

CANADIAN PUBLIC ACCOUNTABILITY BOARD
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES



The Way Forward:
Transforming an Audit Regulator for the 21st Century
(Updated November 2010)

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Executive Summary

This document outlines the updated 2010-2012 strategic plan for the Canadian Public Accountability Board (CPAB). The Board and management have reviewed the plan which was set in 2009, reviewed progress against the plan during 2010 and confirmed that the basic direction of the plan remains appropriate.

During its first seven years of existence, CPAB has made a significant contribution to the audit sector in Canada. From a standing start, it moved quickly to staff up with subject matter experts and implement an inspection methodology which added considerable value to the audit firms of public reporting issuers.

Driven by a culture of integrity, commitment and collaboration, CPAB has demonstrated an uncommon ability to perform on a major stage and has much to be proud of.

When this plan was struck in 2009, CPAB was at a key juncture in its lifecycle. Based on the plan that was set at that time, the organization refined its vision and defined and begun to deliver on a new value proposition for its key stakeholders. Having completed the first 12 months of the strategic plan, the organization is operating at a more strategic level and is demonstrating relevance in the form of added value to many of the audit firms that CPAB oversees.

Set against a backdrop of a continuing difficult economy, looming professional skills shortages, and the pending introduction of new international standards, CPAB has moved to evolve its inspection methodology, systems and processes, and people to provide continued oversight in a way which resonates with its stakeholders and the international community.

Predicated on the Board of Director's identification of six strategic priorities, this updated plan outlines the 10 major initiatives CPAB will implement to effect a smooth transition. Significant investments in human resource management, inspection methodology, technology and systems, stakeholder relations, and regulatory affairs will provide CPAB with the platform on which to deliver quality and relevance as a world class 21st century audit regulator. After 12 months this plan is as relevant as it was initially. The key for management over the next 12 months will be to shift its emphasis and focus to the next phase of implementation for the 10 major initiatives.

Strategic Outcomes

CPAB's goal by 2012 is to be viewed by key stakeholders as a world class audit regulator.

Led by a progressive and aligned leadership team, and enabled by a solid regulatory framework, CPAB will have contributed to the evolution of higher quality public company

audits and have the respect and confidence of its stakeholder community as a world class regulator.

Committed to operational excellence and stakeholder value, the organization will have garnered a premium reputation for being tough-minded, independent and fair.

From a human capital perspective, CPAB's investments in organizational structure, human resource policies and systems, aligned with its core values, technical training and professional development will have made it a career destination for top talent.

Powered by an evergreen technology platform, CPAB will have a robust secure database together with advanced management reporting and risk analysis capability.

A scorecard which tracks performance against key indicators will be in place across the organization. In addition, reward system will be implemented which recognizes staff for their contribution to the organization's success. This environment of increased accountability will lead to a more effective and efficient organization.

An overview of the 2010-2012 strategic plan may be found in Appendix 1. An operating plan detailing the goals and actions to build out CPAB's platform is referenced in a subsidiary document.

With this being year two of the Strategic Plan, it has been updated to reflect the accomplishments delivered by the 2010 Operating Plan. As such, the strategic emphasis has been altered to reflect the correct positioning of objectives in order that CPAB strategic objectives outlined in the Plan are achieved by 2012.

This change in strategic emphasis is best demonstrated in two key areas: Organizational Development and Human Resources. In 2010, CPAB implemented a new organizational structure which established a new management structure with clear roles and responsibilities for staff at various levels. Management also developed core values for the organization (Excellence, Trust, and Respect). In human resources, Management's focus was on recruiting staff to ensure that the skills and capabilities as defined in the organizational structure were available to CPAB. CPAB was very successful in attracting top talent. As a direct result of these efforts, in 2011 CPAB will focus not on recruiting staff but rather the development of staff, not on developing core values but rather implementing the core values. Plus, management will focus on accountability, consistency of application of policies/methodology just to name some of the changes in strategic emphasis.

