CPAB

CCRC

Canadian Public Accountability Board

2003 Annual Report

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Role and Responsibility

Public confidence in the audited financial statements of public companies and other entities with publicly-traded securities is an important requirement for an effective capital market and a healthy economy.

In Canada, the provincial securities commissions, the Federal Superintendent of Financial Institutions and the Canadian Institute of Chartered Accountants created the Canadian Public Accountability Board (CPAB) in 2003 to provide independent public oversight for auditors of entities that are reporting issuers to the securities commissions. The Canadian Securities Administrators National Instrument 52-108 requires that financial statements of reporting issuers be audited by public accounting firms that are participants in the CPAB oversight program. CPAB has contractual agreements with participating audit firms that enable it to take the actions necessary to carry out its role.

CPAB's actions to promote high quality external audits of reporting issuers include:

- Establishing and maintaining requirements for participation in the Board's oversight program, and publishing on its website a register of participating audit firms;

- Conducting inspections of participating audit firms directly or in cooperation with professional regulatory authorities in order to assess the compliance of each participating audit firm with the Rules of the Board, professional standards and the firms' own quality control policies, and requiring remedial action by firms to address inspection findings when necessary or appropriate;

- Conducting investigations of, and imposing requirements, restrictions and sanctions on, participating audit firms when necessary or appropriate;

- Providing comments and recommendations on accounting and assurance standards to relevant standard-setting and professional oversight bodies; and

- Reporting to the public at least annually on the results of its activities.

CPAB funds its activities through fees charged to public accounting firms that are applying to become, or that are, participating audit firms.

Highlights

- The Canadian Public Accountability Board was incorporated in April 2003 under the Canada Corporations Act as a not-for-profit corporation.
- Canada's securities commissions issued Proposed Multilateral Instrument 52-108 for comment in June 2003. That rule effectively requires auditors of reporting issuers in Canada to be participants in CPAB's oversight program. The rule was subsequently approved by the commissions in January 2004 and became effective for domestic accounting firms on March 30, 2004.
- CPAB's first employees started on October 1, 2003. The staff grew to six by the end of 2003 and to 21 by the end of March 2004.
- The process for audit firms to register with CPAB was made available in November 2003, with a target date of December 31 for domestic accounting firms to indicate their intent to participate.
- In December 2003, CPAB issued for public comment proposed rules that will govern its relationships with participating audit firms. The rules, and contracts to make them operational, were finalized in March 2004. By the end of March, over 160 domestic accounting firms were participants and another 60 were in the process of becoming participants.
- At the end of March, CPAB commenced its quality inspections of the four largest accounting firms that collectively audit approximately 80% of all reporting issuers.

Report From The Chair

It is my pleasure to introduce the first annual report of Canada's auditor oversight agency, the Canadian Public Accountability Board (CPAB). This agency has been established to contribute to investor confidence in the financial reporting of public companies by promoting high quality and independent audit processes.

The formation of CPAB was an initiative of a group consisting of the Chair of the Canadian Securities Administrators, the Chairs of the Ontario and Quebec Securities Commissions, the federal Superintendent of Financial Institutions and the CEO of the Canadian Institute of Chartered Accountants (CICA). In July 2002, this group announced the establishment of CPAB and was constituted as the Council of Governors. This initiative was a response to the turbulent developments of 2001-2002. Stock markets had fallen sharply from the peaks they reached during the technology-related boom. In the United States, a number of high-profile companies had failed, and there were allegations of serious accounting failures, including fraud. Among the many consequences was the demise of one of the largest global accounting firms, Arthur Andersen. Confidence in public capital markets and in audited financial statements was at low ebb. Investors needed reassurance. During July 2002, the United States Congress passed the Sarbanes-Oxley Act, which required profound changes in corporate governance for businesses and included the creation of a new agency, the Public Company Accounting Oversight Board (PCAOB), to provide independent oversight of the accounting profession.

While the widely publicized corporate problems had occurred in the United States, the impact on investor confidence was international. Perhaps nowhere was this spillover more important than in Canada, given the number of Canadian companies that access U.S. capital markets. Canada had not been immune to sudden corporate failures, although they had not been on the same scale as those in the United States.

The formation of CPAB to oversee the auditors of reporting issuers was one part of a larger package of reforms in Canada in response to the resulting problems of investor confidence. The package includes the establishment of an oversight council to oversee the work of the CICA's Auditing and Assurance Standards Board. That Board has proposed important new standards for audit quality. New accounting standards have been implemented to restrict the use of off balance sheet accounting. The provincial Institutes of Chartered Accountants have implemented world-class standards for auditor independence. In the corporate governance area, the Canadian Securities Administrators (CSA) have issued new rules requiring CEO/CFO certification of financial statements, with respect to the role and composition of audit committees, and on the harmonization of continuous disclosure requirements. Of particular importance to CPAB is CSA National Instrument 52-108 that requires the financial statements of public companies and other reporting issuers to be audited by firms that are participants in the CPAB auditor oversight program.

