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Canadian Public Accountability Board  
2009 Annual Report

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# Building a World Class Audit Regulator



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## CPAB's Mission

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**To contribute to public confidence in the integrity of financial reporting of reporting issuers in Canada by promoting high quality, independent auditing.**

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## CPAB's Mandates

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### 1. Participation Requirements

Establish and monitor participation requirements for firms that audit reporting issuers in Canada.

### 2. Quality Inspections

Oversee the implementation and monitor the ongoing effectiveness of a program of practice inspection of firms that audit reporting issuers in Canada.

### 3. Discipline

Develop and implement a program of disciplinary action against firms or individuals that CPAB determines did not perform audits in accordance with professional standards.

### 4. Professional Standards

Monitor and support the continuing development of Canadian and international accounting, auditing and independence standards.

### 5. Communications

Build CPAB's profile by informing participants in the Canadian and international capital markets of CPAB's role, activities, findings and opinions.

### 6. Education & Awareness

Establish a program of ongoing discussions among regulators, the accounting profession, business and academia about:

- a) Best practices in the auditing of reporting issuers; and
- b) Current issues relating to the auditing profession, particularly those affecting audit quality.

### 7. International

- a) Coordinate, with international counterparts or with a transnational oversight entity, the inspection of Canadian auditing firms that audit public companies that are registered in jurisdictions other than Canada.
- b) Coordinate, with international counterparts or with a transnational oversight entity, the inspection of audit firms based outside of Canada that audit all or part of a Canadian reporting issuer.



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“With a solid foundation in place, CPAB is at a key juncture in its lifecycle and is now ready to move to the next stage of its development.”

**Nick Le Pan**  
BOARD CHAIR



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**“CPAB intends to maintain and enhance its position as one of the leading audit regulators in the world.”**

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**Nick Le Pan**  
BOARD CHAIR

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## Enhancing Audit Quality

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**During its first six years of operation, the Canadian Public Accountability Board (CPAB) has made a significant contribution to audit quality in Canada by developing and implementing a program of oversight of audit firms that audit the financial statements of reporting issuers in Canada.**

The core of this program is inspections of audit firms to verify they have sound, effective policies and procedures to conduct audits in accordance with generally accepted accounting and auditing standards, and related professional standards. This supports CPAB’s mission, which is to contribute to public confidence in the integrity of financial reporting of reporting issuers in Canada by promoting high quality, independent auditing.

With a solid foundation in place, CPAB is at a key juncture in its lifecycle and is now ready to move to the next stage of its development. CPAB intends to maintain and enhance its position as one of the leading audit regulators in the world. This will position CPAB to fulfill its mission on behalf of all stakeholders who rely on the quality of financial statements of reporting issuers, including the investing public. Moving to the next stage of development will also assist CPAB in providing value

added feedback on audit quality to audit firms, allow CPAB to contribute more effectively to the development of accounting and auditing standards and position CPAB further as a cost-effective audit regulator.

The quality and accuracy of financial statements and the related audit are the responsibilities of the reporting issuer and its auditor, respectively. CPAB makes its contribution by satisfying itself as to the robustness and effectiveness of audit firms’ policies and procedures, and by causing audit firms to rectify deficiencies in those policies and procedures promptly.

The results of CPAB’s 2009 inspections of firms that audit reporting issuers confirm the state of auditing in Canada is sound. The high level of commitment of audit firms to audit quality is very evident in CPAB’s inspection program.

In 2009, CPAB initiated a number of changes which were needed to position it for this next stage. The first key initiative was to implement a strategic human resources plan to restructure the organization to drive greater productivity and accountability. In addition, the Board and management implemented a new strategic plan, which can be found on CPAB’s website, that sets the organization’s direction for the next three years.

## Strategic Plan

CPAB's Board of Directors met with management in April and again in September to develop the new strategic plan, which was adopted in November 2009. CPAB's new strategic vision is 'to be viewed domestically and internationally as a world class audit regulator'. To achieve this vision, CPAB's mandate and mission must be clearly understood by members of the business community, the investing public and other interested parties. Significant investments in human resource management, inspection methodology, technology and systems, stakeholder relations, and regulatory affairs are being made by CPAB to realize this vision and deliver quality and relevance as a world class 21st century audit regulator.

## International Partnerships

CPAB actively consults and collaborates with other regulators – in Canada and around the world – on how we can work together more effectively to enhance audit quality and ensure the public interest is well served. Such cooperation is essential for CPAB to meet its mandate, given the international nature of many Canadian reporting issuers and the importance of international networks of audit firms. In addition, cooperation provides opportunities for CPAB to gain experience from its counterparts and assist other audit regulators.

CPAB participates in the International Forum of Independent Audit Regulators (IFIAR), which

encourages dialogue on auditor inspection techniques, inspection results and the improvement of audit quality. IFIAR continues to grow and, at the end of 2009, over a third of the 100 plus countries that have established organizations with mandates similar to CPAB's belong to IFIAR.

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## Building International Partnerships

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As part of CPAB's responsibility as an international partner in IFIAR, I have taken on the duties of chairing the Global Public Policy Committee (GPPC)/IFIAR Working Group. The Working Group includes representatives from the six largest international accounting networks as well as IFIAR members and has established a framework for discussing topics on audit quality which are of interest to both the GPPC and IFIAR members.

CPAB works with other regulators around the world to increase audit oversight efficiencies by entering into agreements that allow for reliance on each other's work. In a major step forward, the European Commission in February 2010 approved CPAB equivalency pursuant to Statutory Audit Directive 2006/43/EC. To ensure high quality audit services

are provided globally, international coordination and cooperation are necessary among audit regulators. The European Union on behalf of its Member States has worked with CPAB to exchange information on mandate, vision, inspection methodology, staff competencies and capabilities. The decision allows European Union Member States to enter into bilateral agreements with CPAB on the exchange of audit inspection working papers. CPAB is also pursuing similar equivalency structures with a number of other countries.

CPAB's main international partnership continues to be with the US Public Company Accounting Oversight Board (PCAOB). CPAB enjoys an excellent working relationship with the PCAOB and has been performing joint inspections with it since 2004.

## Governance

CPAB made a number of changes in 2009 to its governance structure to enhance the organization's accountability, effectiveness and collaboration with provincial regulators of public accounting. The following changes took effect in April 2009 and have been fully implemented:

- Added another member from the Canadian Securities Administrators to the Council of Governors.
- Replaced the President of the Canadian Institute of Chartered

Accountants on the Council of Governors with a professional accountant with regulatory/audit oversight experience.

- More specifically defined the requirements for provincial oversight bodies to become Provincial Audit Regulator Members.
- Required at least four members of CPAB's Board of Directors, but no more than five, to be professional accountants.
- Established Consultative Committees of each professional group of provincial audit regulators to maintain close and ongoing contact and collaboration with these bodies.

The *Canadian Public Accountability Board Act (Ontario)* came into force on June 30, 2009. This new Ontario legislation requires the Council of Governors to certify to the Ontario Securities Commission that it has reviewed our Annual Report and that it has satisfied itself that CPAB has carried out its mandate under that legislation in a manner that is consistent with the public interest in maintaining the integrity of financial reporting by reporting issuers and the objectives of National Instrument 52-108. Under this legislation, the Ontario Securities Commission then delivers the Annual Report, its assessment and any recommendations it may have to the Minister of

Finance, who is required to table the report in the legislature. Once the report is tabled, it will be made available on CPAB's website.