Six Strategic Priorities

The Board of Directors has identified and confirmed the following strategic priorities and related issues.

1. **Mission, Mandate, Vision and Brand**

Mission is an organization's core purpose or *raison d'être*. It guides and constrains the Board and management in strategy formulation and decision making. The mission statement should be focussed, succinct, and endure for multiple planning horizons.

CPAB's mission is: *To contribute to public confidence in the integrity of financial reporting of public companies in Canada by effective regulation and by promoting quality, independent auditing.*

Challenges with this mission pertain to the indirect connectivity between CPAB's work and the public; determining what constitutes "the public", "public confidence" and the definition of integrity.

CPAB's **mandate** is limited to public company audits of Reporting Issuers. The issues associated with this mandate are: to what extent should it be expanded within the next three years to other forms of publicly accountable enterprises; which enterprises should fall within CPAB's purview; whether CPAB should be reactive or proactive in revising its mandate; and whether CPAB should look beyond the audit practice to other service lines where a firm might have different risks. Expanding its mandate is not a current priority for CPAB.

CPAB's stakeholders consist of audit firms, governments, reporting issuers, Audit Committees, securities regulators, OSFI, the investing public and others (e.g., lenders, counterparties, customers of public companies) who rely on financial statements - all of whom have a vested interest in safe capital markets.

CPAB's objective is to improve the quality of audits of Reporting Issuers within accounting firms. Central to this objective is the need to clarify what CPAB is accountable for and how much of the "audit buck" stops with CPAB should there be an audit failure. Alignment within CPAB and with its stakeholders as to the scope of its mandate and accountability is therefore key.

Vision is a statement of what an organization aspires to *be* or what it aspires to *do* for the greater good. In either case, the vision should be compelling and attainable within the strategic plan timeframe.

As with the mission, a vision statement must be clear and shared by key constituents, in the first instance within the organization. The Management Committee has identified the following vision for CPAB for the next 3 years.

To be viewed domestically and internationally
as a world class audit regulator.

CPAB's mission and vision statement have been very useful in the past year in building the CPAB team, and the Board and management have re-confirmed the mission and vision.

From a **brand** perspective, CPAB is not well known or understood by members of the business community, reporting issuer stakeholders, the investing public and other stakeholders. Enhancing knowledge is important so that these stakeholders have a better idea of what to expect from CPAB. Progress has been made in this area with audit committees in the past 12 months, but more is desirable. Positive recognition by stakeholders is important for any organization. In CPAB's case, this is particularly so vis-à-vis the public if CPAB's mission retains the requirement to contribute to public confidence.

2. Enterprise Risk Management

The protection of reputational risk, both for CPAB and the auditing profession, is of the highest order for CPAB. This risk is a function of three elements primarily: inspection failure, data security, and human capital.

Inspection failure is comprised of several elements, such as the failure to identify or properly address a significant GAAP or GAAS issue or audit omission in an audit file. It also includes failure to identify insufficient audit work to support the audit opinion resulting in a financial statement error and restatement.

Data security pertains to the protection of audit firm and Reporting Issuer information stored within CPAB's information technology system, any breach of which could have far-reaching consequences.

From a human capital perspective, attracting, developing and retaining top talent is critical to a knowledge-based organization such as CPAB and to enabling its growth. Investments in people, work environment, and systems/processes which enable best practices, have a direct correlation to the quality of enterprise risk management. Building human capital was a key priority for CPAB in 2010.

The technical skills of CPAB's inspection staff are a core strength. In 2010 CPAB was able to attract top talent especially from the Big 4 firms. The challenge going forward will be to further develop and retain staff, including enhancing succession planning within the organisation.

IN 2010 CPAB started an enhancement of its risk assessment methodology as a key input into inspections and that will be further implemented in the coming year.