Due to federal-provincial jurisdictional arrangements in Canada, it was not possible to have the new auditor oversight agency created by legislation. An innovative alternative was required. The solution was to set up CPAB as a not-for-profit corporation under the Canada Corporations Act, and that took place in April 2003.

The Board of Directors of CPAB was structured by the Council of Governors to have a majority of directors (seven out of eleven) from outside the accounting profession. The other four directors would bring professional accounting experience to the Board. The Directors were chosen by the Council of Governors to represent a broad range of perspectives and experience in dealing with financial statements and to come from across Canada. The Council of Governors was remarkably successful in attracting a board of extraordinary calibre.

CPAB operates through an arrangement whereby audit firms sign a contract, called a participation agreement, in which they agree to abide by the rules of CPAB, provide us with access to the information we request, comply with any requirements we may impose in accordance with our rules, and pay fees to cover the costs of registration and inspections. As a consequence of National Instrument 52-108, mentioned above, audit firms have no choice but to participate in CPAB's oversight process if they wish to audit public companies.

In setting up our auditor oversight program, CPAB has taken into account the inspection procedures that are already in place at provincial accounting regulatory bodies in every province. CPAB intends to directly inspect the audit quality of all the large audit firms, as well as smaller firms that register with the PCAOB in the United States. However, we will work closely with the provincial accounting regulatory bodies to take full advantage of their accumulated knowledge and expertise and their statutory inspection and disciplinary powers. We expect them to continue to inspect smaller participating firms on our behalf and in conformity with our procedures.

A number of other countries have also established auditor oversight agencies, or are in the process of doing so. It is CPAB's intention to pursue mutual recognition arrangements with those agencies that have effective and independent programs in order to avoid expensive and unnecessary duplication in the oversight of auditors. The PCAOB in the United States is the most important of these oversight agencies for us. Of the foreign companies that are U.S. Securities and Exchange Commission registrants, more are from Canada than from any other country. The PCAOB wants to be assured that the Canadian accounting firms auditing these companies are doing so to the same high quality standards as they demand in the United States. By the same token, there are over 20 U.S. accounting firms auditing companies that are reporting issuers in Canada, and CPAB will be looking to the PCAOB to ensure that the audits by these firms meet the quality standards that CPAB expects of Canadian participating audit firms. We expect to make an arrangement whereby CPAB and the PCAOB can agree to rely on one another's inspection processes. Over the past year, we have had a number of contacts with the PCAOB that have been friendly and constructive.

I am pleased by what we have managed to achieve in the first year of operations of CPAB. After our incorporation and inaugural Board of Directors meeting in April 2003, we set out an ambitious work plan to hire a CEO and to ensure that the process of registration and the preparations for inspections would be completed as early as possible. The Board was delighted when David Scott accepted our offer to become our CEO. He took up his post on October 1, 2003, and immediately put together an excellent team. They have done a remarkable job in meeting that work plan by early 2004.

While CPAB is now successfully up and running, there is still much work to be done to ensure that we are as effective an oversight agency as possible. We are working with the federal and provincial governments to examine various means to strengthen the legal framework for CPAB.

The work of CPAB over the next year should provide a crucial beginning to the process of ensuring high quality audits of public companies in Canada. Audit firms will have strong encouragement from CPAB to raise the quality of their audit processes. If we do our job in a credible manner, investors should be increasingly reassured about their ability to rely on audited financial statements. Strong investor confidence lowers the cost of capital and benefits the entire Canadian economy.

Finally, I would like to thank the members of the Council of Governors for their help and support in getting CPAB up and running. I particularly want to mention the help we received from the Ontario Securities Commission and the Canadian Institute of Chartered Accountants before we had any staff or financial resources of our own.

Gerard Caron resigned from the Board early in 2004 when he retired as President and CEO of the Ordre des comptables agréés du Québec. I would like, on behalf of the Board, to thank Mr. Caron for his important contributions both as a Board member over the past year and as part of the team that put together the concept of CPAB in 2002.