Four directors left the Board in 2009 as a result of the changes in CPAB's governance structure or the expiry of terms of office: Jane Halford, CA; Daniel McMahon, FCA; Robert Bertram; and Ted Newall. I thank them for their significant and thoughtful contributions to CPAB.

Four new directors were appointed to CPAB's Board in 2009: Ian Bourne; Guy Fréchette, FCA; Gary Porter, CA, FGCA; and Peter W. Roberts, FCA, CPA, ICD.D.

## Conclusion

This is my second report as Chair of CPAB and I would like to thank my colleagues on the Board of Directors for their efforts and support in 2009.

I would also like to thank CPAB's Chief Executive Officer, Brian Hunt, the management team and staff for their hard work and support. I look forward to continuing to work with the Board and management as we achieve our vision to build a world class audit regulator.



**Nick Le Pan**  
BOARD CHAIR



## CPAB Board Members



**Nick Le Pan**

*BOARD CHAIR*

*FORMER SUPERINTENDENT OF FINANCIAL INSTITUTIONS, OFFICE OF THE SUPERINTENDENT OF FINANCIAL INSTITUTIONS, OTTAWA, ONTARIO*



**Wendy K. Dobson**

*BOARD VICE CHAIR*

*PROFESSOR AND CO-DIRECTOR, INSTITUTE FOR INTERNATIONAL BUSINESS, JOSEPH L. ROTMAN SCHOOL OF MANAGEMENT, UNIV. OF TORONTO, TORONTO, ONTARIO*



**Robert Bertram**

*FORMER EXECUTIVE VICE PRESIDENT, ONTARIO TEACHERS' PENSION PLAN BOARD, TORONTO, ONTARIO*



**Ian Bourne**

*CHAIR, BALLARD POWER INC., DIRECTOR, SNC-LAVALIN GROUP AND CANADA PENSION PLAN INVESTMENT BOARD AND FORMER CFO, TRANSALTA CORPORATION, CALGARY, ALBERTA*



**Ken Crump**

*CHAIR, BOARD OF TRUSTEES, COAST WHOLESALE APPLIANCES INCOME FUND AND CHAIR, FINANCE AND AUDIT COMMITTEE, BOARD OF COMMUNITY LIVING BRITISH COLUMBIA, VANCOUVER, BRITISH COLUMBIA*



**Guy Fréchette**

*FORMER VICE CHAIR AND MEMBER, EXECUTIVE COMMITTEE AT ERNST & YOUNG LLP AND MANAGING PARTNER FOR THE PROVINCE OF QUÉBEC, MONTRÉAL, QUÉBEC*



**Ronald G. Gage**

*FORMER CHAIR AND CHIEF EXECUTIVE OFFICER, ERNST & YOUNG LLP, TORONTO, ONTARIO*



**Gary Porter**

*FORMER DIRECTOR AND CHAIR, INVESTMENT COMMITTEE OF THE ONTARIO TEACHERS' PENSION FUND AND RETIRED CO-FOUNDER OF PORTER HÉTU INTERNATIONAL, BROCKVILLE, ONTARIO*



**Jocelyn Proteau**

*CHAIR, BOARD OF BTB REAL ESTATE INVESTMENT TRUST AND FORMER CHAIR, BOARDS OF STANDARD LIFE ASSURANCE COMPANY OF CANADA, STANDARD LIFE FINANCIALS INC. AND STANDARD LIFE TRUST, MONTRÉAL, QUÉBEC*



**Alain Rhéaume**

*A FOUNDER AND MANAGING PARTNER, TRIO CAPITAL INC., FORMER DEPUTY MINISTER OF FINANCE, QUÉBEC AND FORMER PRESIDENT AND COO, MICROCELL TELECOMMUNICATIONS, MONTRÉAL, QUÉBEC*



**Peter W. Roberts**

*CHAIR, RISK OVERSIGHT AND GOVERNANCE BOARD, CICA, FORMER CFO, SIERRA WIRELESS INC. AND PAST PRESIDENT OF ICABC, WEST VANCOUVER, BRITISH COLUMBIA*

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## Building a World Class Audit Regulator

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**“Our goal is to perform disciplined inspections and provide penetrating insights that appreciably enhance audit quality.”**

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**Brian A. Hunt, FCA**  
CHIEF EXECUTIVE OFFICER

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The title of this Annual Report is ‘building a world class audit regulator’. CPAB’s vision, in its new strategic plan, is to ensure CPAB is recognized, both in Canada and internationally, as a world class audit regulator.

The planning process also identified our organization’s core issue going forward, which is the need to enhance the value CPAB provides to participating firms and other key stakeholders (securities commissions, audit committees, reporting issuers, investing community and CPAB’s international counterparts).

Delivering greater value includes sharing inspection findings with firms, including comments on the apparent root causes of audit deficiencies found. This information should result in a greater understanding of impediments to audit quality due to matters of audit risk and inadequate audit practices. CPAB’s goal is to perform disciplined inspections and provide penetrating insights that appreciably enhance audit quality.

Factors critical to our success include rigorous, value added inspection methodologies, leading-edge technical and professional skills, an expanded legislative and regulatory base, strong and

productive stakeholder relationships, robust internal controls and best-in-class human resource management.

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 implement an inspection methodology that added considerable value to the audit firms of reporting issuers. CPAB is at a key juncture in its lifecycle and the organization must now operate at a more strategic level and demonstrate relevance in the form of added value to CPAB’s participating firms and stakeholders. As CPAB enters the next stage of its development, it will need to build on its achievements and enhance its capability as a world class regulator.

In 2009, CPAB focused on three key initiatives to effectively position the organization for its next stage of development: building an effective human resources plan, enhancing the organization’s inspection methodology and developing a new strategic plan for the organization.

### **Strategic Human Resources**

CPAB is a human capital knowledge organization. Significant investment

in and commitment to the key elements of human resource management is critical to its success. One of the critical success factors for CPAB moving forward will be the ability to attract, retain and develop professional management and staff. In 2009, CPAB made a significant investment in developing and implementing a human resources plan. The implementation of this plan will continue in 2010.

The human resources plan began with a new organizational structure which reflected CPAB's needs including scalability to accommodate growth and an accountability framework leading to greater productivity and career development opportunities. Technical training needs were addressed in the strategic plan in light of the adoption of the new Canadian Auditing Standards (CAS) and International Financial Reporting Standards (IFRS) in 2010 and 2011 respectively.

CPAB's Human Resources plan identifies four initiatives.

***Defining and increasing accountability in all areas of the organization***

As CPAB evolves as a regulator, it assumes more fully the accountability incorporated in its mandate. To succeed, CPAB must increase accountability across the organization to clarify roles, responsibilities and relationships, and establish appropriate rewards and consequences.

In addition to developing staff profiles for each position, CPAB is designing an accountability framework and a performance measurement system linked to compensation and career progression.

***Implementing best-in-class human resource management***

As mentioned above, CPAB's investment in technical training will accelerate with the onset of IFRS and CAS. 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.

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## Succeeding Through Our People

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Other important activities include the development of a new performance appraisal system, human resources policies, career development and succession planning.

***Recruiting leading accounting, auditing and IFRS professionals***

The creation of several positions as part of a new organizational structure requires a significant recruitment effort to enhance CPAB's capabilities and prepare for IFRS.