3. Regulatory Support and Immunity

CPAB does not have the degree of regulatory support comparable to the Public Company Accounting Oversight Board (PCAOB) and other international counterparts, or comparable to other Canadian regulators.

Legislation is not in place in many jurisdictions across the country to enable CPAB to carry out its mandate. Enhancement of regulatory support to allow access to privileged information is an important pre-requisite to enhancing international reciprocity/relevance for many important counterparts such as the European Union.

While material progress was made in 2010, more needs to be done and this will remain a priority.

4. Culture

Culture is comprised of the norms, values and behaviours that characterize an organization.

CPAB's culture currently can be described as collegial, committed, consultative and highly ethical. In this context, the culture may also be defined as lacking consistency in the application of methodologies and strategic thinking related to issues of greatest significance and risk at the inspection team level.

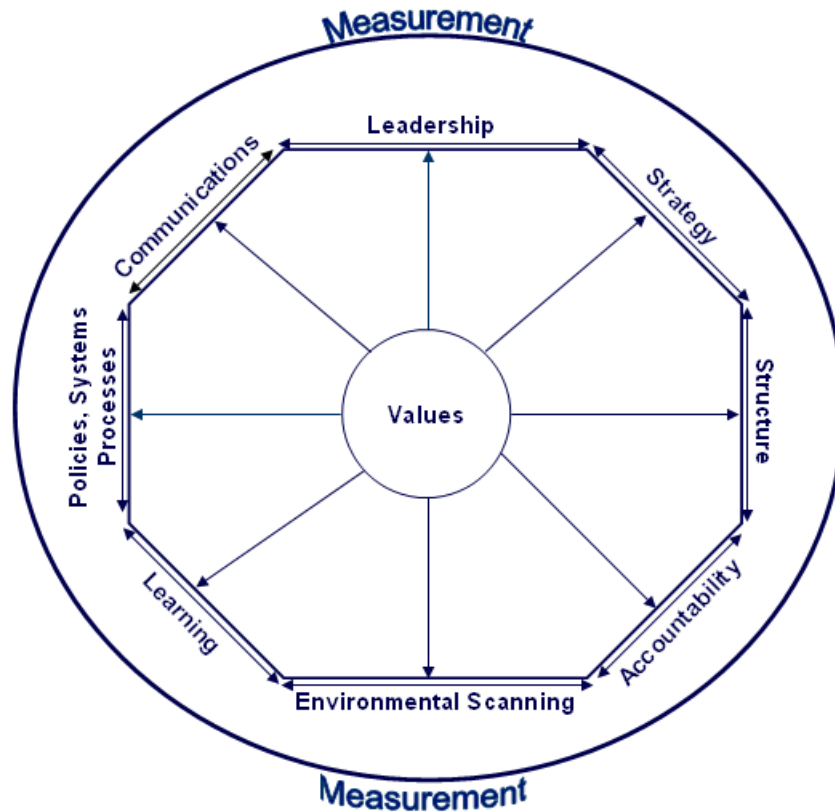
In 2010, CPAB established a set of core values: "excellence, trust and respect". These core values will serve to guide behaviours and decisions at CPAB in a way which shapes culture and performance. The core values have been communicated to staff and have been incorporated in a number of CPAB policies. These efforts will continue throughout the planning period.

5. Organizational Effectiveness

Organizational effectiveness (OE) means the degree to which an organization delivers on its mission and mandate as seamlessly and cost competitively as possible. OE comprises the quality of and interplay between leadership, strategy, structure, accountability, environmental scanning, learning, policies, systems and processes, and communications.

These key elements of OE are depicted in the schematic below.

Organizational Effectiveness: The Interplay of 10 Key Dimensions



The degree to which these variables interoperate to do inspections, meet goals, problem solve and innovate in an aligned and cohesive manner is the extent to which CPAB will ultimately be effective.

CPAB took a number of initiatives to improve organisational effectiveness in 2010 and will continue that in the rest of the planning period.