Gordon Thiessen
Chair

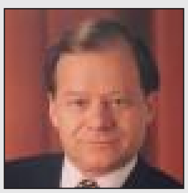
Directors

Gordon G. Thiessen [1,2]

Board Chair
Former Governor of the Bank of Canada
Ottawa, Ontario

Wendy K. Dobson [2]

Board Vice Chair
Professor and Director, Institute for International Business,
Joseph L. Rotman School of Management, University of Toronto
Toronto, Ontario



Raymond Bachand [2]

Managing Partner and CEO, SECOR
Montreal, Quebec

Robert Bertram [1]

Executive Vice President, Ontario Teachers Pension Plan Board
Toronto, Ontario

Brian A. Canfield [1]

Chairman, TELUS Corporation
Vancouver, British Columbia

Ronald G. Gage [2]

Former Chairman and Chief Executive Officer, Ernst & Young LLP
Toronto, Ontario

[1] Member of the Corporate Governance Committee • [2] Member of the Audit Committee

Steven J. Glover

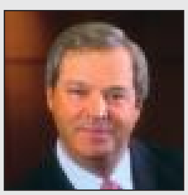
Executive Director, Institute of Chartered Accountants of Alberta
Edmonton, Alberta

Brian A. Hunt

President and Chief Executive Officer, Institute of Chartered Accountants of Ontario
Toronto, Ontario

Daniel McMahon

President and CEO, Ordre des comptables agrées du Québec.
Montreal, Québec



L. Jacques Ménard [2]

Chairman, BMO Nesbitt Burns, and President, Québec, BMO Financial Group
Montreal, Québec

J.E. (Ted) Newall [1]

Chairman of the Board, Nova Chemicals Corporation
Calgary, Alberta

[1] Member of the Corporate Governance Committee • [2] Member of the Audit Committee

Report of the Chief Executive Officer

It was an honour to be invited by the Board of Directors in the summer of 2003 to become the first Chief Executive Officer of the Canadian Public Accountability Board. I accepted with enthusiasm and took up my new duties on October 1. These first few months of CPAB's history have been hectic, but also stimulating, productive and gratifying.

As a new organization, we have had much to do in a short time. We needed to hire staff, find office space, create a process for public accounting firms to become participants in the CPAB oversight program, write rules to govern for our relationship with participants, develop a methodology for quality inspections and keep our stakeholders informed about what we were doing and intended to do.

People

The starting point was to recruit a team of professionals with the appropriate experience and expertise to carry out the CPAB mission. By the end of March 2004, CPAB had 21 people based in Toronto, Montreal, Calgary and Vancouver. I am proud of our new team. Their collective credentials include not only a deep understanding of auditing public companies in a variety of industries, but also experience in other relevant backgrounds including:

- Standard setting at the CICA;
- Securities regulation at the Ontario Securities Commission;
- Industry experience as chief financial officers;
- Risk management at a large chartered bank;
- Government auditing with the Auditor General of Canada;
- Corporate law; and
- Academia.

Registering Accounting Firms as Participants

The registration of public accounting firms as participants in our oversight program has been a major undertaking. We estimate that in 2003, approximately 500 public accounting firms, including about 50 firms outside Canada, were auditing entities that are reporting issuers in Canada. These firms need to become participants if they wish to remain eligible to issue audit reports on the financial statements of reporting issuers after the effective dates of March 30, 2004 for domestic accounting firms and July 19, 2004 for foreign accounting firms. A firm that does not complete the registration process by those dates may still register subsequently, but until it does, securities regulators may not accept any audit opinion signed by it on the financial statements of a reporting issuer.

The registration process has two stages. In the first stage, the applicant firm files an "intent to participate" document that includes summary information about its reporting issuer audit practice and a Quality Control Report (QCR). The QCR provides the firm with an opportunity to describe, in its own words, the system of quality control that it has, or will put in place, to conform to comprehensive standards for audit firm quality set out in an exposure draft issued by the CICA in November 2003. The preparation of the QCR provides the applicant firm and CPAB with a mutual opportunity to assess, before going to stage two, whether the firm seems prepared to meet the requirements of CPAB oversight.

The quality of the QCRs submitted by applicants has been variable. Most applicants described systems of control that, if implemented effectively, should conform to the new standards. For such firms, we requested only minor clarifications and enhancements to their QCRs. However, other firms submitted applications that were seriously deficient and required major revision.

After a firm has made the necessary additions and amendments to its QCR, it is invited to proceed to the second stage of registration, which involves providing CPAB with an initial registration document containing more detailed information about its reporting issuer audit practice. The firm also signs a participation agreement, wherein it agrees to comply with the rules of the oversight program.

