



CANADIAN PUBLIC ACCOUNTABILITY BOARD  
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

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# 2016-2018 Strategic Plan

## 2016-2018 Strategic Plan

The Canadian Public Accountability Board's (CPAB's) 2016-2018 Strategic Plan builds on our previous plan by taking the next steps in each of our areas of focus to drive sustainable, high quality audits which contribute to public confidence in financial reporting in Canada.

Fundamentally, our goals and approach will remain the same. Our 2016-2018 Strategic Plan aims to build on our past progress to further enhance the organization's effectiveness.

### Background

In order to drive consistent, sustainable audit quality in response to a challenging audit environment, CPAB's 2013-2015 Strategic Plan required the organization to embark on a strategic shift, concentrating on Risk Management, Focused Inspections, Thought Leadership, and Stakeholder Engagement. This shift was intended, and continues, to enable the organization to meet its regulatory mandate through inspection of a selection of audit firms and by sustainable improvements in the overall audit process, involving a broader range of stakeholders. Over the past three years, CPAB has evolved its inspection methodology, systems and processes, and developed its capabilities in the areas of stakeholder engagement and thought leadership. While we have made progress, more remains to be done.

### Current environment

CPAB's 2016-2018 Strategic Plan considers the current environment and key trends that are expected to impact the audits of public companies over the next three years including:

- The evolution of audit firms including the increasing scope of services being offered.
- Strong competition for audit services, putting pressure on revenue and profitability.
- A changing labour market for audit professionals 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 the associated audit challenges.
- Evolution in how audits are performed or will be performed in the future, including the impact of emerging technologies.
- Emerging international audit policy issues including auditor tendering or rotation, limits on non-audit services and the introduction of expanded audit reporting.
- An increased spotlight on, and expectations of, the role of the audit committee in overseeing the auditor and enhancing audit quality.
- Significant weakness in commodity prices which may have a significant impact on the strength and resiliency of public companies in Canada.

In reviewing the current environment, we continue to see challenges in the consistent execution of high quality audits. CPAB believes that 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.

CPAB believes audit firms must commit to continuous improvement at all levels of their organizations so that improvements in audit quality are embedded across engagement teams of all sizes, industries and geographic locations. This improvement will require collaboration and enhanced accountability in the audit process.

Key stakeholders, including audit committees, play an important role in audit quality by ensuring that appropriate steps are taken to deliver sustainable audit quality that is in the best interests of the capital markets.

It is against this background that we developed our 2016-2018 Strategic Plan.

## Strategic Imperatives

CPAB's 2016-2018 Strategic Plan builds on our progress to further enhance the organization's effectiveness. We want 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 over the next three years:

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 stakeholders.

## Focus Areas

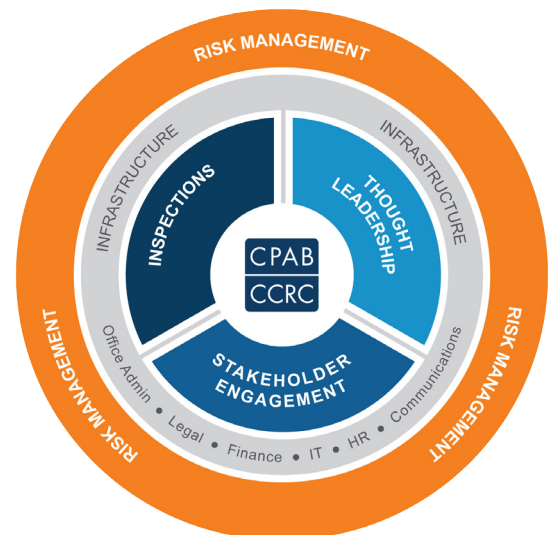
To deliver on these imperatives, CPAB will continue to be organized in the following functional areas: Risk Management, Inspections, Thought Leadership and Stakeholder Engagement. To achieve our goals we will continue to focus on developing our people and to participate actively in discussing issues related to audit quality and audit policy internationally. Specific initiatives and planned actions across each of these areas are outlined below.