***Building a consultative, high-performance, high-engagement culture***

CPAB will implement processes and mechanisms to drive high-performance, through investments in professional development and performance appraisal and compensation systems. Staff will participate in developing these systems, define a set of core values for CPAB and participate in active, regular exchanges with senior management.

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, should make CPAB a career destination for top talent.

***Inspection Activity***

CPAB's 2009 inspection approach was proactive and focused. CPAB met with the Big Four auditing firms in December 2008 to review their plans to address the audit risks posed by the global economic downturn and to convey CPAB's expectations that firms would perform 2009 audits with an appropriate degree of professional skepticism.

In January 2009, CPAB hosted a webcast that addressed the significant financial reporting challenges faced by management, board directors, audit committees and audit firms as a result of the global economic downturn. CPAB

also outlined its expectations for audit firms when performing audits in an economic downturn.

CPAB's 2009 inspections continued to be risk-based, with increased focus and emphasis on engagement performance. Particular attention was given to the audit work performed on financial statement items that would be most affected by the economic downturn.

#### ***Expanding risk-based inspection methodologies***

A priority for CPAB is to continue to evolve the inspection methodology into one that is more strategic, provides greater risk assessment and adds more relevance to participating firms.

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## Strengthening Our Core Capabilities

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CPAB's goals for 2010 include increasing inspection activity, as well as enhancing the criteria for risk assessment in firm and file selection. CPAB will also establish ongoing consultation with firms regarding risk and CPAB's expectations for 2010 audits.

Specifically, CPAB will review its risk analysis process for selecting firms to be inspected (both domestic and

foreign) with a focus on reviewing files in firms that audit high-risk reporting issuers. CPAB will review its risk analysis with other audit regulators to ensure it is sufficiently robust.

CPAB will conduct environmental scans of reporting issuers' information to identify issues that may merit further investigation. This will include restatements for accounting errors, unusual accounting policies as well as abnormal financial results. Further investigation may include visiting the auditors and conducting a review of a particular file.

#### ***National firm inspections***

CPAB met with the leadership of the National firms in December 2009 to assess factors that may impact audit quality and CPAB's inspections in 2010. Topics included:

- The impact of the economic downturn on the firms' operations and audit quality in particular.
- The firms' involvement with IFRS conversions.
- New guidance issued on emerging audit or accounting issues.
- Major changes in leadership and methodology.
- Clients in high-risk categories and changes in the client base.



In 2010, CPAB's inspections of the National firms will increase. CPAB will review more files and more inspections will occur in offices outside Canada's major centres.

### **Reliance on provincial regulators and other audit regulators**

CPAB will review its processes to ensure the level of cooperation on inspections with provincial regulators is appropriate. This will include a comparison of resources employed by each provincial regulator on inspections as well as CPAB's assessment of the inspection work done by provincial regulators on high-risk reporting issuers. CPAB will perform additional inspection work as necessary.

CPAB will also develop a process to enable it to justify placing reliance on inspections conducted by other audit regulators of foreign firms that audit Canadian reporting issuers. This includes performing a risk analysis of Canadian reporting issuers inspected by other audit regulators and carrying out joint inspections of foreign firms.

### **Standards and Consultation**

For CPAB to achieve its desired impact, it must develop and implement an effective culture of consultation.

Internally, this enhanced consultation will occur between CPAB's Inspections group and its Standards and Consultation group. Complex transactions and high-risk files

provide experience and exposure for standards and consultation staff engaged with inspection teams. Standards and consultation staff have a role in enhancing the technical capabilities of inspection staff, including standards and industry knowledge. They will also enhance risk identification capability and consultation with the firms. In 2010, CPAB will allocate technical specialists across National firm inspection teams to improve identification and consultation on significant issues.

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## Creating a Consultative Culture

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The Standards and Consultation group will also build its own breadth and depth of technical expertise in accounting and auditing, including IFRS and industry-related topics. It will develop IFRS and CAS tools to assist inspection staff with transition issues.

Externally, CPAB will increase consultations with expert advisory panels and other audit regulators. CPAB should have access to experts nationally to discuss professional standards matters and also internationally with respect to Canada's transition to IFRS and the new CAS.

The Standards and Consultation group will also identify key standards issues being debated nationally and internationally and shape CPAB's position on these matters. It will monitor interpretive guidance issued by the National firms on IFRS application and interpretation. Developing consultation networks and improving relationships with other stakeholders are other key aspects of the Standards and Consultation agenda.

CPAB will identify and contact appropriate persons, such as retired audit partners as well as members of the academic community, to participate in an independent external consultation panel. CPAB will also seek assistance from its international contacts to engage appropriate individuals for this panel.

### **Technical Training**

CPAB will continue to invest in technical training related to IFRS/CAS and other technical/regulatory developments.

This includes implementing high quality and effective IFRS and CAS training for all professional staff. CPAB's Board is also receiving IFRS training in order to effectively assess management's response to these new standards.

CPAB is meeting with the National firms to assess their IFRS training programs and will use the information gained to develop a high quality IFRS training program for CPAB

professional staff. CPAB will seek input from the Big Four firms in developing 2010 and 2011 IFRS training for CPAB professional staff, with an emphasis on interactive training sessions that focus on application as well as industry considerations. CPAB also plans to recruit individuals from jurisdictions that are currently using IFRS.

### Legislation

CPAB continues to seek legislation in all Canadian provinces and territories to give it the powers and protections it needs to fulfill its mandate. To the greatest degree possible, CPAB needs legislative consistency and uniformity, so that CPAB, audit firms and reporting issuers can clearly understand the rules under which CPAB operates.

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## Establishing a Sound Legislative Base

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CPAB is seeking four main provisions in such legislation:

- Recognition as an auditor oversight body.
- Immunity – so long as it acts within its authority and in good faith (other regulators have immunity).

- The ability to review client materials in an auditor's working papers that are the subject of a claim of solicitor-client privilege without that privilege being waived for other purposes.
- Protection from being compelled to provide specific information to third parties concerning the information it receives or generates.

Legislation in place to date includes Bill 7 in Québec, introduced in 2006, and the *Canadian Public Accountability Board Act (Ontario)*, which became effective June 30, 2009. British Columbia has amended its *Securities Act* in respect of CPAB, but the amendments are not yet in effect. Similarly, Québec has recently passed Bill 74 to amend its *Securities Act* in respect of 'an auditor oversight body', but those amendments are also not yet in effect. CPAB is aware that other provinces are also considering similar legislation.

### ***Access to Privileged Materials***

CPAB continues to seek access in all jurisdictions to materials in auditors' working papers which are the subject of client claims of solicitor-client privilege. CPAB, in its 2009 inspections, was again, in several instances, denied access to certain materials because of claims of privilege. CPAB, therefore, can only provide a qualified view on the quality of audits in those cases.



Canadian auditors are empowered by legislation to access whatever corporate information, records, etc. that they, in their opinion, believe they must see to make the examination necessary to allow them to provide an opinion on a corporation's financial statements. They request, and get access to, documents and information which are the subject of client claims of solicitor-client privilege.

Such documents and information are often material to the issuer's financial statements, and the auditor needs to see them to determine whether the risks and uncertainties mentioned in them have been properly provided for in the financial statements.

Auditors, to meet professional standards, must maintain audit working papers which will allow another auditor, at a later date, to understand how the auditor arrived at their opinion on the financial statements. To meet those standards, the auditor must determine what must be included in their audit working papers – and this may include certain privileged documents and information they have reviewed.