By the end of March, over 160 domestic firms had completed the registration process and were participating audit firms, while 60 more had begun the registration to become participants in future. Participating audit firms are listed on the CPAB website. It appears that about half of the domestic firms that audited reporting issuers in 2003 have decided to relinquish this work instead of participating in the CPAB oversight program. Nearly all of the firms choosing not to participate have only one or two reporting issuer audit clients. In the future there will be fewer Canadian accounting firms auditing reporting issuers, but they will be the ones with the most experience in this segment of the audit market and will provide an ample choice of auditors for reporting issuers.

Rules

At the end of 2003, we exposed for public comment a set of draft rules to govern the relationship between CPAB and the participating audit firms. By the time the comment period ended in late February, we had received a number of thoughtful comments on a variety of subjects, but with particular emphasis on the need for due process for firms and individuals affected by actions that CPAB may propose to take following an inspection or investigation. A subcommittee of the Board of Directors studied the comments with management, and made a number of revisions to the rules before they were approved by the Board on March 9, 2004. The final rules, and a paper detailing the Board’s response to the public comments received on the proposed rules, were published quickly thereafter in both official languages on our website.

The CPAB rules are not cast in stone. If experience shows that additions or amendments are necessary, they will be made, after appropriate public consultation. During 2004, we intend to propose for public comment additional rules setting out an arbitration process and our approach to reliance on foreign oversight bodies with jurisdiction over foreign accounting firms that are auditing reporting issuers in Canada.

Planning for Inspections

We have developed a comprehensive inspection methodology, licensed specialized audit software to document our work and implemented stringent security around our IT resources. At the end of March we commenced our inspections of the four largest firms – Deloitte & Touche, Ernst & Young, KPMG and PricewaterhouseCoopers. Collectively these firms audit over 80% of Canadian reporting issuers measured by number and well over 90% measured by market capitalization. We expect to spend about three months on our inspections of these firms, following which we will move on to inspections of smaller firms. Our staff will conduct annual quality inspections of all participating firms that audit 50 or more reporting issuers, and triennial inspections of other Canadian audit firms that register with the Public Company Accounting Oversight Board (PCAOB) in the U.S. The rest of the participating firms will be inspected by provincial accounting bodies as in the past, but subject to our direction and review of the results.

Following each inspection done by CPAB staff, we will provide to the participating firm a private report with our findings, recommendations and other observations. Firms will be expected to implement the recommendations to our satisfaction within a prescribed period of time, normally 180 days. However, if a firm fails to do what has been recommended, CPAB may make that fact public and in certain cases, may impose requirements, restrictions and sanctions on the firm. For example, we might require a firm to expand its professional education program, to design and implement new policies or to engage an independent monitor to observe and report on the firm's compliance with professional standards. We might impose a temporary or permanent limitation on the activities or operations of a firm or person. In the most extreme case, we could declare an audit firm to be no longer in good standing with the CPAB, and that firm could then no longer audit public companies in Canada. While we have the power to require change where necessary, our intent is to work with the participating firms in a cooperative, non-adversarial way to bring about audit quality improvements where they are appropriate.

In future annual reports, we intend to describe the findings from our inspections of firms and the actions that have been taken in response to our recommendations, but without naming any specific firm or any of its clients, partners or staff.

Communicating with stakeholders

While all of this activity was going on, it was important for us to discuss with the public accounting firms, other concerned parties and interested members of the general public what we were doing and intended to do. One of our first steps was to write individual letters to all Canadian accounting firms auditing reporting issuers making them aware of our existence and the registration process. On an ongoing basis, we respond within two business days to any question received on our website, which now receives about 3,000 visitors monthly. Between October and early March, Gordon Thiessen and I had between us the opportunity to speak on about 20 occasions to various groups, including conferences, meetings of accounting firms in Montreal, Ottawa, Toronto, London, Calgary, Edmonton and Vancouver, meetings of the professional accounting bodies, and a meeting of the federal and provincial Auditors General. At all of these gatherings we received strong interest and encouragement.

Objectives for 2004

While the successful completion of the first cycle of quality inspections is our principal objective for 2004, we do have a number of other important goals that include:

- Reaching an arrangement with the PCAOB in the United States whereby we and they can place the maximum reliance on each other's work. Put simply, we do not think that we should need to review the working papers of American auditors of Canadian reporting issuers, nor do we think that the PCAOB should need to review the working papers of Canadian auditors of SEC registrants. While our immediate goal is an agreement with the PCAOB with respect to mutual reliance, we look forward to the evolution of expanded cooperation among national auditor oversight bodies as other countries develop independent, rigourous auditor oversight systems comparable to those that have been so recently created in Canada and the United States.

- Formalizing arrangements with provincial accounting bodies whereby we and they will coordinate inspection work on participating audit firms and disciplinary processes to avoid unnecessary duplication of activity.

