAB will expand participation in the pilot in 2017.

In 2016 we also continued to publish thought leadership 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 audit committees might wish to explore with their auditors.

We commissioned an independent third party survey of engagement partners and audit committee chairs regarding our Protocol for Audit Firm Communication of CPAB Inspection Findings with Audit Committees (Protocol). The Protocol covers both the sharing of CPAB's overall inspection results as well as the sharing of reporting issuer- specific results with audit committees. (Firms auditing well over 90 per cent of the market capitalization of reporting issuers in Canada participate in the Protocol). Overall, respondents found our reports useful, easy to read, and timely. At the same time, they suggested including more specific, case-study style information and increasing CPAB's involvement and participation in the communication of results. We are discussing the survey feedback with the firms we regulate as well as other key stakeholders and enhancements will be considered as we continue to work to improve audit quality.

2016 marked the first year of a new three year strategic plan for CPAB (available at www.cpab-ccrc.ca). In 2017, we will continue to focus on initiatives to support the following strategic objectives:

1. Fielding a high performance team.
2. Further building a focus on risk assessment and mitigation into CPAB's culture.
3. Continuing to enhance inspections.
4. Developing practical and meaningful thought leadership.
5. Expanding awareness and understanding of issues related to audit quality across key stakeholders.

As we implement initiatives to support this work and our overall mandate to contribute to the confidence of the investing public in our capital markets, CPAB has, and will continue to focus on managing its cost structure by maintaining an appropriate focus on cost containment and productivity.

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 2017 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 operating results for the year ended December 31, 2016. This section also includes the outlook for 2017 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, 2016, 281 audit firms were registered with CPAB. Eighteen new firms registered (mostly foreign firms) and 22 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 and investors.

When inspecting a participating audit 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 2016, CPAB inspected 45 firms in total (2015:39) and 167 engagement files (2015:179). For the 14 firms inspected annually, CPAB inspected 135 (2015:144) files and identified significant findings in 24 of these files (2015:43). In addition, CPAB inspected 32 files at 31 other firms (2015:35 files at 25 firms) and identified significant findings in 19 (2015:28) files.

The majority of CPAB's total significant findings in 2016 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 four restatements or two per cent of files inspected (2015:11 restatements or six per cent of files inspected).

Based on last year's inspections results, CPAB required the Big Four firms to address the issues underlying our findings and develop ways to improve their quality systems for medium to smaller market capitalization client engagements. While it appears this approach has helped enhance quality, we expect it will take more than one year for the firms to fully embed these initiatives.

This year, in addition to completing procedures to identify if restatements are required, evaluating underlying cause(s) of significant findings, updating action plans and revising tools, templates, and internal training as appropriate, CPAB has required the firms to focus on:

1. Revising or amending firm guidance and methodologies to address systemic issues.
2. Identifying key quality controls and determining metrics to monitor and measure effectiveness.
3. Ensuring effective issue escalation processes to manage and mitigate firm risk are in place.

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. At the same time, 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 2016, 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 would 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.

[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).

Effective December 31, 2016, CPAB has Requirements on nine firms (2015:6) and Restrictions on three firms (2015:2). CPAB actively managed disciplinary actions in 2016 to address audit quality matters. Of the 12 firms operating with Requirements or Restrictions, CPAB has:

- Limited the acceptance of new reporting issuers at 10 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 2015 one firm was subject to Sanction and subsequently withdrew as a participating audit firm.

A participating firm may petition for a review proceeding in the following three scenarios: 1) when the Board intends to make public the weaknesses, deficiencies and recommendations in the system of quality control, or deficiencies in specific engagements, not addressed or remedied to the satisfaction of the Board; 2) when the Board proposes to impose requirements, restrictions and sanctions in the event of a Violation Event; or 3) in connection with an application for membership not accepted by the Board. Investigations may take place when the Board considers that a Violation Event may have occurred and it wishes to seek information and the cooperation of the participating audit firm with respect to such matters.

No review, investigation or other proceedings were conducted in 2016.

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 2016, 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 2016, 184 firms (2015:188) 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 2015.

CPAB had revenues of $16.7 million in 2016, compared to revenues of $16.4 million in 2015. The 1.8 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 $11.9 million or 73 per cent of 2016 total expenses of $16.3 million (2015:$11.8 million or 73 per cent).

Excluding salaries and benefits, operating expenses in 2016 increased approximately 2.3 per cent, to $4.4 million, compared to $4.3 million in 2015. The increase was largely related to increase in technology and recruitment expenses.