To fulfill its mandate, CPAB must see what the auditor retained in their working papers to meet those standards, and what the auditor relied upon to arrive at their opinion. This includes, in particular, matters of a sensitive and potentially material

nature, where auditors must exercise the greatest amount of professional judgement.

If documents and information could be held back from the auditor on the basis that they were privileged, the auditor could not fulfill their mandate. If CPAB cannot see what the auditor determined they must include in their working papers, including privileged documents and information, then CPAB cannot fulfill its mandate.

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## Strengthening Key Relationships

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It should be noted that CPAB's counterpart regulators in the United States and the United Kingdom have the authority to access such privileged materials.

CPAB seeks legislation in all jurisdictions that will allow it to access everything in the auditor's working papers and ensure that solicitor-client privilege is in no way waived or diminished by virtue of such access. CPAB's confidentiality obligations, and its right not to be compelled to make disclosure to third parties concerning the information it receives or generates, should be clearly set out.

CPAB believes that such legislation would not only protect solicitor-client privilege – it would extend it.

### Strengthening Relationships

Building relationships with key stakeholders, including audit committees, the investor community and international counterparts, is critical to CPAB's success. These relationships will help establish trust and confidence in CPAB's mission, contribution and mandate.

CPAB will also continue to build relationships with audit firms, through regular meetings with the firms' leadership during the planning, execution and reporting phases of inspections to ensure risk management, consistency, effectiveness and the value added through each inspection.

CPAB is building on its reputation as a founding member and active participant in IFIAR and is pursuing international reciprocity with audit oversight bodies.

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. Improved international relations will increase opportunities for CPAB to consult on IFRS interpretation/application issues. Recruitment of IFRS-experienced personnel and secondment of

CPAB staff internationally represent potentially meaningful opportunities from a human resource management perspective.

### Conclusion

In conclusion, I would like to thank our Chair Nick Le Pan, the Board of Directors, management and staff for their assistance during my first year as CEO.

Building on CPAB's solid foundation, I look forward to working with them, the audit firms as well as CPAB's other stakeholders, to implement CPAB's vision to be a world class audit regulator.

**Brian A. Hunt**, FCA  
CHIEF EXECUTIVE OFFICER

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## CPAB Management Committee

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**Brian A. Hunt**, FCA  
CHIEF EXECUTIVE OFFICER



**Kenneth J.A. Vallillee**, FCA  
SENIOR VICE PRESIDENT  
OF INSPECTION ACTIVITY



**Galt Arthur**, FCA  
VICE PRESIDENT &  
CHIEF INFORMATION OFFICER



**Donald J. Cockburn**, FCA  
VICE PRESIDENT



**Kam Grewal**, CA, CPA  
VICE PRESIDENT OF STANDARDS



**Marial Stirling**, CA, LLB  
VICE PRESIDENT &  
GENERAL COUNSEL

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# Enhancing Audit Quality Through Risk-Based Inspections

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## Introduction

**As of December 31, 2009 there were 294 participating audit firms registered with CPAB. During 2009, 45 firms registered with CPAB and 23 firms terminated their registration on their own accord.**

**In 2009, CPAB inspected 53 firms and reviewed 212 audit engagements as part of CPAB's process to satisfy itself as to the effectiveness and implementation of audit firms' policies and procedures, relative to accounting and auditing standards.**

**CPAB did not conduct any investigations in 2009.**

The inspections included:

- Inspections of Canada's six National firms and reviews of 118 audit engagements carried out by these firms.
- Recurring inspections of 28 Regional and Local firms and 19 follow-up inspections; as part of these inspections, CPAB reviewed 94 audit engagement files.

In addition to the inspections conducted by CPAB, provincial

professional accounting bodies inspected 67 firms that audit reporting issuers.

CPAB selects files of reporting issuer audit clients for review using a risk-based approach. In its 2009 inspections, CPAB increased its focus and emphasis on audit engagement performance. These inspections paid particular attention to the audit work performed on financial statement items most affected by the economic downturn.

In its 2009 inspection reports to firms, CPAB identified changes to audit processes which, in CPAB's view, would provide the greatest opportunity for improving audit quality.

Eight contract consultants, who specialize primarily in the areas of taxation, information technology and valuations, supported the 23 members of CPAB's inspections staff in 2009.

## Results of Inspections

The results of CPAB's 2009 inspections of firms that audit reporting issuers confirm the state of auditing in Canada is sound. The high level of commitment of audit firms to audit quality is very evident in CPAB's inspection



program. Going forward, firms will need to continue to maintain their focus on audit quality, given the audit fee pressure that many firms are experiencing and the ongoing challenging economic environment in Canada and globally.

### National Firms

Canada's six National firms audit reporting issuers in Canada, representing over 93% if measured by market capitalization.

CPAB inspected these firms in 2009, using information from several external databases to identify high-risk engagements. CPAB then compared the high-risk engagements it had identified to the firms' own lists and investigated any differences. Following the selection of audit engagement files CPAB conducted a detailed assessment of the financial statements and related public information to decide which specific audit risks within the financial statements would be the subject of CPAB's focused review.

CPAB saw many examples of excellent audit work in the files it reviewed in 2009. There continue to be areas, however, requiring improvement. The issues and areas for improvement CPAB noted most often in 2009 included the need to:

- Enhance the role of the Engagement Quality Control Review.
- Improve the evaluation of unadjusted errors.

- Improve the transparency in the information the firms communicated to audit committees.
- Enhance the quality and transparency of financial statements.

CPAB believes improvements in these areas would reduce the likelihood of audit engagement problems relative to auditing and accounting standards, and add to audit quality. In some cases the areas are primarily the responsibility of reporting issuers not audit firms.

In the course of its reviews, CPAB also found two audit engagements not performed in accordance with Generally Accepted Auditing Standards (GAAS), in that there were a number of significant GAAS deficiencies. In addition, there were a small number of engagements where improvements in the audit approach were needed to fully comply with GAAS.

The financial statements for one audit engagement were not in accordance with Generally Accepted Accounting Principles (GAAP). Additional audit work is needed to determine if the financial statements in a small number of audit engagements should be restated.

### Regional and Local Firms

CPAB's 2009 inspections implemented an approach designed specifically for Regional and Local firms. These firms operate in a different environment than larger

firms and generally have less complex systems of quality control. CPAB's new approach was designed to focus more effectively on aspects of these firms' operations that have an impact on audit quality and, as a result, reduce the compliance burden on firms from CPAB's inspections.

CPAB's focus in its inspections of Regional and Local firms continued to be on engagement performance for recurring inspections, however, CPAB limited its testing of quality control elements (such as human resources or client acceptance) to situations in which previous issues were identified and/or where the firm had made significant changes to its processes. For new inspections, CPAB spent more time assessing the firm's quality controls. Once again, the approach was risk-based.

The new Regional and Local firm inspection methodology resulted in more focused inspections. It permitted CPAB to carry out inspections more efficiently resulting in significant productivity gains.

As with the National firms, CPAB saw many examples of excellent audit work in the files it reviewed in 2009 in the Regional and Local firms.

Many of the major issues CPAB identified in its inspections of the National firms, as noted above, were also identified in its inspections of Regional and Local firms.

CPAB also noted two additional major issues with respect to Regional and Local firms:

- Lack of audit planning for non-routine transactions.
- The need for more client documentation of complex transactions.