- Making progress towards obtaining certain statutory powers and protections that are necessary for CPAB to operate with maximum effectiveness. We were encouraged that the March 19 federal budget included the Government's commitment to work with us closely to ensure that we are able to achieve our mandate within a sound governance structure and a strong legal framework.

- Broadening the base of CPAB's industry membership, which currently comprises only provincial institutes of Chartered Accountants. In some provinces, a small number of reporting issuers are audited by firms of Certified General Accountants, and accordingly, it is appropriate that one or more provincial CGA Associations be invited to become industry members.

- Commencing active participation in the Auditing and Assurance Standards Oversight Council (AASOC) and the Accounting Standards Oversight Council (AcSOC) that oversee the standard-setting activities of the CICA.

There is much to do, but CPAB is off to a good start. I am indebted to my colleagues on the CPAB staff for their hard work and enthusiasm for the tasks to which they have been assigned. We have been very well supported by our various professional advisors – in particular, our legal advisors at Fasken Martineau, led by Wally Palmer; our technology consultants from Mackin Gibson; and our recruiter, Terry Dingle of Dingle & Associates. Finally, I thank the members of the Council of Governors and the Board of Directors for their continuing support, wisdom and encouragement.

David A. Scott

David A. Scott
Chief Executive Officer

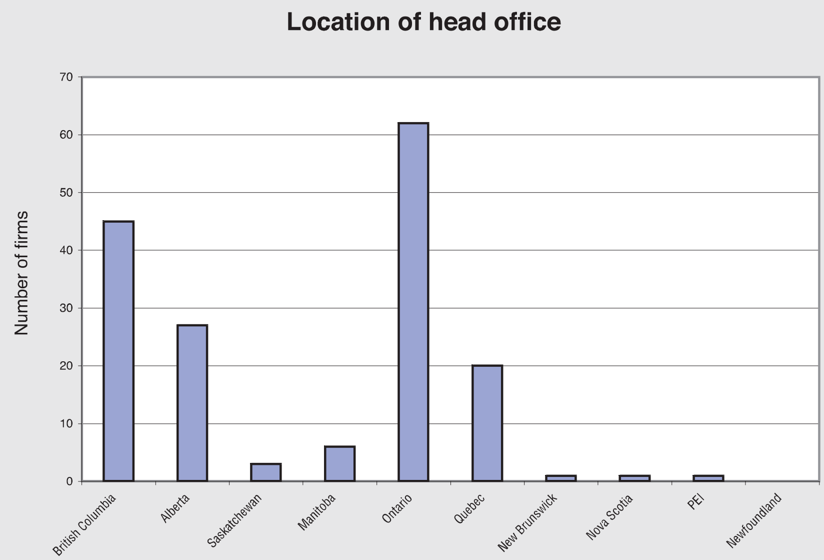
CPAB Executive Team

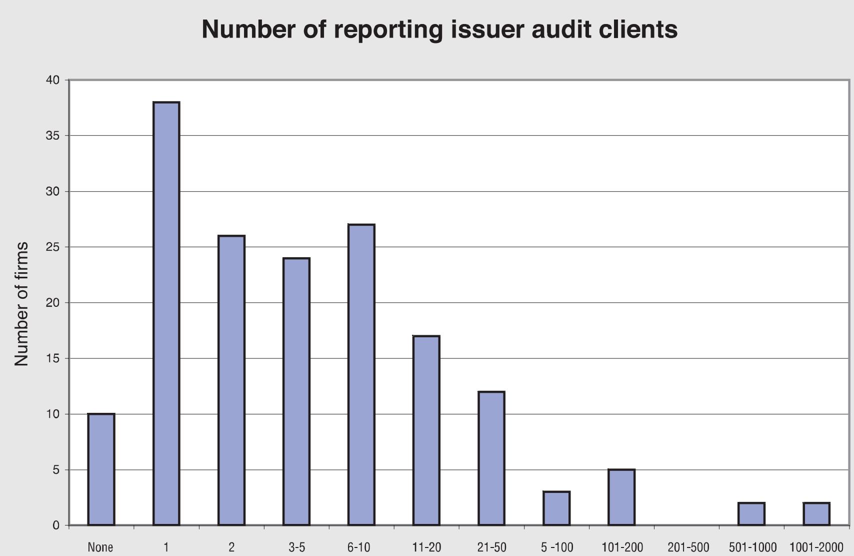
Sitting: Linda Dundas, David Scott
Standing (left to right): Don Cockburn, Paul Lohnes, Paul Heffernan, Keith Boocock