Overall, operating expenses amounted to $16.3 million (2015:$16.1 million), increasing $0.2 million or 1.2 per cent from 2015. Of total operating expenses in 2016, 70 per cent related to inspection activity (2015:74 per cent). In addition to CPAB fulltime staff we have contracts with four persons who were deployed on an as-needed basis for inspection work relating to valuations, information technology and taxation. These contract amounts are included in salaries and benefits expense in 2016. The breakdown of salaries and benefits by executive, inspection and administrative staff was:

	2016	2015	
	Salaries and benefits	Salaries and benefits	Number of employees*
Executive Staff	$2.6 million	$2.5 million	5
Inspection Staff	$7.6 million	$7.6 million	32
Administrative Staff	$1.7 million	$1.7 million	14
	$11.9 million	$11.8 million	51

* no change from 2015

The excess of revenues over expenses in 2016 was $ 0.31 million, compared to the excess of $0.35 million in 2015. CPAB currently has a reserve of $6.1 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 2016 was $1.1 million (2015: cash generated $0.1 million). At December 31, 2016 CPAB had a strong working capital position of approximately $5.2 million (2015:$5.0 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' 2016 compensation included fees of $0.9 million (2015:$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 2016. All board members attended every meeting during the year. All board members attended the board's strategic planning session in September.

Executive compensation in 2016, which included all amounts paid to the CEO, CFO and next three highest-paid members of the executive committee, totaled $2.6 million (2015:$2.5 million). This includes salaries, accrued bonuses, registered retirement savings plan contributions, severances, and benefits paid by CPAB on behalf of staff.

Outlook for 2017

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 a focus on risk assessment and mitigation into CPAB's 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 key 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 2017, revenues are budgeted at $16.5 million (compared to actual revenues 2016:$16.7 million) and operating expenses are budgeted at $16.5 million (compared to actual expenses 2016:$16.3 million). Revenues and expenses are expected to be slightly lower compared to 2016 and CPAB expects a break-even result for 2017. 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 2017 of approximately $0.4 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 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 2016, 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.

2017 CPAB OPERATING BUDGET

STATEMENT OF OPERATIONS

(UNAUDITED)

YEAR ENDED DECEMBER 31 (000's)

	2016 Actual	2016 Budget	2017 Budget
REVENUE			
Fees	$16, 603	$16,610	$ 16, 413
Interest income	53	30	40
	16, 656	16,640	16, 453
EXPENSES			
Salaries and benefits	11,922	12,212	11, 663
Directors' fees and expenses	879	800	955
Travel	770	852	845
Occupancy costs	697	710	722
Administrative and general	843	717	729
Outreach activities	253	402	375
Continuing education	221	250	250
Insurance	143	143	143
Professional services	176	90	272
Legal services	101	114	114
Amortization of property and equipment	336	350	385
	16,341	16,640	16,453
EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR	$ 315	-	-

Commentary on the 2017 CPAB Operating Budget

For 2017, revenues, which cover operating expenses, are budgeted at $16.5 million, as compared to actual and budgeted revenues of $16.7 million and $16.6 million, respectively in 2016. This level of revenues will result in an operating break-even position for 2017. 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 2016 CPAB's base fee rate was 2.0 percent of the audit fees both Canadian and foreign participating firms charged their reporting issuer clients. CPAB's base fee rate for 2017 will remain unchanged.

CPAB's operating expenses for 2017 have been budgeted at $16.5 million. This amount is greater than 2016 actual operating expenses of $16.3 million and slightly lower than the 2016 budgeted operating expenses of $16.6 million, due to changes in staffing mix. The 2016 excess of revenues over expenses exceeded the break-even budget by $0.3 million due to higher revenues and lower salary costs. There are no significant changes in expenses in the 2017 Budget, relative to 2016 actual and budgeted expenses, except for slightly lower revenues and salaries.

Overall, the 2017 Operating Budget shows CPAB will have a break-even operating position for 2017, leaving CPAB with a net asset surplus of approximately $6.1 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 continue to focus on the following five strategic imperatives:

- Field a high performance team.
- Further build a focus on risk assessment and mitigation into CPAB's 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, 2016, 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, 2016, 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 15, 2017

STATEMENT OF FINANCIAL POSITION

	December 31, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,367,570	$ 2,283,191
Investments (note 4)	5,000,000	4,400,000
Accounts receivable (note 4)	36,606	154,325
Sales tax recoverable	45,074	39,171
Prepaid expenses	183,873	197,677
	7,633,123	7,074,364
Property and equipment (note 5)	1,308,585	1,221,202
	$ 8,941,708	$ 8,295,566
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 2,470,897	$ 2,095,474
Unamortized tenant inducements	385,503	429,649
NET ASSETS		
Invested in property and equipment	1,308,585	1,221,202
Unrestricted	4,776,723	4,549,241
	6,085,308	5,770,443
	$ 8,941,708	$ 8,295,566

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	
			2016	2015
	Invested in property and equipment	*Unrestricted*	*Total*	*Total*
Net assets, beginning of year:	$ 1,221,202	$ 4,549,241	$ 5,770,443	$ 5,416,376
Excess of revenue over expenses for the year	-	314,865	314,865	354,067
Purchase of property and equipment	423,711	(423,711)	-	-
Amortization of property and equipment	(336,328)	336,328	-	-
Net Assets, End of Year	$ 1,308,585	$ 4,776,723	$ 6,085,308	$ 5,770,443

See accompanying notes.