In the course of its reviews, CPAB found five audit engagements not performed in accordance with GAAS. In addition, there were a small number where improvements in the audit approach were needed to fully comply with GAAS. The financial statements for two engagements were not in accordance with GAAP. Additional audit work is needed to determine if the financial statements in a small number of audit engagements should be restated.

### Remedial Actions

As a result of its 2009 inspections, CPAB placed requirements on two firms.

In addition, six firms that had requirements placed on them as a result of CPAB's 2008 inspections had follow-up inspections in 2009 that resulted in CPAB lifting the requirements.

There was one review proceeding started in 2008 which was settled in 2009 with the firm accepting the requirements imposed by the Board.

### Reporting

Following each inspection, CPAB sends each firm a private report that includes findings, recommendations and other observations. Firms are expected to implement the

recommendations to CPAB's satisfaction within a prescribed period of time – typically 180 days.

In its 2009 inspection reports, for the first time, CPAB highlighted the top three to five recommendations that would have the greatest impact on improving audit quality, including suggestions of ways to implement the recommendations. CPAB believes that if the firms follow-up appropriately on the major areas identified, many of the issues it has noted in its inspections would be addressed.

CPAB reports publicly at least annually on the results of its inspections, but does not identify either individual firms or companies. Under CPAB's rules if CPAB were to impose the most serious level of sanctions on an audit firm, that would be reported to the relevant securities commissions and all of the audit firm's reporting issuer clients. There were no such sanctions imposed in 2009. The 2009 Public Report will be issued in the first week of April 2010 and will be available for viewing on CPAB's website at [www.cpab-ccrc.ca](http://www.cpab-ccrc.ca).

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## Overview and Scope

*CPAB's mandate is to promote high quality, independent auditing, which contributes to public confidence in the integrity of reporting issuers' financial reporting. It accomplishes this by inspecting audit firms that audit Canadian reporting issuers, either directly or in cooperation with provincial or foreign regulatory authorities.*

*Each year, CPAB reviews all firms that audit 100 or more reporting issuers. CPAB also reviews, at least every two years, firms with between 50 and 99 reporting issuer audit clients. Over three years, the majority of firms registered with the Public Company Accounting Oversight Board are inspected. For the remaining Canadian participating audit firms, CPAB primarily relies on its reviews of the quality inspections carried out by the relevant provincial accounting bodies, i.e., Institutes of Chartered Accountants or Associations of Certified General Accountants, although it may and has elected to review some of those firms directly.*

*When a registered firm is domiciled in another country, CPAB will, depending on the robustness of the audit regulatory activity in that country, endeavour to rely on that regulator. However, it is probable that, at a minimum, CPAB will want to carry out some review of the audit files relating to Canadian reporting issuers.*

*During the past six years, CPAB has inspected each of the National firms six times. CPAB has inspected each of the firms that audit more than 50 reporting issuers at least three times in this period and the majority have been inspected four times.*

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## Reviewing Our Operating Results and Outlook

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The following is a review of CPAB's operating results for the year ended December 31, 2009.

Also discussed below is the outlook for 2010, current developments and risks that impact the organization.

### Overview

CPAB is an independent, federally incorporated, not-for-profit corporation without share capital. It was established in 2003 and its mission is to contribute to public confidence in the integrity of financial reporting of reporting issuers in Canada by promoting high 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. CPAB carries out its mandate by conducting inspections of the firms subject to its oversight either directly or in cooperation with other regulatory bodies in Canada and abroad.

As at December 31, 2009, 294 public accounting firms were registered with CPAB as participants and all were in good standing. At year end 2008, this number was 272. The 8% increase is due primarily to new registrations of

foreign accounting firms that audit Canadian reporting issuers or expect to in the future.

### Operating Results

CPAB derives all of its funding from Canadian reporting issuers. CPAB invoices audit firms a fee with the understanding that the firms in turn bill their reporting issuer clients. Since inception, including the current year, CPAB's fee levy rate for Canadian audit firms has been 1.6% of the audit fee these firms charge their reporting issuer clients, with a minimum fee of \$1,000. In 2009, 105 Canadian audit firms paid the minimum fee. There is a reduced rate for foreign participating firms that are subject to oversight in their home jurisdictions. The CPAB fee amount is designed to cover its annual operating costs and provide a reasonable reserve for contingencies.

In 2009, Annual Participation fees totalled \$13.1 million, an increase of 5.4% over 2008, reflecting the higher audit fee revenue reported by participating audit firms.

CPAB's main operating expense is for salaries and benefits of inspection and administrative staff which totalled \$8.7 million or 66% of the total expenses of \$13.2 million,



before restructuring expenses, in 2009. The implementation of the new organizational structure as set out in the human resources plan should result in productivity gains through the rebalancing of the inspection staff.

Excluding salaries and benefits and restructuring expenses, total 2009 operating expenses increased by approximately 19% to \$4.5 million, as compared with 2008 expenses of \$3.8 million. The increase in these other expenses was related to higher

professional services expense, largely related to recruiting costs, and higher director and legal services expenses. Excluding restructuring expenses, the excess of revenue over expense in 2009 was nil.

Restructuring expenses of \$1.4 million in 2009 primarily consists of severance payments for management changes relating to a human resources initiative which CPAB is undertaking as part of its new strategic plan.

### Cash Flows and Liquidity

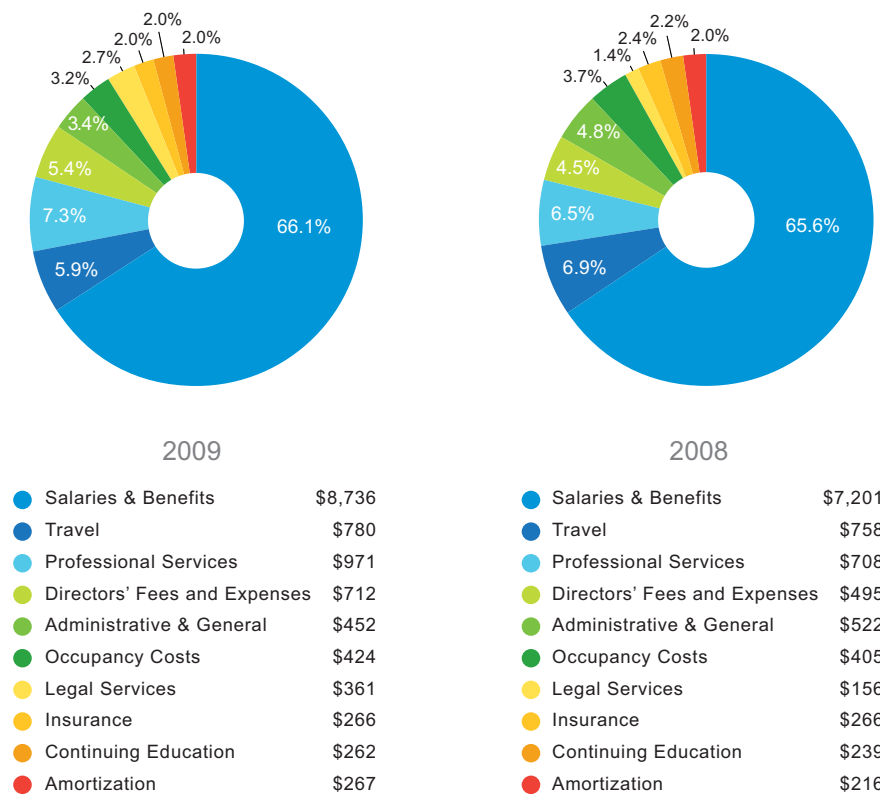
The net cash used in 2009 was \$3.0 million (2008 – \$1.2 million), primarily for the purchase of short-term investments of \$3.0 million. At December 31, 2009 CPAB had a strong working capital position of approximately \$2.7 million (2008 – \$4.2 million).

