

## ADDENDUM TO 2009 ANNUAL REPORT OF THE CANADIAN PUBLIC ACCOUNTABILITY BOARD

### CPAB Statement of Operations

<i>Year ended December 31 (000's)</i>	<u>2009</u>	<u>2010</u>
	<u>Actual</u>	<u>Budget</u>
<b>REVENUE</b>		
Fees from participating audit firms	\$ 13,138	\$ 15,233
Intent to Participate fees from applicant firms	73	-
Interest income	28	-
	<u>13,239</u>	<u>15,233</u>
<b>EXPENSES</b>		
Salaries and benefits	8,736	10,131
Travel	780	888
Professional services	971	420
Directors' fees and expenses	712	828
Administrative and general	452	586
Occupancy costs	424	490
Legal services	361	500
Insurance	266	260
Continuing education and professional memberships	262	814
Amortization of property and equipment	266	316
Restructuring	1,392	644
	<u>14,622</u>	<u>15,877</u>
Revenue over Expenses for the Year	<u>\$ (1,383)</u>	<u>\$ (644)</u>

## Commentary on the 2010 CPAB Operating Budget

The 2010 Operating Budget (Budget) shows CPAB moving to an enhanced stage to continue to fulfill its mandate effectively in these challenging times, which includes the challenges of increasing complexity in financial reporting and the transition to International Financial Reporting Standards (IFRS) and International Auditing Standards in Canada. Additional development of CPAB's capabilities to deal with these challenges effectively and increased inspection activity is necessary. As a result, CPAB is increasing its Budget by some 15% from 2009 to 2010. CPAB's costs are recovered by audit firms billing their reporting issuer clients, on behalf of CPAB, a percentage of their billings for audit work provided to reporting issuers. The Budget increase, coupled with the changes in CPAB's fee base, means that CPAB's fees charged to Canadian Reporting Issuers will increase from 1.6% to 2.0% of their audit fees.

This is the first time since CPAB's inception in 2003 that the fee has been increased. We understand the economic environment is currently challenging, which is why CPAB has also put in place efficiencies and productivity gains that have partially, but not fully, offset the pressures on CPAB's operations.

As part of its new strategic plan CPAB will evolve its inspection methodology, systems, processes and people to provide continued oversight in a way that meets the expectations of stakeholders and the international community. The move to IFRS is the biggest change to financial reporting in Canada in recent history that will require CPAB to make significant investments in training and development as well as building its consultation capabilities. Significant investments must also be made in inspection methodology and related systems to ensure CPAB's methodology incorporates the new international standards and delivers on its strategic objectives. The software system that CPAB currently uses to document its inspection activities has not changed significantly since CPAB was formed and is in urgent need of upgrade. Similarly in human resource management, stakeholder relations, legislative and regulatory affairs there needs to be greater investment and focus for CPAB to deliver quality and relevance as a world class 21st century audit regulator. These initiatives address the need to evolve CPAB's inspection methodology to one that is more strategic, provides greater risk assessment, and increases inspection efficiency and adds more relevance to participating firms.

In 2010 CPAB will expand its inspection activity to include more Regional and Local firms and extend its inspection coverage at the six National accounting firms. CPAB inspected 34 firms in 2009 and has set a target of 50 firm inspections per year by 2012. Additional inspections of foreign firms and firms inspected by the provincial audit regulators, on a risk-based targeted review, will also be undertaken. Increased inspection resources and an inspection methodology tailored to the Regional/Local firm will be key to implementing this initiative. A material part of this plan will be accomplished through a rebalancing/restructuring of current inspection staff, resulting in significant productivity gains.

Costs are expected to increase for one-time IFRS training requirements, legislative initiatives and for offices in Vancouver and Montreal which CPAB expects to open. Additions to personnel for information technology and legislative matters, which were made in 2009, should result in expanded capabilities, but savings are expected through a reduction in professional services expenses. The total amount of CPAB's expenses, other than salaries and one-time costs, are expected to be similar to amounts in prior years.