



CANADIAN PUBLIC ACCOUNTABILITY BOARD
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

The Way Forward:
Transforming an Audit Regulator for the 21st Century

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Executive Summary

This document outlines the 2010-2012 strategic plan for the Canadian Public Accountability Board (CPAB).

During its first six 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 implemented 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 ability to perform on a major stage and has much to be proud of.

That said, CPAB is now at a key juncture in its lifecycle. With a lot of the “basics” for improved audit quality having been covered off with the Big 6 audit firms, the organization must now define and deliver on a new value proposition for the next planning horizon. The need to operate at a more strategic level and demonstrate relevance in the form of added value to CPAB’s stakeholders is the core issue CPAB must address strategically.

Set against a backdrop of a difficult economy, looming professional skills shortages, and the pending introduction of new international standards in Canada, CPAB must 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 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.

An overview of the 2010-2012 strategic plan may be found in Appendix 1.

Six Strategic Priorities

The following strategic priorities and related issues were identified by the Board of Directors:

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 promoting high quality, independent auditing.*

Issues with this mission pertain to the indirect connectivity between CPAB's work and the public; determining what constitutes "public confidence"; the definition of integrity; and whether the act of "promoting" is appropriate for a regulator.

The Management Committee (MC) has discussed possible changes to this mission and will explore further the nature of the connectivity between CPAB's work and the public; the determinants of public confidence; and the definition of integrity in this context. Any changes to the mission have implications for CPAB's actions, behaviours, and public/stakeholder perceptions.

CPAB's stakeholders consist of audit firms, governments, reporting issuers, Audit Committees, 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 has no plans to seek an expansion of this mandate at this time. This is for policy members to decide. However, CPAB recognizes that its counterparts in a number of other countries have mandates that are broader (e.g. to cover auditors of private companies, non-profit entities and investment funds). Ensuring excellence in exerting its current mandate will put CPAB in a good position to respond effectively to any demand to expand its mandate. As well, strategically, CPAB needs its operations to be 'scalable' should it have to enhance its activities.

CPAB's objective is to improve audit quality within accounting firms. Central to this objective is the need for clarity as to what CPAB is accountable for. Alignment within CPAB and with its stakeholders as to the scope of its mandate and accountability is therefore key.

Six Strategic Priorities (cont'd)

1. Mission, Mandate, Vision and Brand (cont'd)

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 and Board of Directors have identified the following vision for CPAB for the next 3 years.

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

From a **brand** perspective, CPAB is not well known or understood by members of the business community, the investing public and other stakeholders, and had reputational issues in some jurisdictions. 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 of a CPAB member. 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.

Six Strategic Priorities (cont'd)

2. Enterprise Risk Management (cont'd)

CPAB cannot and is not expected to eliminate all audit quality issues. However, CPAB's tolerance for this needs to be very low.

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.

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

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 and highly ethical. CPAB needs to continue to foster an enhanced results-based focus on important matters, as well as consistency in our application of our methodologies.

Further, CPAB currently does not have a set of core values which typically serves to guide behaviours and decisions in a way which shapes culture and performance.