6. Finance/Resources

As with any organization, CPAB needs the financing and resource base to fulfill its mission and mandate and implement its strategic plan.

CPAB will need to demonstrate value and relevance in its core inspection business, and transparency and efficiency in terms of resource utilization, to maintain, if not increase, its budget as its resource requirements increase.

In the aggregate, these six strategic priorities have factored prominently in the development and updating of CPAB's strategic plan, shaped by an assessment of the operating environment and deliberations on other key elements of strategy as referenced below.

Environmental Scan

Scanning the operating environment is the starting point for the development of a strategic plan and for updating it.

Assessment of the political, economic, social and technological forces which could have a material impact, combined with an assessment of internal strengths and weaknesses, generate a set of key drivers which frame the discussion of mission, vision, critical success factors and other plan elements.

Political drivers that impact CPAB revolve around the passage of legislation comparable to that of counterparts in other jurisdictions. In this regard, the legislative landscape in Canada is complex and mitigates against a harmonized regulatory framework. A struggling economy has an impact the financial health of audit firms, which in turn may lead to less rigorous audit practices, resistance to recommended changes based on CPAB inspections, and/or resistance to CPAB fees. Social drivers include an aging accounting workforce and a shortage of IFRS-experienced resources. Technologically, data security is an overarching consideration.

Internally, CPAB has major strengths and several weaknesses. During its first six years, it brought a number of core audit improvements to the attention of the firms. CPAB is on solid financial footing at current inspection activity levels. Its staff is experienced, committed and collegial. That said, the perception of participating firms currently is that CPAB does add value but could be even more effective in its inspection activity. Inspection practices have become more consistent across teams in recent months. In addition, CPAB has started to be viewed positively in the marketplace and has attracted a number of talented audit professionals from the large firms. The challenge will be to continue this improvement in the face of material changes in the audit environment, and to invest in human resource management/development to remain attractive to prospective staff and to develop current staff capabilities.

A detailed scan of the operating environment may be found in the assessment of Strengths, Weaknesses, Opportunities and Threats (SWOT), Appendix 2.

Core Issue

A key element of strategy is defining the core issue for the planning horizon, predicated on a scan of the external and internal operating environments and framed by the organization's mission, vision and mandate.

Pursuant to extensive reflection, the Management Committee continues to identify CPAB's core issue as **the need to enhance the strategic value provided to participating firms and other key stakeholders**. Delivering value encompasses

imparting useful and insightful inspection findings to firms, including comments on root causes of deficiencies that provide firms with a unique insight into their performance and into audit risk matters and practices more widely. The provision of value includes appropriately tough findings as necessary and imposition of related consequences for firms. It does not mean being the consultant for audit firms on how to fix deficiencies.

In identifying this core issue, it is important to recognize the very significant achievements of the first six years of CPAB's existence. From a standing start, the organization recruited subject matter experts, ramped up in record time, and implemented an inspection process which brought a rigorous focus and corrective measures to the audit practices of major firms.

As CPAB continues the next stage of its development, it will want to continue to build on these achievements and enhance its capability as a strategic regulator, by affecting a shift on various dimensions as depicted below.

From		To
Inconsistent inspection practices	→	Rigorous consistently applied methodology
A somewhat laissez faire culture	→	An accountability mindset
Proficiency in the basics	→	An advanced skillset for broader risk assessment
A tendency to granularity in inspection reporting	→	Identification of key risks in audit practices

These transitions must be viewed as an evolution that will occur over the next two years. They represent a journey to be embarked upon in an organized fashion, not a radical transformation to be executed peremptorily. It should be noted that significant progress has been made in all of these areas in 2010, the first year of this strategic plan.

Value Proposition

Value proposition is what an organization offers to its “stakeholders” which is distinctive, superior and compelling, and worthy of its desired level of funding. Value proposition stems from the mission, vision and environmental scan/core issue assessment.