CPAB Executive Team	
David A. Scott	Chief Executive Officer
Linda J. Dundas	Director of Operations
Keith Boocock	Vice President
Donald J. Cockburn	Vice President
Paul J. Heffernan	Vice President
Paul M. Lohnes	Vice President

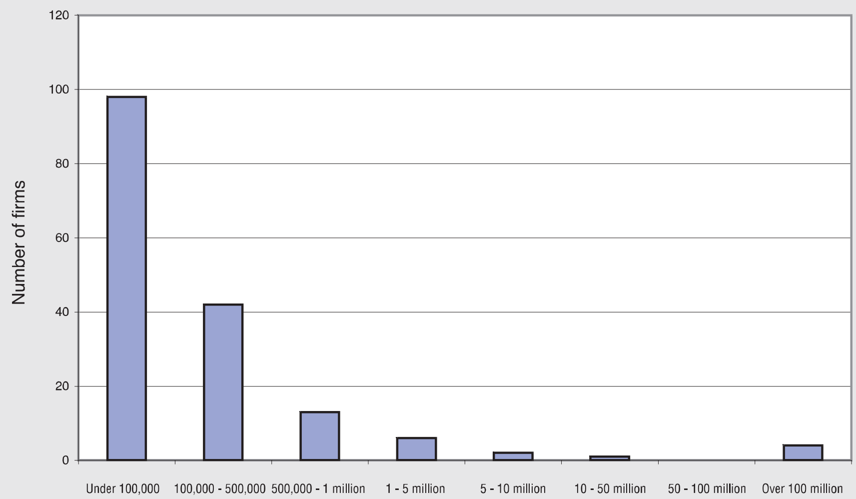
Statistics for Participating Audit Firms

as at April 2, 2004

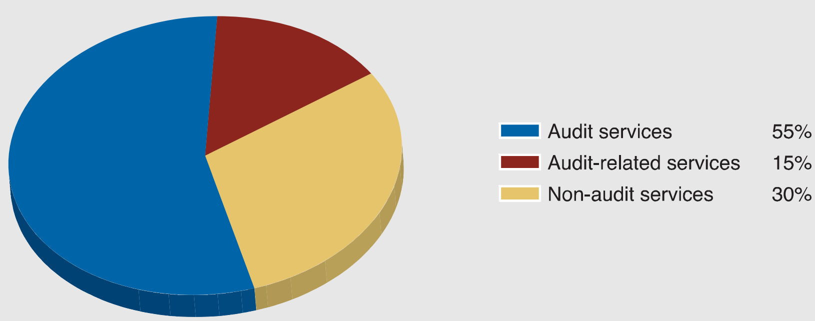




Total fees from reporting issuer audit clients



Split of fees from reporting issuer audit clients



Management Discussion and Analysis

CPAB was incorporated on April 15, 2003. The accompanying financial statements reflect its activities between that date and December 31, 2003.

Revenues

CPAB collects two types of fees from public accounting firms: intent to participate fees and annual participation fees.

An intent to participate fee is paid by a public accounting firm at the time it applies to become a participant in the CPAB oversight program. The fee is based on the number of reporting issuer audit clients that a firm has at the time of its application, with a minimum fee of $1,000. A firm that subsequently decides to withdraw its application to become a participating firm is entitled to a refund, less an administrative fee. During 2003, CPAB collected $2,363,000 of intent to participate fees from applicant firms and recorded that amount as revenue.

Starting in 2004, participating audit firms will be charged an annual participation fee that will be a prescribed percentage of each firm's revenue from auditing the financial statements of reporting issuers. No annual participation fees were charged in 2003 because registration began only in November 2003 and there were no participating audit firms until March 2004.

Expenses

CPAB's expenses for the period from incorporation on April 15, 2003 to December 31, 2003 were $1,881,000. The largest item of expenditure, totaling $1,357,000, or 72% of the total, was for professional fees, which comprised:

- $651,000 in legal fees that were incurred for advice with respect to numerous issues related to the creation of CPAB and the commencement of its operations;

- $473,000 in executive search fees incurred to hire the Board members, the Chief Executive Officer and other CPAB professional staff members;

- $195,000 in consulting fees incurred to enable CPAB to make informed decisions with respect to its information technology infrastructure, and to assist with the early stages of its implementation; and

- $38,000 in other consulting fees relating to translation, audit fees and a preliminary analysis of registration and inspection issues.

CPAB's first two employees did not start until October 1, 2003 and four more employees started on various dates between October 15 and December 3. The salaries, benefits, occupancy, travel and administrative costs, which total $294,000 in aggregate, relate to the period between October 1 and December 31.