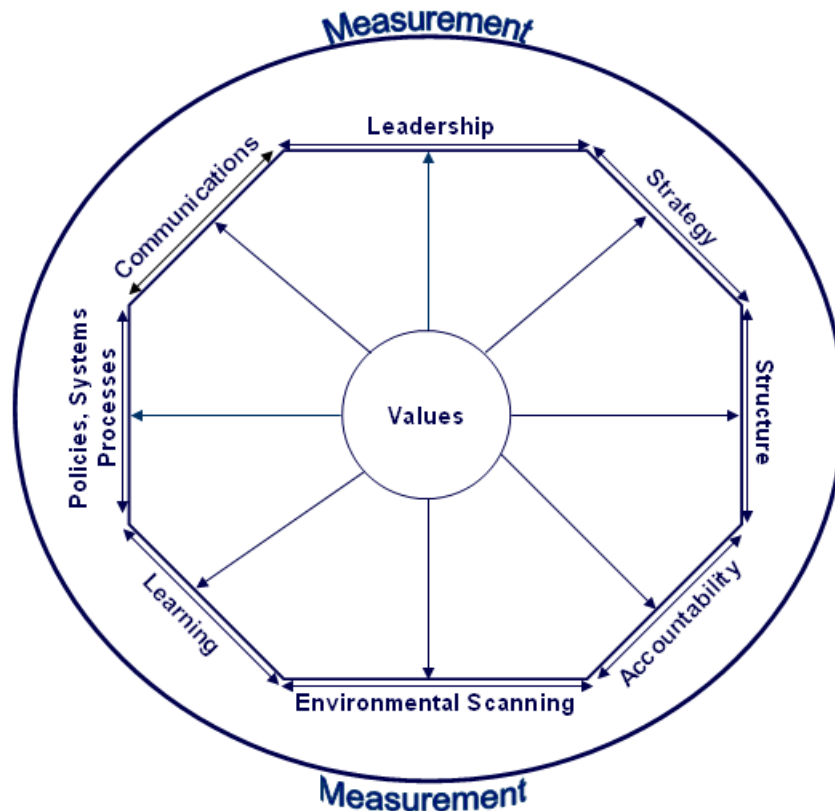
Six Strategic Priorities (cont'd)

5. Organizational Effectiveness

Organizational effectiveness (OE) speaks to 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.

Six Strategic Priorities (cont'd)

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 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 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 development of a strategic plan.

Assessment of the policy, 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.

Drivers impacting CPAB revolve around the passage of legislation comparable to that of counterparts in other jurisdictions. In this regard, the legislative and regulatory landscape in Canada is complex. Slow economic growth impacts 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 five 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 adds relatively little value. Inspection practices have in the past been inconsistent across teams; CPAB's information systems require an upgrade to enhance data security. CPAB needs to ensure on an ongoing basis that its HR practices enable it to attract and retain high quality people, including its future leaders.

Environmental Scan (cont'd)

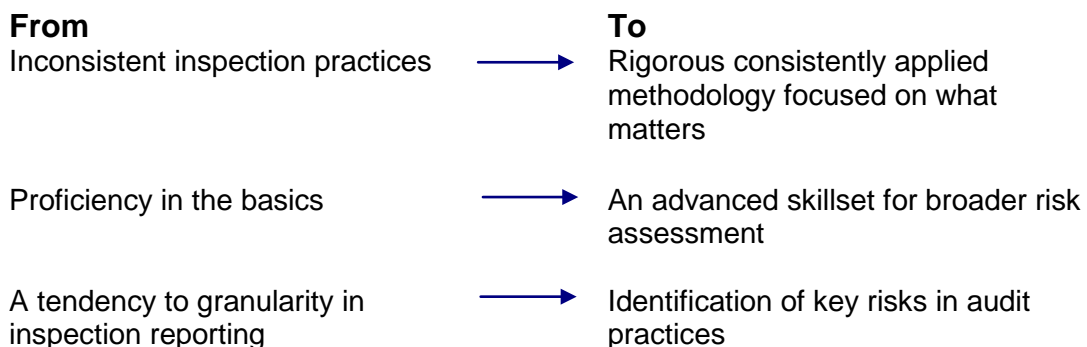
Core Issue

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



These transitions must be viewed as an evolution that will occur over the next three years. They represent a journey to be embarked upon in an organized fashion, not a radical transformation.

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.

- 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.

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 externally or by direct buildout. Any lack in required capability represents a strategic gap which must be bridged by the implementation of strategic initiatives.

Core Capability (cont'd)

CPAB's core capability for the future is: **Strategic inspection reporting** – 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.

The strategic initiatives which follow 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 leg 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.

Organization

1. Define and increase accountability in all areas of the organization
2. Implement best-in-class human resource management
3. Recruit leading accounting, auditing and IFRS professionals
4. Build 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

Strategic Initiatives (cont'd)

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 more fully assumes 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 includes developing profiles for each position; an accountability framework which defines interdependencies between positions; and a performance measurement system linked to compensation and career progression.