### Outlook for 2010

Set against a backdrop of a difficult economy and the pending introduction of new international standards, CPAB must evolve its inspection methodology, systems and processes and people to provide continued oversight in a way which meets the needs of its stakeholders and the international community, and allows CPAB to continue to meet its mandate. This transition is an evolution that will occur over the next three years.

Significant investments in human resource management, inspection methodology, technology and systems, stakeholder relations and regulatory affairs are being made by CPAB to deliver quality and relevance as a world class 21st century audit regulator. 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

## Major Expenses, Before Restructuring, by Type (\$000's)



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.

CPAB will expand inspection activity to include more Regional and Local firms and deepen inspection coverage in the National firms. From a base of 34 firm inspections in 2009 (this does not include 19 follow-up inspections performed in 2009), CPAB has set a target of 50 firm inspections per year by 2012. Additional inspection activity of foreign firms and firms inspected by the provincial audit regulators will also occur using risk-based targeted reviews. Increased inspection resources and an inspection methodology tailored to the Regional and Local firms will be key to implementing this initiative. CPAB's changes to its inspection methodology, management structure and organizational structure will result in significant productivity gains, allowing CPAB staff to conduct more inspections in a given time frame, which should partially offset costs of the increased inspection activity.

Downward pressures on audit fees as a result of the economic environment are expected to erode CPAB's fee base for 2010 and beyond. In addition to the erosion of CPAB's fee base, costs are expected

to increase for one-time International Financial Reporting Standards (IFRS) training requirements (spread over two years), legislative initiatives and for offices in Vancouver and Montréal 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 an equivalent saving is 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.

For 2010, revenues are budgeted at \$15.2 million to cover operating expenses, as compared with revenues of \$13.2 million in 2009. CPAB's Annual Participation fee levy to audit firms will increase from 1.6% to 2.0%, the level needed to recover CPAB's expected operating expenses for 2010. CPAB's operating expenses for 2010 have been budgeted at \$15.2 million. This represents an increase of 15% from total operating expenses of \$13.2 million, before restructuring, in 2009. In addition to annual salary increases of approximately 3%, expenses are expected to increase for aforementioned one-time costs and for offices in Vancouver and Montréal. CPAB anticipates that it will be in the position to meet its initiatives for the next several years and enhance its capability as a strategic regulator without a further increase to its fee levy. The human resources organizational restructuring has been funded



through the organization's reserve that will have to be reestablished in future years.

In 2010, CPAB will have capital expenditures of approximately \$300,000 to replenish its information technology infrastructure and reporting systems.

### **Principal Risks and Uncertainties**

CPAB's most important asset is its reputation as an effective audit regulator. Factors imposing significant risks include legislative, economic, social and technological forces that could have a material impact on CPAB's mission, vision, or critical success factors. Strategic risks impacting CPAB revolve around the risks of legislation that is not supportive of CPAB meeting its mandate. In this regard, the legislative landscape in Canada is complex. In connection with the current economic uncertainties, there is a heightened possibility of the risk of failures in corporate governance, financial reporting and in audits with the consequent risk of loss of confidence in CPAB. Other risks include an aging accounting workforce and a shortage of IFRS-experienced resources. Technologically, data security is an overarching consideration. CPAB shares the responsibility for ensuring confidence in public markets among a wide range of persons and organizations, including government agencies, other regulators and professionals.

In response to the aforementioned risks and economic downturn, CPAB continues to implement strategies to minimize these risks through effective operations, restructuring and enhancing its operations to address its operating risks, increased dialogue with participating audit firms and improved operating efficiencies through modifications in its inspection approach. One of the biggest challenges CPAB faces in the next two years is to ensure its inspection staff is sufficiently trained in IFRS. CPAB has implemented an extensive training program and is developing other strategies to ensure its readiness to meet these challenges.

In evolving as a regulator, CPAB more fully assumes the accountability incorporated in its mission. To succeed it must continue to increase accountability across the organization such that the roles, responsibilities and interdependencies of each division and each person are clear. CPAB has added resources in Inspections, Standards and Consultation, Information Technology, and Human Resources which will all serve to enhance CPAB's ability to address the risks in its external and internal operating environments and provide the organization with the capability to fulfill its mission and achieve its mandate.



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## Statement of Management's Responsibility

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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 Generally Accepted Accounting Principles (GAAP), 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 an Audit Committee to help it with these responsibilities. The 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.

Cowperthwaite Mehta 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. They have had full and unrestricted access to the Board of Directors and management to discuss matters pertaining to their audit. The 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**, FCA  
CHIEF EXECUTIVE OFFICER



**John Mastrella**, CA  
DIRECTOR, INTERPROVINCIAL RELATIONS  
& CHIEF FINANCIAL OFFICER

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## Auditors' Report

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*To the Members,  
Canadian Public Accountability Board/  
Conseil canadien sur la reddition de comptes*

We have audited the statement of financial position of Canadian Public Accountability Board/Conseil canadien sur la reddition de comptes as at December 31, 2009 and the statements of changes in net assets, operations and cash flows for year then ended. These financial statements are the responsibility of the organization's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the organization as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian Generally Accepted Accounting Principles.

*Comperthwaite Melita*

CHARTERED ACCOUNTANTS  
LICENSED PUBLIC ACCOUNTANTS

*FEBRUARY 16, 2010  
TORONTO, ONTARIO*

# Statement of Financial Position

<i>As at December 31,</i>	2009	2008
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,426,418	\$ 4,417,972
Short-term investments (note 5)	3,000,000	—
Accounts receivable	19,270	41,904
Goods and services tax recoverable	58,538	42,068
Prepaid expenses	106,172	63,317
	4,610,398	4,565,261
Property and equipment (note 6)	906,702	773,739
	<b>\$ 5,517,100</b>	<b>\$ 5,339,000</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 1,954,762	\$ 328,853
Unamortized tenant inducements	338,492	403,199
<b>Net assets</b>		
Invested in property and equipment	906,702	773,739
Unrestricted	2,317,144	3,833,209
	3,223,846	4,606,948
	<b>\$ 5,517,100</b>	<b>\$ 5,339,000</b>

APPROVED ON BEHALF OF THE BOARD:



, DIRECTOR

**Nick Le Pan**, CHAIR



, DIRECTOR

**Wendy K. Dobson**, VICE CHAIR

## Statement of Changes in Net Assets

<i>For the year ended December 31,</i>			2009	2008
	<i>Invested in property and equipment</i>	<i>Unrestricted</i>	<i>Total</i>	<i>Total</i>
Net assets, beginning of year:	\$ 773,739	\$ 3,833,209	\$ 4,606,948	\$ 2,977,069
Excess (deficiency) of revenue over expenses for the year	(266,702)	(1,116,400)	(1,383,102)	1,629,879
Purchase of property and equipment	399,665	(399,665)	—	—
<b>Net Assets, End of Year</b>	<b>\$ 906,702</b>	<b>\$ 2,317,144</b>	<b>\$ 3,223,846</b>	<b>\$ 4,606,948</b>