Board fees and expenses of $225,000 relate to the annual fees for members of the Board of Directors and their travel costs in attending meetings. Four board meetings were held between April 15, 2003 and December 31, 2003. In addition, there were a number of meetings of the Search Committee between April and August, 2003.

Excess of revenues over expenses

The excess of revenues over expenses for the period, and the net assets at the end of the period, were $487,000.

Cash flows and liquidity

CPAB had cash flow from operations of $851,000, attributable to the excess of revenues over expenses of $487,000 and to changes in non-cash working capital items. During the period, an amount of $76,000 was invested in capital assets, mainly related to leasehold improvements that were under construction at the new CPAB premises. The excess of cash flow from operations over the investment in capital assets resulted in $774,000 of cash and cash equivalents at the end of the period.

CPAB's initial cash needs were funded through loans and advances totaling $1,116,000 from the Canadian Institute of Chartered Accountants (CICA). In December 2003, CPAB repaid the CICA in full, using the proceeds from the intent to participate fees collected.

CPAB will fund its capital and operating expenditures in 2004 from fees charged to applicant and participating firms and from the cash balance carried forward from 2003. To ensure further liquidity, CPAB has arranged a $2 million line of credit with a chartered bank. Furthermore, the leasehold improvements for CPAB'S new office space are being financed mainly through a tenant allowance of $450,000 that was received in 2004 and will be repaid, with interest, as part of the monthly rental payments over the life of the lease.

Outlook for 2004

CPAB anticipates that annual participation fees and operating expenses will approximate $6 million in 2004. In addition, CPAB anticipates receiving intent to participate fees of approximately $350,000 during 2004, which will result in an overall excess of revenues over expenses.

Statement of Management Responsibility

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, applying best estimates and judgements 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. For the 2003 fiscal year, the Board carried out this responsibility directly and met with the auditors, both with and without management present, to review the activities of each, as well as to review the financial statements and MD&A. In the future, the Board will rely on a newly-created Audit Committee to help it with these responsibilities.

Cowperthwaite Mehta has been appointed by the Industry Members of CPAB 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 will undertake annually a formal review of the auditors' performance and make recommendations to the Board of Directors and the Industry Members with respect to their reappointment for the coming year.

David A. Scott
Chief Executive Officer

Linda J. Dundas
Director of Operations

Auditors' Report

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, 2003 and the statements of changes in net assets, operations and cash flows for the period April 15, 2003 (date of incorporation) to December 31, 2003. 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, 2003 and the results of its operations and its cash flows for the period April 15, 2003 to December 31, 2003 in accordance with Canadian generally accepted accounting principles.

Cowperthwaite Mehta

Chartered Accountants

April 7, 2004
Toronto, Ontario

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2003

ASSETS

Current assets	
Cash and cash equivalents	$ 774,496
Accounts receivable	141,615
	916,111
Property and equipment (note 3)	731,376
	$ 1,647,487

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable and accrued liabilities (note 4)	$ 1,160,789
Net assets	
Invested in property and equipment	76,489
Unrestricted	410,209
	486,698
	$ 1,647,487

Approved on behalf of the Board:

, Director

Gordon Thiessen, Chair

, Director

Wendy Dobson, Vice Chair

STATEMENT OF CHANGES IN NET ASSETS
FOR THE PERIOD APRIL 15, 2003 (date of incorporation) TO DECEMBER 31, 2003

	Invested in property and equipment	Unrestricted	Total
Net assets, beginning of period	$ nil	$ nil	$ nil
Excess of revenue over expenses for the period		486,698	486,698
Purchase of property and equipment	731,376	(731,376)	nil
Accounts payable related to purchase of property and equipment	(654,887)	654,887	nil
NET ASSETS, END OF PERIOD	$ 76,489	$ 410,209	$ 486,698

STATEMENT OF OPERATIONS
FOR THE PERIOD APRIL 15, 2003 (date of incorporation) TO DECEMBER 31, 2003

REVENUE	
Intent to participate fees from applicant firms	$ 2,363,000
Interest and other	4,631
	2,367,631
EXPENSES	
Professional services	1,357,399
Salaries and benefits	235,276
Directors' fees and expenses	224,942
Occupancy costs	27,476
Travel	13,923
Administrative and general	10,707
Professional development	9,228
Interest	1,982
	1,880,933
EXCESS OF REVENUE OVER EXPENSES FOR THE PERIOD	$ 486,698

STATEMENT OF CASH FLOWS
FOR THE PERIOD APRIL 15, 2003 (date of incorporation) TO DECEMBER 31, 2003

