



## 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 “Industry Members.” The Council of Governors has the primary oversight capacity and is responsible, in particular, for appointing a majority of 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. The Council of Governors is comprised of the Chair of the Canadian Securities Administrators<sup>2</sup>, the Chair of the Ontario Securities Commission, the Chair of the Autorité des marchés financiers, the Federal Superintendent of Financial Institutions and the President of the Canadian Institute of Chartered Accountants.

Each year the Council of Governors carries out a high level assessment of CPAB’s Board of Directors against its duties and objectives. The Council of Governors’ comments can be found in CPAB’s annual reports.

### 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

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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 Canadian Securities Administrators comes from Ontario or Quebec, the Canadian Securities Administrators must select another member for the Council.

size and range of skills are appropriate and foster dialogue, substantive decision-making and effective oversight.

CPAB's Board of Directors is comprised of 11 members of whom eight are appointed by the Council of Governors. Seven of these appointed directors must be independent of the accounting profession. One of the appointed directors may hold an accounting designation but is otherwise independent of the profession. The other three members are ex-officio directors. Two of these are the chief executive officers of the largest accounting regulatory bodies in the Provinces of Ontario and Quebec. The third is appointed by the Industry Members from among the chief executive officers of the accounting regulatory authorities in the two other provinces with reporting issuers with a large total market capitalization<sup>3</sup>. For any Board decision, a quorum of seven directors is required, ensuring that the three ex-officio directors will not have a majority vote. Furthermore, only the independent directors can be members of Board committees.

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 Industry Members also approve the financial statements)
- 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.

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<sup>3</sup> These three ex-officio directors are selected to reflect the self-regulatory oversight bodies responsible for auditors in the provinces with reporting issuers with the highest total market capitalization.

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.

### **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 ([www.cpab-ccrc.ca](http://www.cpab-ccrc.ca)).

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 implemented a whistle-blowing mechanism in 2005 that is available through its website both internally to staff and externally to outside stakeholders.