## Statement of Operations

<i>For the year ended December 31,</i>	2009	2008
<b>REVENUE</b>		
Fees from participating audit firms	\$13,137,507	\$12,459,755
Intent to Participate fees from applicant firms	73,005	24,000
Interest income	28,796	112,946
	<b>13,239,308</b>	<b>12,596,701</b>
<b>EXPENSES</b>		
Salaries and benefits	8,735,705	7,201,106
Travel	780,088	758,269
Professional services	971,278	707,704
Directors' fees and expenses	712,266	495,192
Administrative and general	451,540	521,940
Occupancy costs	424,106	405,417
Legal services	361,090	155,827
Insurance	265,693	265,825
Continuing education and professional memberships	262,301	239,154
Amortization of property and equipment	266,702	216,388
Restructuring (note 9)	1,391,641	—
	14,622,410	10,966,822
<b>Excess (Deficiency) of Revenue over Expenses for the Year</b>	<b>\$ (1,383,102)</b>	<b>\$ 1,629,879</b>

## Statement of Cash Flows

<i>For the year ended December 31,</i>	2009	2008
<b>OPERATING ACTIVITIES</b>		
Excess (Deficiency) of revenue over expenses for the year	\$ (1,383,102)	\$ 1,629,879
Add back (deduct) non-cash items:		
Amortization of property and equipment	266,702	216,388
Amortization of tenant inducements	(64,707)	(58,204)
Net change in non-cash working capital items (note 10)	1,589,218	(436,143)
Cash generated from operations	408,111	1,351,920
<b>INVESTING ACTIVITIES</b>		
Purchase of short-term investments	(3,000,000)	—
Purchase of property and equipment	(399,665)	(162,776)
Cash used in investing activities	(3,399,665)	(162,776)
Cash and cash equivalents (used) generated in the year	(2,991,554)	1,189,144
Cash and cash equivalents, beginning of year	4,417,972	3,228,828
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 1,426,418</b>	<b>\$ 4,417,972</b>

## 1. The Organization

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Canadian Public Accountability Board/Conseil canadien sur la reddition de comptes (CPAB) is a corporation without share capital incorporated under the *Canada Corporations Act*.

The mission of CPAB is to contribute to public confidence in the integrity of financial reporting of reporting issuers by promoting high 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

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These financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles applied on a basis consistent with that of the preceding year. Significant accounting policies followed in the preparation of these financial statements are:

### *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: an 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 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 2009 was set at 1.6% of the audit fees charged by each participating firm to its reporting issuer clients or a minimum of \$1,000.

### *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:

<i>Office equipment and furniture</i>	<i>10 years</i>
<i>IT infrastructure and networks</i>	<i>4 years</i>
<i>Computer software</i>	<i>3 years</i>
<i>Office and computing equipment</i>	<i>2 – 3 years</i>
<i>Leasehold improvements</i>	<i>Over the life of the lease</i>

### *Leases*

All of CPAB's leases are operating leases. The benefit of the seven month initial rent free period and cash inducement received at the inception of the Toronto office lease has been deferred and is being recognized on a straight-line basis over the term of the lease.

### *Use of estimates*

The preparation of these financial statements in conformity with Canadian Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

Actual results could differ materially from those estimates and assumptions. Estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in the year in which they become known.

### *Financial instruments*

CPAB classifies its financial assets and financial liabilities into the following categories:

Held-for-trading – This category is comprised of cash and guaranteed investment certificates. These are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations.

Other financial assets and liabilities – Other financial assets and liabilities are carried at cost, which approximates their fair value due to their short-term nature.

## **3. Changes in Accounting Policies**

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The CICA has released revisions to the CICA Handbook that relate to not-for-profit organizations. The standards which are applicable to CPAB effective January 1, 2009 are as follows:

### *Section 1000*

Financial statement concepts revised the definition of an asset and the recognition criteria which may not permit certain amounts to be recognized in the statement of financial position that were previously recognizable. There was no impact to CPAB as a result of adopting this policy.

### *Section 1535*

Capital disclosures require the disclosure of qualitative and quantitative information that enables users of the financial statements to evaluate the organization's objectives, policies and processes for managing capital. The adoption of these recommendations requires additional disclosures which are provided in note 11, management of capital.

### *Section 4470*

Disclosure of allocated expenses requires certain disclosures when fundraising and general support expenses are allocated to program expenses. There was no impact to CPAB for 2009.

#### Section 4400

Financial statement presentation by not-for-profit organizations no longer requires organizations to report net assets invested in capital assets as a separate component of net assets. CPAB has determined that, as this disclosure is meaningful, the current policy will not be changed.

#### 4. Financial Instruments and Risks

CPAB financial instruments is comprised of cash and investments in guaranteed investment certificates in accounts maintained with Canadian chartered banks, accounts receivable, accounts payable and accrued liabilities. It is management's opinion that these financial instruments are not exposed to significant interest, currency or credit risks and carrying amounts approximate fair values.

#### 5. Short-Term Investments

Short-term investments include guaranteed investment certificates (GICs) with maturities exceeding 90 days and consist of:

	2009	2008
GIC – 1.1%, matures December 23, 2010	\$ 2,000,000	\$ —
GIC – 0.5%, matures June 23, 2010	1,000,000	—
	3,000,000	—
Accrued interest	14,129	—
	<b>\$ 3,014,129</b>	<b>\$ —</b>

Investments in guaranteed investment certificates are classified as held-for-trading and recorded at fair value. Accrued interest income of \$14,129 is included in accounts receivable.

#### 6. Property and Equipment

Property and equipment, recorded at cost, is as follows:

	Cost	Accumulated Amortization	2009 Net	2008 Net
Office equipment and furniture	\$ 495,542	\$(288,130)	\$ 207,412	\$ 252,030
IT infrastructure and networks	828,268	(485,165)	343,103	135,845
Computer software	114,985	(112,992)	1,993	9,072
Office and computing equipment	102,772	(45,898)	56,874	14,601
	<b>\$1,541,567</b>	<b>\$(932,185)</b>	609,382	411,548
Leasehold improvements, net			297,320	362,191
			<b>\$ 906,702</b>	<b>\$ 773,739</b>

## 7. 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, 2009 and 2008 the amount owing under the Credit Facility was nil.

## 8. Net Assets Invested in Property and Equipment

The excess of expenses over revenue charged to net assets invested in property and equipment is composed of the following item:

	2009	2008
Amortization of property and equipment	\$ 266,702	\$ 216,388

## 9. Restructuring

During 2009, CPAB recorded restructuring expenses of approximately \$1.4 million, consisting primarily of severance charges relating to the implementation of a human resources initiative and other strategic initiatives. At December 31, 2009 approximately \$1.1 million of these charges remain unpaid and are included in accounts payable and accrued liabilities.

## 10. Change in Non-Cash Working Capital Items

Changes in non-cash working capital items are detailed as follows:

	2009	2008
Accounts receivable	\$ 22,634	\$ (7,367)
Goods and services tax receivable	(16,470)	(3,074)
Prepaid expenses	(42,855)	35,771
Accounts payable and accrued liabilities	1,625,909	(461,473)
	<b>\$ 1,589,218</b>	<b>\$ (436,143)</b>

## 11. Management of Capital

In managing capital, CPAB focuses on liquid resources available for operations. CPAB's objective is to have sufficient liquid resources to continue operating despite adverse events with financial consequences and to provide it with the flexibility to advance its purposes. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. As at December 31, 2009, CPAB had met its objective of having sufficient liquid resources to meet its current obligations with cash and cash equivalents of approximately \$1.4 million (2008 – \$4.4 million) and short-term investments of \$3 million (2008 – nil).

