



## Statement of Accountability and Governance Practices

### Accountability

The Canadian Public Accountability Board (CPAB) is a national agency responsible for the oversight of public accounting firms that audit Canadian reporting issuers<sup>1</sup>. CPAB was created by Canada’s provincial securities commissions, the Federal Superintendent of Financial Institutions and the Canadian Institute of Chartered Accountants as a federal not-for-profit corporation in order to work within the confines of Canada’s provincial framework of legislation for the regulation of financial markets and the accounting profession. CPAB is an independent agency and is not part of the self-regulatory arrangements for the accounting industry.

CPAB’s by-laws establish two classes of “members”: a “Council of Governors” and “Provincial Audit Regulator Members”.

### Council of Governors

The Council of Governors has the primary oversight capacity and is responsible, in particular, for appointing CPAB’s directors and selecting the Board Chair and Vice Chair. The Council of Governors also has the ability to remove any directors it has appointed. In addition, the Council of Governors votes on CPAB’s by-law amendments.

The Council of Governors is comprised of the Chair of the Canadian Securities Administrators (CSA)<sup>2</sup>, the Chair of the Ontario Securities Commission (OSC), the Chair of the Autorité des marchés financiers (AMF), the Superintendent of Financial Institutions of Canada, a fifth Governor selected by the CSA, and a person selected by the other five Governors who is a professional accountant and has audit oversight regulatory experience, the Accountant Council of Governors Member. The Council of Governors has a duty to consult with the Provincial Audit Regulator Members regarding the appointment of the Accountant Council of Governors Member (or directors).

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<sup>1</sup> “Reporting issuer” is a defined term in Canadian securities legislation.

<sup>2</sup> In the event that the Chair of the CSA is also Chair of the OSC or Chair of the AMF, the CSA must select another member for the Council.

The Council of Governors carries out a high level assessment of CPAB's Board of Directors against its duties and objectives on an annual basis. The Council of Governors' comments can be found in CPAB's annual reports, available on CPAB's website ([www.cpub-ccrc.ca](http://www.cpub-ccrc.ca)).

## **Provincial Audit Regulator Members**

The Provincial Audit Regulator Members vote on CPAB's by-law amendments, appoint the external auditor and receive the annual financial statements and auditor's report. Provincial Audit Regulator membership is available to provincial audit regulators who oversee audit firms whose aggregate Canadian audit fee revenue from reporting issuers in the province is at least \$7 million and whose disciplinary process and code of ethics meet standards established by the Board of Directors. Former Industry Members have been grandparented in as Provincial Audit Regulator Members and include a representative of each of the ten provincial Institutes/Ordre of Chartered Accountants, as well as the Certified General Accountants Associations of British Columbia and Alberta.

## **Board of Directors**

The Board of Directors has overall responsibility for managing and supervising the management of CPAB's property, activities and affairs. Directors were selected by the Council of Governors based on a set of pre-defined criteria to ensure an optimal mix of expertise and industry experience as well as geographical and gender representation. The Board believes that its current size and range of skills are appropriate and foster dialogue, substantive decision-making and effective oversight.

CPAB's Board of Directors is comprised of eleven members, all appointed by the Council of Governors. At least four, but no more than five, must be professional accountants to ensure the Board has directors with accounting expertise. At least two directors must have oversight regulatory experience. At least one of these two directors must also be a professional accountant and at least one of these two directors must have audit oversight regulatory experience. Individual directors are appointed for a term of up to three years and are eligible for reappointment once.

In carrying out its oversight, the Board acts in accordance with:

- The Canada Corporations Act
- CPAB's articles of incorporation and by-laws
- The written charters of the Board and Board committees
- CPAB's Code of Ethics

The Board Charter sets out the respective responsibilities of management and the Board.

The Board approves all significant decisions including:

- Delegating signing authorities and other powers for day-to-day business
- Authorizing expenditures above a certain dollar amount

- Authorizing new rules and rule amendments
- Imposing requirements, restrictions and sanctions on participating firms
- Approving the annual financial statements (the Provincial Audit Regulator Members then receive the financial statements and auditor's report)
- Approving the annual budget and strategic plan

The Board also has procedures for:

- Identifying the principal risks faced by CPAB and ensuring the implementation of appropriate systems to manage those risks
- Ensuring the integrity of CPAB's internal control and management information systems
- Succession planning for senior management
- Reviewing management's performance and compensation.

CPAB's Board meets a minimum of five times per year to discharge their oversight responsibilities. The Board may meet more often should emerging issues require their immediate attention.

The Board has established two standing committees of the Board, an Audit Committee and a Corporate Governance Committee.

### **Audit Committee**

The Audit Committee's role is set out in its charter. The Audit Committee has responsibility for the oversight of CPAB's financial reporting, including the work of the external auditor. The Audit Committee also oversees risk management, business continuity and internal controls at CPAB.

Internal controls are reviewed at least annually with the external auditor in the absence of management and the results are reported to the Board.

As part of its oversight of risk management, the Audit Committee regularly reviews the controls surrounding information technology and the procedures CPAB has developed to protect private information.

### **Corporate Governance Committee**

The role of CPAB's Corporate Governance Committee is set out in its charter. The purpose of the Corporate Governance Committee is to review, report and make recommendations to the Board on matters of corporate governance, Board composition, the formation and membership of committees, compensation of the Chair of the Board and directors, the objectives, performance and compensation of the Chief Executive Officer, and the content and application of CPAB's Code of Ethics.

The Corporate Governance Committee is also responsible for overseeing CPAB's succession plan for ensuring the quality and continuity of management, and for assessing and reporting to the Board on management's performance.

## **Consultative Committees**

CPAB's by-law includes provisions for consultative committees of each professional accounting group of Relevant Provincial Regulatory Authorities with authority to oversee accounting firms or professional accountants that audit reporting issuers. The purpose of the consultative committees is to foster cooperation and collaboration between CPAB and the professional accounting designations. The committees, chaired by the Chair of CPAB, meet at least twice annually to discuss matters of common interest.

## **Board Performance**

Every year the Board conducts comprehensive effectiveness surveys of the Board and the Chair of CPAB. Results are confidentially tabulated by the Corporate Secretary and presented to the Board. As well, the Chair has annual interviews with individual board members. A summary of the results of this process is presented to the Council of Governors to assist in its assessment of CPAB's performance.

## **Independence and Transparency**

CPAB's mandate is to foster confidence in the integrity of financial reporting by Canadian reporting issuers. To achieve this objective, CPAB must act independently and transparently.

CPAB's mandate includes a requirement for it to report publicly on the means taken to oversee the audit of reporting issuers and the results achieved. The results of its inspections are published in a public report which is prepared annually. These public reports are available on CPAB's website.

As noted above, CPAB also publishes an annual report on its activities, which includes its financial statements. These annual reports are available on CPAB's website.

## **Ethics**

CPAB has developed a Code of Ethics which can be viewed on its website. All CPAB employees and directors sign an annual confirmation of compliance with the Code of Ethics. CPAB has also appointed an Ethics Officer whom staff may consult regarding ethics or compliance questions.

CPAB has implemented a whistle-blowing mechanism that is available through its website both internally to staff and externally to outside stakeholders.