STATEMENT OF OPERATIONS

	YEAR ENDED DECEMBER 31 2016	2015
REVENUE		
Fees	$ 16,603,429	$ 16,356,478
Investment income	52,533	54,973
	16,655,962	16,411,451
EXPENSES		
Salaries and benefits	11,922,083	11,801,866
Directors' fees and expenses	878,424	834,263
Travel	769,528	751,839
Occupancy costs	697,230	695,238
Administrative and general	842,859	594,772
Outreach activities	253,002	433,094
Continuing education	221,053	248,559
Insurance	143,210	143,209
Professional services	175,964	136,165
Legal services	101,416	104,758
Amortization of property and equipment	336,328	313,621
	16,341,097	16,057,384
EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR	$ 314,865	$ 354,067

See accompanying notes.

STATEMENT OF CASH FLOWS

	YEAR ENDED DECEMBER 31 2016	2015
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	$ 314,865	$ 354,067
Add back (deduct) non-cash items:		
Amortization of property and equipment	336,328	313,621
Amortization of tenant inducements	(44,146)	(44,002)
Net change in non-cash working capital items (note 7)	501,043	346,951
Cash generated (used) from operations	1,108,090	970,637
INVESTING ACTIVITIES		
Purchase of short-term investments	(15,500,000)	(11,600,000)
Redemption of short-term investments	14,900,000	10,950,000
Purchase of property and equipment	(423,711)	(241,518)
Cash (used) generated in investing activities	(1,023,711)	(891,518)
Cash and cash equivalents generated in the year	84,379	79,119
Cash and cash equivalents, beginning of year	2,283,191	2,204,072
Cash and Cash Equivalents, End of Year	$ 2,367,570	$ 2,283,191

See accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND DECEMBER 31, 2015

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: 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 2016 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.

Use of estimates
The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates

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.

	2016	*2015*
GICs	$ 5,000,000	$ 4,400,000
Accrued interest	7,786	11,115
	$ 5,007,786	$ 4,411,115

GICs have interest rates of 0.45 per cent to 0.70 per cent (2015 – 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*	*2016 Net*	*2015 Net*
Office equipment and furniture	$ 714,230	$ (594,127)	$ 120,103	$ 127,642
IT infrastructure and networks	1,937,792	(1,612,278)	325,514	354,455
Computer software	231,530	(217,001)	14,529	1,669
Computing equipment	252,007	(189,324)	62,683	54,934
	$ 3,135,559	$ (2,612,730)	522,829	538,700
Leasehold improvements, net			785,756	682,502
			$ 1,308,585	$ 1,221,202

Leasehold improvements of $179,000 have been incurred and capitalized for the Vancouver office and will be amortized over the term of the lease commencing in 2017, when the assets are in use. No amortization has been taken in respect to these assets.

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, 2016 and 2015 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:

	2016	*2015*
Accounts receivable	$ 117,719	$ (138,217)
Sales tax recoverable	(5,903)	49,746
Prepaid expenses	13,804	25,453
Accounts payable and accrued liabilities	375,423	409,969
	$ 501,043	$ 346,951

8. COMMITMENTS

Commencing January 2017, CPAB entered into a lease for office space in Vancouver. The lease is for a term of 10 years, four months and the annual expense is approximately $89,000.

In February 2013, CPAB entered into an 11 year, six month lease for its Toronto head office. 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 November for office space in Montréal. The lease in Montréal is for a term of 72 months and the annual expense is approximately $66,000.

Corporate Information

CPAB Executive

Brian A. Hunt
Chief Executive Officer

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

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, Chair - Governance Committee, Canada Pension Plan Investment Board; Director, Chair - Human Resources Committee, Hydro One Limited; Director, Wajax Corporation.

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, an IBM Company; 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., Former Chair, Standard Life of Canada and, Former Chair and CEO Federation des Caisses Desjardins de Montréal-et-de-l'Ouest-du-Québec.

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, Methanex Corporation and Women's College Hospital.

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 2016 annual inspections report, 2016 Big Four inspections report, detailed information on the Protocol, and other publications are available at www.cpab-ccrc.ca

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