Based on extensive discussion, the Management Committee has identified CPAB’s value proposition as: **Disciplined inspections and penetrating insights which appreciably enhance audit quality.**

Articulation of a value proposition cannot be cosmetic; failure to deliver on it puts the credibility of the whole enterprise at risk. The strategic initiatives in this plan are geared to realize this value proposition.

Critical Success Factors

Critical success factors are the few critical things an organization must implement or do well to fulfill its mission, attain its vision, and deliver on its value proposition.

The Management Committee determined the following set of critical success factors for the 3-year planning horizon which began in 2010.

- Leading edge technical/professional skills
- Rigorous value-adding inspection methodology
- Clear accountabilities and performance measurement
- Strong productive stakeholder relationships
- Significantly expanded legislative base

Core Capability

A core capability is the combination of technical competencies and business processes that yields, in CPAB’s case, long term sustainability.

Examples of core capabilities are Sony’s miniaturization; Wal-Mart’s logistics management; Four Seasons Hotels’ customer service. Each of these requires major multi-faceted investments which serve to distinguish the organization and are extremely hard to replicate by another entity.

Core capability is key to being able to deliver on the value proposition. An organization either has such a capability(ies) or needs to acquire it (them) externally or by direct build out. Any lack in required capability represents a strategic gap which must be bridged by the implementation of strategic initiatives.

CPAB’s core capability for the future is: **Strategic inspections and reporting of finds – risk-based, conducted efficiently, delivered on time, predicated on a rigorous**

consistently applied methodology, based on current standards, and reflecting meaningful insights and sound evaluation of audit quality and risk.

Historically, CPAB has had some important gaps in relation to this capability. Reports have not always been timely; inspection processes across teams have been inconsistent; focus has tended to be more micro than strategic, although this has been addressed more recently by enhancement to the inspection methodology, more work is still needed.

The strategic initiatives which follow address these gaps and augment CPAB's overall capability.

Strategic Initiatives

Strategic initiatives are the main focus of this strategic plan. A combination of strategic objectives and core strategies, they represent the key plan deliverables for the 2010-2012 timeframe and translate into a set of goals by year.

These initiatives are not a vehicle to "do more" per se. Rather, they represent strategic investment in CPAB's capabilities, from people to systems to stakeholder interactions, which will successfully propel CPAB up the next critical stage of its growth curve.

The guiding principle for CPAB, as articulated by the Board of Directors, is **Zero Tolerance for Reputational Risk**. The strategic initiatives to operationalize this principle follow. It is expected that the focus on particular initiatives will shift during the course of the 2010-2012 planning period.

Organization

1. Define and increase accountability in all areas of the organization
2. Implement best-in-class human resource management
3. Recruit ,develop and retain leading accounting, auditing and IFRS professionals
4. Built a consultative, high performance, high engagement culture

Stakeholders

5. Implement state-of-the-art risk-based inspection methodology
6. Elevate regional and national profiles
7. Expand risk-based inspections activity of firms
8. Develop strong relationships with Audit Committees, the investor community and international counterparts

Infrastructure

9. Build robust internal control and reporting/measurement systems and advanced database management capability

Regulatory

10. Establish pan-Canadian legislative base and international reciprocity

The following outlines the essence of these strategic initiatives.

Organization

1. Define and increase accountability in all areas of the organization

In evolving as a regulator, CPAB continues to more fully assume the accountability incorporated in its mandate. To succeed it must, therefore, increase accountability across the organization such that the roles, responsibilities and interdependencies of each division and each person are clear, and there is reward and consequence for how these accountabilities are operationalized.

This initiative included developing profiles for each position (completed in 2010) designing an accountability framework which defines interdependencies between positions (completed in 2010 for implementation in 2011) establishing a performance measurement system linked to compensation (completed in 2010) and establishing a career progression and development program (substantially completed in 2010 for implementation in 2011/2012). This should drive clearer roles and responsibilities in the organization which in turn should create greater accountability. As the organization evolves additional work continues on identifying interdependencies between positions.