### 1. A High Performance Team

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 labour market for audit professionals, and evolution in the use of technology.

These changes will impact the way audit firms and other stakeholders operate, which increases the importance of attracting, training and retaining individuals with the appropriate skills to perform their roles.

CPAB's strategic imperatives are designed to move the organization to the next level of effectiveness in meeting its mandate. These imperatives require enhanced levels of judgement, initiative, innovation, substantive knowledge, relationship skills and leadership, from all areas of the organization, to execute effectively.



Continuous improvement in staff capabilities including staff development, retention and attracting key talent is an overarching strategic priority that is critical to successfully achieving the strategic outcomes outlined in this plan.

CPAB's focus on people will include:

1. Renewing our focus on talent and actively manage longer term career development, including succession planning.
2. Continuing to build a collaborative workplace culture that supports our mission and is built on values of excellence, trust and respect.

#### Strategic Outcome 1:

**A high performance team** – A consistently high performing team that continues to adapt and thrive in a constantly changing environment.

## 2. Risk Management

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, changing economic realities and rapid innovation require us to refine and strengthen our ability to identify and mitigate risks that could impact confidence in the capital markets.

Supported by our Risk Management group, the organization will:

1. Continue to foster a risk-focused organizational culture.
2. Increase the scope and depth of our analysis of risks impacting our capital markets to improve the identification of emerging risks and develop action plans to monitor and mitigate these risks.
3. Develop and implement new tools to refine the organization's understanding of the risks in the reporting issuer population, strategically targeting higher risk audit files and areas of inspection focus.
4. Continue to refine our approach and activities with respect to enterprise risk, effectively managing the risk factors affecting our organization.

#### Strategic Outcome 2:

**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.

## 3. Inspections

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 have 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 inspection findings through the introduction of the **Protocol for Audit Firm Communication of CPAB Inspection Findings with Audit Committees** (Protocol). Audit firms who voluntarily participate in the Protocol now share significant file-specific 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 11 of the 14 annually inspected firms (including all Big Four firms, all national/network firms, and three of the six regional firms).

While these developments are positive, our current inspection results show that sustainable audit quality remains a challenge in Canada. CPAB believes 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.

Our Inspections activities will:

1. Develop a deeper understanding of, and evaluate the effectiveness of key processes and controls within audit firms that support audit quality.
2. Inspect a sample of reporting issuer audit files across a range of market capitalizations, industries and geographies.
3. Explore opportunities to pursue thematic reviews, allowing us to provide deeper insights into certain audit quality topics.
4. More effectively analyze and evaluate the root causes of audit deficiencies identified by audit firms to provide recommendations that will drive sustainable improvement.
5. Provide effective transparency in CPAB's communication of inspection results and about the key drivers of audit quality to help stakeholders in the audit process perform their roles effectively.

### Strategic Outcome 3:

**Impactful Inspections** – Recommendations that better address root causes, leading to sustainable audit quality.

## 4. Thought Leadership

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

CPAB's Thought Leadership group will:

1. Engage with domestic and international standard setters in areas where auditing standards need to improve and on the standard setting process itself.
2. Provide practical tools and information to audit committees and other key stakeholders to improve the understanding and execution of each party's role in sustainable audit quality.
3. Independently, or in collaboration with other industry participants, research emerging issues to raise awareness and create dialogue with stakeholders. Topics may include:
  - a. Audit quality themes identified through our inspection activities.
  - b. Audit issues common to particular industries.
  - c. Trends in the audit industry.
  - d. Skills required for the auditor of the future.
  - e. The impact of changes to auditor reporting.
  - f. Audit committee oversight, including evaluation of the auditor and identification of industry-specific risks.
  - g. Performing a comprehensive review or audit tender.
  - h. Audit quality indicators.
  - i. The use and impact of technology on the audit profession.
  - j. The role of management in audit quality.

#### Strategic Outcome 4:

**Actionable insights** – Practical tools and information to assist stakeholders in contributing to enhancing audit quality.