OPERATING ACTIVITIES	
Excess of revenue over expenses for the period	$ 486,698
Net change in working capital items (see below)	364,287
Net cash generated from operations	850,985
INVESTING ACTIVITIES	
Purchase of property and equipment (note 4)	(76,489)
FINANCING ACTIVITIES	
Loans and advances received from the CICA (note 6)	1,115,919
Repayment of loans and advances from the CICA	(1,115,919)
Net cash obtained from financing activities	nil
NET CASH AND CASH EQUIVALENTS RECEIVED IN THE PERIOD	774,496
Cash and cash equivalents, beginning of period	nil
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 774,496

Net change in working capital items:	
Increase in accounts receivable	$ (141,615)
Increase in operating accounts payable and accrued liabilities (note 4)	505,902
	$ 364,287

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

1. THE ORGANIZATION

Canadian Public Accountability Board/Conseil canadien sur la reddition de comptes (CPAB) was incorporated on April 15, 2003 as a corporation without share capital under the Canada Corporations Act by Canada's financial and securities regulatory authorities and the Canadian Institute of Chartered Accountants (CICA), to oversee auditors of public companies in Canada. CPAB commenced operations on October 1, 2003.

The mission of CPAB is to contribute to public confidence in the integrity of financial reporting of public companies by promoting high quality, independent external auditing. CPAB does so 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are as follows:

Revenue Recognition

CPAB charges two types of fees from public accounting firms: an intent to participate fee that is collected from public accounting firms that are applying to become participating audit firms; and an annual participation fee that is collected from participating audit firms. All fees are established by CPAB at levels that are intended to recover the Board's costs.

The intent to participate fee is 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 they are received.

The annual participation fee is based on a participating audit firm's revenues from auditing reporting issuers. Annual participation fees are recognized as revenue in the year to which they relate.

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:

	Useful life
Office equipment and furniture	10 years
Telecommunications equipment	5 years
Computer software	3 years
Leasehold improvements	10 years

Leases

All of CPAB's leases are operating leases. The benefit of reduced occupancy costs associated with the six-month initial rent-free period in the office lease, as described in note 5, will be deferred and recognized over the life of the lease. The financing arrangement for leasehold improvements, also described in note 5, will be recorded as a loan and the additional rent payable will be treated as the repayment of principal with interest.

3. PROPERTY AND EQUIPMENT

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

	Cost	Accumulated Amortization	Net
Office equipment and furniture	$ 90,045	$ nil	$ 90,045
Telecommunications equipment	42,702	nil	42,702
	$ 132,747	$ nil	132,747
Leasehold improvements, net			598,629
			$ 731,376

No amortization was charged to operations for the period April 15, 2003 to December 31, 2003 as the equipment and leasehold improvements were not in service until 2004.

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as at December 31, 2003 comprised the following:

Relating to operating activities	
Directors' fees and expenses	$ 78,500
Professional services	238,284
Other	189,118
	505,902
Purchase of property and equipment	654,887
	$ 1,160,789

5. COMMITMENTS

Operating Lease Obligations

CPAB has entered into 3-year operating lease agreements for office equipment. Under those agreements, the minimum aggregate annual payments for future fiscal years are as follows:

2004	$	53,016
2005		53,016
2006		53,016
	$	159,048

CPAB has entered into a 10-year office lease beginning February 1, 2004. The annual rent will be $105,030 for the first five years and $120,785 for the second five years plus, in each case, CPAB's share of the building operating costs, which share currently amounts to approximately $240,000 annually. The first six months of the lease are free of rent and operating costs. The lease contains an option for CPAB to finance its leasehold improvements by paying additional rent over the term of the lease. CPAB intends to exercise this option, which will have the effect of increasing the annual rent by approximately $61,000 annually over the term of the lease, commencing in the second half of 2004.

Capital Expenditure Commitments

In 2003, CPAB entered into the following commitments to purchase capital assets for delivery in 2004:

Office equipment and furniture	$	326,377
Computer software		66,410
Leasehold improvements		46,121
	$	438,908

6. TRANSACTIONS WITH THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS (CICA)

CPAB's start-up costs were funded initially by advances from the CICA in the aggregate amount of $1,115,919. The advances were repaid in full in December, 2003.

7. EMPLOYEE FUTURE BENEFITS

CPAB did not offer retirement benefits to employees for the period from October 1, 2003 to December 31, 2003. A group Registered Retirement Savings Plan was established for employees in 2004.

8. INCOME TAX STATUS

The organization is exempt from income tax in Canada as a not-for-profit organization under Section 149(1)(L) of the Income Tax Act (Canada).