2. Implement best-in-class human resource management

CPAB is a human capital knowledge organization.

Critical to its success is investment in the key elements of human resource management:

- *Core*, including recruitment and selection, compensation and benefits, human resources policies, performance appraisal, and employee engagement
- *Value-adding*, encompassing organizational, leadership and professional development
- *Strategic*, comprising organizational design and measurement of return on human capital employed

The organizational structure has recently been redesigned to position CPAB for its next stage of growth. A formal compensation system has been established and a benefits review completed to ensure appropriate practices and competitive positioning.

Investment in human capital has been accelerated with the onset of the new CAS and IFRS; and a professional development curriculum and faculty will be established to provide staff with best-in-class learning experiences related to the organization's new competency profile and their own career progression. As stated publicly by the CEO, CPAB will provide professional and career development which is second to none.

The introduction of a new performance appraisal system and updated human resources policies, and the engagement of staff in CPAB's evolution as a regulator, are important endeavours in this strategic initiative and are well underway. Career development and succession planning are key to this initiative. Significant work in both areas has been completed in 2010 and will continue in 2011/2012. Work in 2011 will transition more from design to implementation.

3. Recruit and develop leading accounting, auditing and IFRS professionals

In 2010 the organization identified a need for planned ongoing recruitment. As part of the new organizational structure, announced early in 2010, several new positions were created. These, when combined with the strategic objective of minimizing to the greatest extent systemic and specific risk, dictated the need in 2010 for a significant recruitment effort to enhance CPAB's capabilities and prepare for an IFRS regime. CPAB was very successful with its recruiting initiatives in 2010.

A robust onboarding program, 90-day probationary performance reviews, and pursuit of staffing reciprocity agreements with other regulators, round out this recruitment initiative. The organization having successfully recruited top talent must now focus on the next stage in its evolution being the further development and retention of staff. It will also pursue certain secondments with partner regulators as a way of building capability and providing staff development opportunities.

4. Build a consultative high performance high engagement culture

For CPAB to achieve the stature and impact envisioned in this plan, its culture will need to shift to one which incorporates far more consultation internally, notably between Inspections and Standards & Consultation; and externally, with expert advisory panels, other audit regulators and with the firms themselves. Significant progress has been made in 2010, however more work is needed.

Processes and mechanisms have been/will be implemented to drive high performance through investments in professional development and performance appraisal and compensation systems. Engagement will be fostered through opportunities for staff to participate in developing these systems and participate in an active exchange with senior management as a matter of course.

Stakeholders

5. Implement state-of-the-art risk-based inspection methodology

This initiative addresses the need to evolve CPAB's inspection methodology to one that is more strategic, provides greater risk assessment, and adds more relevance to participating firms.

This new methodology includes meetings with Big 6 firms to discuss current/potential impacts of the economy on audit quality; greater focus on the consistency and effectiveness of inspections; more rigorous risk analysis of participating firms and of the files being selected for inspection; instituting a database of inspection report findings; increasing interaction with foreign regulators; inspecting more firms; and increasing communication with participating firms throughout the year.

An enhanced ability to make key judgments on significant audit matters is central to a more strategic inspection process. This ability has been identified in CPAB's new set of core competencies and, accordingly, is referenced in a number of position profiles.

In 2010 CPAB repositioned its risk model in order to better address the weighting of risks in regard to Audit Quality. CPAB is well positioned to move its risk assessment to the next level in 2011.

6. Elevate regional and national profile

For CPAB to fulfill its mission of oversight in the interest of the public, it must raise its profile and imprint its brand on the Canadian financial governance landscape. It also is essential that stakeholders better understand what CPAB contributes to the quality of financial statements in Canada.

Regional offices have been established in Quebec (Montreal) and Western Canada (Vancouver) both of which are lead by resident Regional Directors. This is a key component of this initiative and it is an important first step. Regional Directors are senior audit professionals and experienced leaders, responsible for building CPAB's presence in the regional marketplace and are directly responsible for managing their staff.