## 5. Stakeholder Engagement

Audit firms and financial statement preparers are not the only players in the audit process. Audit committees, institutional investors and analysts also play important roles. CPAB believes there is an opportunity to enhance audit quality and investor protection by engaging in a dialogue and raising awareness about audit quality among stakeholders.

While this first became an area of focus for CPAB in 2013, challenges in the domestic and international audit and business environments have warranted that it will continue to be one in 2016 and beyond. We plan to communicate more strategically with key stakeholders to better influence change.

In particular, Stakeholder Engagement will:

1. Convene roundtables and conferences, such as CPAB's Audit Quality Symposium, and publicize results to drive audit quality and advance audit knowledge and practice.
2. Continue to build existing relationships with audit committees, with a focus on mid-cap reporting issuers, to improve the number, depth and quality of conversations on audit quality issues.
3. Explore alternative methods to expand the awareness of audit quality issues with audit committees through industry forums, collaboration with other organizations and discussion of the need for policy change with other regulators.
4. Collaborate with audit regulators, standard setters and securities regulators to build understanding of shared issues and approaches that have been successful in enhancing audit quality.

#### Strategic Outcome 5:

**Engaged stakeholders** – Enhanced stakeholder awareness of, and engagement in, audit quality issues (with a focus on audit committees and audit firms).



## Domestic and International Focus

The current environment for auditing is increasingly influenced at an international level. Many Canadian companies have been increasing their activity in foreign countries, requiring Canadian auditors to use the work of foreign component auditors. Additionally, Canadian auditing standards are based on the 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 (IFIAR).

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## Strategic Outcomes

CPAB's 2016-2018 Strategic Plan ultimately aims to contribute to improved audit quality, thereby helping to maintain the integrity of Canadian capital markets. The organization aspires to positively affect the domestic and global audit sectors by demonstrably influencing the way audit quality is viewed.

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

- **A high performance team** – A consistently high performing team that continues to adapt and thrive in a constantly changing environment.
- **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).

In achieving these outcomes, CPAB will effect sustainable improvement in audit quality and make a positive difference in the Canadian and global audit regulatory landscape.

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## Resources

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






# Strategic Framework

## VISION

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

## MISSION

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

OUTCOMES	IMPERATIVES	KEY INITIATIVES
 <b>HIGH PERFORMANCE TEAM</b>	<b>Field a high performance team</b>	<ul style="list-style-type: none"> <li>Continue to build a collaborative workplace culture</li> <li>Renew our focus on talent and actively manage longer term career development</li> </ul>
 <b>PROACTIVE RISK MANAGEMENT</b>	<b>Further build a focus on assessment and mitigation of risk into our culture</b>	<ul style="list-style-type: none"> <li>Foster a risk-focused organizational culture</li> <li>Refine CPAB's understanding of the risks in the reporting issuer population</li> <li>Continue to refine our approach and activities with respect to enterprise risk management</li> </ul>
 <b>IMPACTFUL INSPECTIONS</b>	<b>Continue to enhance Inspections</b>	<ul style="list-style-type: none"> <li>Develop a deeper understanding of, and evaluate, key quality processes and controls within audit firms</li> <li>Continue to pursue reporting issuer audit file inspections and thematic reviews</li> <li>More effectively analyze the root causes of audit deficiencies</li> <li>Provide effective transparency into our inspection results</li> </ul>
 <b>ACTIONABLE INSIGHTS</b>	<b>Develop practical and meaningful thought leadership</b>	<ul style="list-style-type: none"> <li>Engage with domestic and international standard setters, international regulators and others</li> <li>Research and share our findings on emerging issues impacting audit quality</li> </ul>
 <b>ENGAGED STAKEHOLDERS</b>	<b>Expand awareness and influence across key stakeholders</b>	<ul style="list-style-type: none"> <li>Convene roundtables and conferences to drive audit quality</li> <li>Continue to build our engagement with audit committees</li> <li>Explore alternative methods to expand the awareness of audit quality issues</li> </ul>

## CORE VALUES

**Excellence • Trust • Respect**