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

Strategic Initiative - Organization (cont'd)

2. Implement best-in-class human resource management (cont'd)

The organization has recently been redesigned and the structure changed to position CPAB for its next stage of growth. A formal compensation system will be established and a benefits review conducted to ensure appropriate practices and competitive positioning.

Investment in technical training will accelerate with the onset of 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. As stated publicly by the CEO, CPAB will provide career development which is second to none.

Development of a new performance appraisal system and human resources policies, and engagement of staff in CPAB's evolution as a regulator, are other important endeavours in this strategic initiative. Career development and succession planning also factor prominently in this initiative.

3. Recruit leading accounting, auditing and IFRS professionals

The staff survey of June 2009 indicated a need for planned ongoing recruitment. The creation of several positions as part of the new organizational structure, combined with the strategic objective of minimizing to the greatest extent systemic and specific risk, dictate the need for a significant recruitment effort to enhance CPAB's capabilities and prepare for an IFRS regime.

A robust *First 100 Days* onboarding program, 90-day probationary performance reviews, and pursuit of staffing reciprocity agreements with other regulators, round out this recruitment initiative.

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.

Processes and mechanisms 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, define a set of core values for CPAB, and participate in an active exchange with senior management as a matter of course.

Strategic Initiative (cont'd)

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.

Meetings with audit 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 files for selection; a database of inspection report findings; increased interaction with foreign regulators; inspecting more firms; and increasing communication with participating firms throughout the year are all part of this new methodology.

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

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.

Establishing regional offices in Quebec (Montreal) and Western Canada (Vancouver), headed up by Regional Directors, is a key component of this initiative. The incumbents will be senior audit professionals and experienced leaders, responsible for building CPAB's presence in the regional marketplace.

A higher profile will establish CPAB's credibility and build understanding of CPAB with opinion leaders, as to what the organization can and cannot reasonably be expected to achieve.

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.

Strategic Initiative (cont'd)

Stakeholders (cont'd)

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 its base of 34 inspections of 2009, CPAB has set a target of 50 inspections per year by 2012. Additional inspection activity will also occur in regard to foreign firms and 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 will be key to implementing this initiative, as referenced in strategic initiatives on recruitment, best-in-class human resource management, and state-of-the-art inspection methodology.

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

Relationship building with key stakeholders is critical to CPAB's success.

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

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.

Infrastructure

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

In building out 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 dimensions.

Strategic Initiative- Infrastructure (cont'd)

9. Build robust internal control and reporting/measurement systems and advanced database management capability (cont'd)

With the reference to public confidence in financial statements in CPAB's mission, an omnibus 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 the CICA and CGA's already conduct.

Advanced database capability will enhance individual firm and systemic risk assessment and support a potentially expanded mandate.

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; develop and implement appropriate relations with the international community; develop and implement an effective communications strategy which clearly delivers CPAB's messaging 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 key 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 critical in a knowledge based organization.

Strategic Outcomes

By 2012, CPAB will be viewed by key stakeholders as a top world class audit regulator.

Tough-minded, independent and fair, it will have executed against its strategic plan and consistently demonstrated its core capability of strategic inspection reporting.

Led by a progressive and aligned leadership team, and enabled by a solid regulatory framework, CPAB will have promoted uniformly high quality public company audits and secured an expanded mandate at the behest of its stakeholder community.

Committed to operational excellence and stakeholder value, the organization will have garnered a premium reputation based on credibility and international reciprocity.

From a human capital perspective, CPAB's investments in a new organizational structure, human resource policies and systems, values definition and alignment, and 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 and advanced management reporting and risk analysis capability.

A scorecard which tracks performance against key indicators will be in place across the organization; and a reward system will be implemented which recognizes staff for their contribution to the organization's success.

As defined by Jim Collins in his landmark research¹, CPAB will be a great organization characterized by *superior performance*; *distinct impact* on its stakeholder community; and a *commitment to excellence* which will position it for its next stage of development and growth.

¹ A Monograph to Accompany Good to Great, 2005

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



2010-2012 Strategic Framework