This national presence should result in a higher profile with established opinion leaders, as to what the organization can and cannot reasonably be expected to achieve. This higher credibility and understanding will serve CPAB well in the event of a material audit failure.

By building its profile, CPAB will elevate the importance of quality auditing and strong audit oversight, as well as enhance its reputation in the auditor community as a destination employer for top talent.

The downside to brand building is greater public exposure in the event of an audit failure; however, the Management Committee believes this is a risk worth taking. CPAB must do everything it can to minimize the likelihood of such an occurrence. Moreover, it will be held accountable regardless of profile should an audit failure occur. This initiative will receive higher priority in 2011.

7. Expand risk-based inspection activity of all firms

In putting its regulator stamp more firmly on the audit sector, CPAB must expand its presence in small and medium firms in addition to deepening its coverage of the Big 6.

From a base of 38 inspections of 2009, CPAB inspected 45 firms in 2010. Additional inspection activity will also occur regarding the firms inspected by the provincial audit regulators on a risk based targeted review.

Increased inspection resources and an inspection methodology tailored to the small/medium firm which is key to this initiative has been developed and implemented.

8. Develop strong relationships with Audit Committees, the investor community and international counterparts

Building relationships with key stakeholders is critical to CPAB's success.

Strong productive interfaces will garner trust and confidence in CPAB's mission, contribution, and eventual expanded mandate.

These constituencies will also be pivotal in influencing the passage of legislation which enables CPAB's ability to fulfill its mandate domestically and build equivalency internationally. Developing strong relationships with international counterparts will also enhance CPAB's ability to establish reciprocity agreements from a staffing perspective, notably with respect to IFRS-experienced personnel. In 2011 CPAB will second staff to the UK and Australia in an effort to ensure that sufficient IFRS experienced personnel are available for inspections in 2012.

Infrastructure

9. Build robust internal control and reporting/measurement systems and advanced database management capability

In upgrading its infrastructure, CPAB will establish a performance scorecard which aligns the overall organization from strategic initiatives through to divisional and ultimately individual actions and outcomes.

Part of the measurement process will incorporate stakeholder value analysis, possibly including interviews and electronic surveys of key stakeholders to determine what they value in a regulator such as CPAB and how CPAB is performing relative to these value propositions. In 2010 CPAB conducted its first independent survey of the audit firms it inspects. Results of this survey will be available in early 2011. CPAB also plans to survey other stakeholders in 2011. Regular updates to this survey will give CPAB a good sense if it is continuing to move in the right direction.

With the reference to public confidence in financial statements in CPAB's mission, a public opinion survey to gauge this at a high level is another consideration, as is a more limited survey of the professions directly or through the surveys already conducted by the CICA and CGA's.

Upgrading CPAB's infrastructure will include a revamped website to accommodate a refreshed organizational brand and higher profile.

Regulatory

10. Establish pan-Canadian legislative base and international reciprocity

The objectives of this initiative are to pursue appropriate legislation in all provinces with a significant number of reporting issuers; develop and implement appropriate relations with the international community; develop and implement an effective communications strategy which clearly delivers CPAB's message to a variety of stakeholders; and give due consideration to changes which may be necessary to CPAB's Rules and Participation Agreement based on developments in legislation and related matters.

Achieving these objectives is critical to CPAB being able to act and position itself as a strategic regulator with the protection that a robust regulatory framework provides. This in turn will enhance CPAB's ability to attract and retain top talent, which is essential in a knowledge based organization.

Strategic Outcomes

CPAB's goal by 2012 is to be viewed by key stakeholders as a world class audit regulator.

Led by a progressive and aligned leadership team, and enabled by a solid regulatory framework, CPAB will have contributed to the evolution of higher quality public company audits and have the respect and confidence of its stakeholder community as a world class regulator.