## 12. Commitments

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CPAB has entered into operating lease agreements for computing equipment. Under those agreements, the aggregate payments for 2010 are approximately \$15,000. CPAB expects to enter into new operating lease agreements when the current leases expire.

CPAB entered into a ten-year lease for office space in Toronto in 2004. There are no asset retirement obligations associated with the lease or improvements made to the premises. The annual rent is approximately \$165,000 for the first five years and \$180,000 for the second five years. CPAB's share of the building's operating costs is currently estimated at \$272,000 per annum.

## 13. Income Tax Status

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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)*.

## 14. Future Changes in Accounting

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The Accounting Standards Board (AcSB) has announced that all Canadian reporting entities, subject to certain exemptions which include not-for-profit organizations, will adopt International Financial Reporting Standards (IFRS) as Canadian Generally Accepted Accounting Principles for years beginning on or after January 1, 2011. The AcSB is currently considering alternatives for those organizations who are not required to adopt IFRS, specifically not-for-profit organizations. CPAB will evaluate the implications of the various options as information becomes available.

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# Corporate Information

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## CPAB Executive Team

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### Brian A. Hunt

CHIEF EXECUTIVE OFFICER

MR. HUNT WAS APPOINTED CEO OF CPAB EFFECTIVE MARCH 1, 2009. HE WAS INVOLVED WITH CPAB'S CREATION AND SERVED AS A DIRECTOR SINCE ITS INCEPTION. PRIOR TO HIS CURRENT POSITION AT CPAB, MR. HUNT WAS PRESIDENT AND CEO OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO.

### Kenneth J.A. Vallillee

SENIOR VICE PRESIDENT OF INSPECTION ACTIVITY

BEFORE JOINING CPAB, MR. VALLILLEE SERVED THREE YEARS AS SENIOR VICE PRESIDENT, FINANCE WITH A MAJOR CANADIAN BANK. PRIOR TO THAT, HE SPENT TEN YEARS AS A PARTNER AND AS THE DIRECTOR OF ACCOUNTING STANDARDS IN CANADA FOR AN INTERNATIONAL ACCOUNTING FIRM. MR. VALLILLEE SERVED AS ACTING CEO OF CPAB FROM JUNE 2008 TO FEBRUARY 2009.

### Galt Arthur

VICE PRESIDENT & CHIEF INFORMATION OFFICER

MR. ARTHUR IS A RETIRED PARTNER OF DELOITTE & TOUCHE LLP, WHERE HE SPECIALIZED IN DELIVERING ASSURANCE SERVICES TO INSURANCE AND INVESTMENT COMPANIES AND IN PROVIDING COMPUTER AUDIT AND ASSURANCE SERVICES. HE LED THE FIRM'S ENTERPRISE RISK SERVICES PRACTICE IN BRITISH COLUMBIA.

### Donald J. Cockburn

VICE PRESIDENT

MR. COCKBURN IS A RETIRED PARTNER OF ERNST & YOUNG LLP, WHERE HE ADVISED ENGAGEMENT TEAMS ON AUDITING ISSUES. HE WAS ON THE FACULTY OF THE UNIVERSITY OF WATERLOO, WHERE HE TAUGHT AUDITING AT AN UNDERGRADUATE AND GRADUATE LEVEL.

### Kam Grewal

VICE PRESIDENT OF STANDARDS

PRIOR TO JOINING CPAB, MR. GREWAL PRACTISED IN THE NATIONAL OFFICE OF PRICEWATERHOUSECOOPERS LLP, WHERE HE PROVIDED ADVICE ON ACCOUNTING, ASSURANCE AND FINANCIAL REPORTING MATTERS. HE HAS EXPERIENCE ACROSS MARKET SEGMENTS, INCLUDING TECHNOLOGY, COMMUNICATIONS AND MANUFACTURING. MR. GREWAL IS RESPONSIBLE FOR STANDARDS AT CPAB.

### Marial Stirling

VICE PRESIDENT & GENERAL COUNSEL

MS. STIRLING IS A LAWYER AND CA. PRIOR TO JOINING CPAB, HER DIVERSE EXPERIENCE INCLUDED POSITIONS WITH OSLER, HOSKIN & HARCOURT LLP, THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS (ACCOUNTING STANDARDS), THE OFFICE OF THE AUDITOR GENERAL OF CANADA AND SEVERAL YEARS WITH AN INTERNATIONAL ACCOUNTING FIRM.

### John Mastrella

DIRECTOR, INTERPROVINCIAL RELATIONS & CHIEF FINANCIAL OFFICER

BEFORE JOINING CPAB IN 2007, MR. MASTRELLA 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, MR. MASTRELLA PRACTISED WITH KPMG LLP IN TORONTO.

## Directors

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### Nick Le Pan

BOARD CHAIR

FORMER SUPERINTENDENT OF FINANCIAL INSTITUTIONS, OFFICE OF THE SUPERINTENDENT OF FINANCIAL INSTITUTIONS, OTTAWA, ONTARIO.

### Wendy K. Dobson<sup>1</sup>

BOARD VICE CHAIR

PROFESSOR AND CO-DIRECTOR, INSTITUTE FOR INTERNATIONAL BUSINESS, JOSEPH L. ROTMAN SCHOOL OF MANAGEMENT, UNIVERSITY OF TORONTO, TORONTO, ONTARIO.

### Robert Bertram<sup>2</sup>

FORMER EXECUTIVE VICE PRESIDENT, ONTARIO TEACHERS' PENSION PLAN BOARD, TORONTO, ONTARIO.

### Ian Bourne<sup>2</sup>

CHAIR OF THE BOARD, BALLARD POWER INC., DIRECTOR OF SNC-LAVALIN GROUP AND THE CANADA PENSION PLAN INVESTMENT BOARD AND FORMER CHIEF FINANCIAL OFFICER OF TRANSALTA CORPORATION, CALGARY, ALBERTA.

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### Alain Rhéaume<sup>2</sup>

A FOUNDER AND MANAGING PARTNER, TRIO CAPITAL INC., FORMER DEPUTY MINISTER OF FINANCE, QUÉBEC AND FORMER PRESIDENT AND CHIEF OPERATING OFFICER, MICROCELL TELECOMMUNICATIONS, MONTRÉAL, QUÉBEC.

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J.E. (TED) NEWALL REACHED THE END OF HIS TERM OF OFFICE ON FEBRUARY 17, 2009.

JANE HALFORD AND DANIEL MCMAHON LEFT THE BOARD OF DIRECTORS ON APRIL 22, 2009 AS A RESULT OF CHANGES IN CPAB'S GOVERNANCE STRUCTURE.

ROBERT BERTRAM, WENDY K. DOBSON AND RONALD G. GAGE REACHED THE END OF THEIR EXTENDED TERMS OF OFFICE AS DIRECTORS ON DECEMBER 31, 2009, FEBRUARY 16, 2010 AND FEBRUARY 16, 2010, RESPECTIVELY.

<sup>1</sup> MEMBER OF THE AUDIT COMMITTEE

<sup>2</sup> MEMBER OF THE HUMAN RESOURCES AND GOVERNANCE COMMITTEE

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