Committed to operational excellence and stakeholder value, the organization will have garnered a premium reputation for being tough-minded, independent and fair.

From a human capital perspective, CPAB's investments in organizational structure, human resource policies and systems aligned with its core values, technical training and professional development will have made it a career destination for top talent.

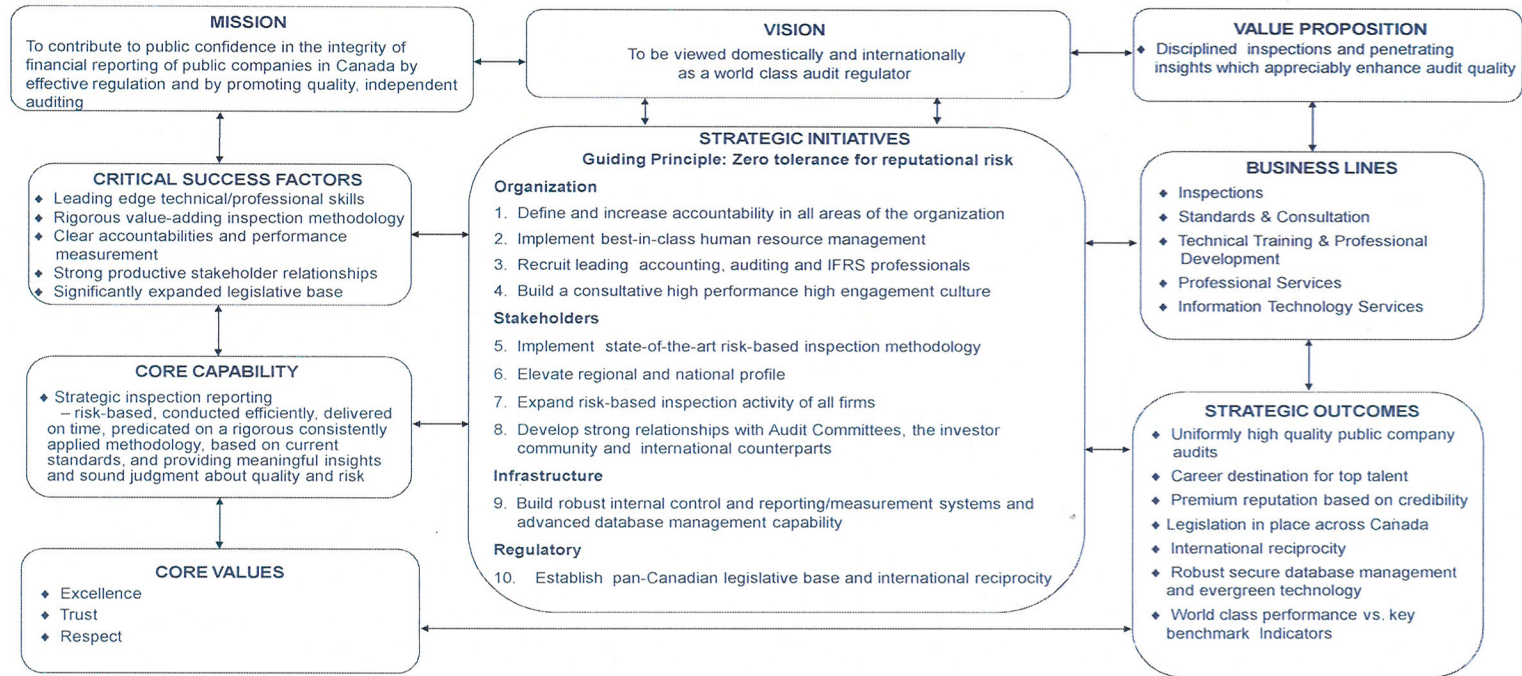
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Appendix 1- 2010-2012 Strategic Framework & Strategic Planning Process



2010-2012 Strategic Framework



Strategic Planning Process

