



**Canadian Public Accountability Board  
Strategic Plan  
2007-2009**

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## **Part 1 – The Plan**

## Section 1 – Introduction

At its inception, CPAB faced three immediate and major challenges. These were:

- To hire enough people with the skill sets needed to enable it to achieve the mandates that it had been given.
- To produce work (and reports) that were of a sufficient quality that its constituents would recognize that it was having a significant impact on the quality of audits of Canadian reporting issuers.
- To establish a strong financial position.

In its three years of existence CPAB has met these challenges (*Part 3 – Appendix A*). However, by their very nature these are fundamental, ongoing, unchanging and their resolution must be at the very heart of any strategic plan that CPAB will seek to achieve.

**In Part 1 – Strategic Plan** - CPAB sets out the foundation for CPAB's activities, the mission it was given, the vision that it proposes to achieve over that period and its original mandates. Based on experience to date this plan suggests that these mandates might be appropriately expanded. We then set out the key objectives and supporting strategies.

**In Part 2 – Operationalizing the Plan** - the mandates are then restated with each supported by background information on their selection, identified objectives, the challenges to be met in achieving them, the proposed strategies to achieve them and the expected outcomes.

**In Part 3 – Background** – We indicate the main achievements of CPAB to date, put in an environmental scan of probable changes over the next three years. Because the people, quality and financial imperatives are reflected throughout the mandates the background to these and their related objectives and strategies are at the end of this section.

## Section 2 – Foundation for CPAB’s Activities

CPAB was established in 2003 by the Canadian Securities Commissions, the Office of the Superintendent of Financial Institutions and the Canadian Institute of Chartered Accountants.

National Instrument 52-108 of the Canadian Securities Administrators requires that an auditor of a reporting issuer must be an audit firm that is a participating audit firm<sup>1</sup> and is in compliance with any restrictions or sanctions imposed by CPAB.

Pursuant to Rule 201 each participating audit firm signs a Participation Agreement with CPAB in which it agrees that it will among other matters:

- Comply with all of the Board’s Rules applicable to public accounting firms participating in the program.
- Adhere to the professional standards established by the Board in its Rules.
- Provide all reports and information required in accordance with the Rules.
- Submit to and co-operate in all respects with each regular inspection and each special inspection contemplated by the rules of the practices and procedures of the participant relating to the auditing of financial statements of reporting issuers and of any of its partners, officers, employees and independent contractors involved therewith in a professional capacity.

These agreements and NI 52-108 give CPAB the authority to inspect and regulate audit firms wishing to audit Canadian reporting issuers. They have been supplemented by the recent passage of Bill 7 in Quebec and Bill 151 in Ontario which confirm CPAB’s position and give its directors and officers certain legal protection.

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<sup>1</sup> A participating audit firm must be registered with CPAB

## **Section 3 – Mission**

The mission of CPAB is set out at section 3.1 of its Articles of Incorporation.

*“CPAB’s mission is to contribute to public confidence in the integrity of financial reporting of public companies in Canada by promoting high quality, independent auditing.”*

## Section 4 – Vision

In order to achieve its ongoing mission, CPAB has the following vision for the next three years:

- To play a significant and distinctive role in the provision of quality financial information to the Canadian and international capital markets through inspections of firms that audit reporting issuers resulting in business, governments, academia, the accounting profession and other regulators recognizing Canada as a leader in the production of quality financial statements;
- To be a rigorous, credible and fair regulator of the accounting profession and to be recognized as such in Canada and Internationally;
- To add value and not impose undue regulatory burdens on participating audit firms and other parties in respect of costs and information requests; and
- To have built an organization that attracts on an ongoing basis highly qualified auditors and accountants who wish to contribute to maintaining public confidence in the audits of public companies.

## Section 5 – Mandates to Support Mission

In its articles of incorporation CPAB was given certain mandates. Others, which are identified by being italicized below, are taken from its by-laws. The reasons for slightly expanding these mandates are set out in Appendix C.

1. **Membership Requirements** - Establish and monitor membership 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.<sup>1</sup>
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.<sup>2</sup>
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.<sup>3</sup>

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<sup>1</sup> Mandates 1 and 2 above were originally written together as a single mandate

<sup>2</sup> Mandates 5 and 6 were originally merged in one mandate

<sup>3</sup> Added to 7(a) which is a partial rewording of the original mandate

## Section 6 – Key Objectives & Strategies

### **1. To support participating audit firms in continually achieving high quality audits (Mandates #1, 2 and 3)**

CPAB will achieve this by:

- Developing and following a risk based system of selecting participating firms and reporting issuers for review.
- Working with international regulators to develop measures of investment by firms in quality.

### **2. To establish a sound legislative base for CPAB which gives liability protection to its directors and officers, prevents our records and people from subpoena and gives us access to audit work papers defined as privileged by reporting issuers. (Mandate 1)**

CPAB will achieve this by:

- Developing a program and work with the government of Ontario to have Bill 151 proclaimed.
- Identifying a team to develop a strategy to take a test case to demonstrate our right to access privileged audit work papers.
- Meeting with Ministers and staff in BC and Alberta and develop timing for introducing and passing bill 151 equivalents in those provinces.

### **3. To influence International and Canadian standards setters to develop robust standards for GAAP, GAAS and Independence and to eliminate existing standards that are weak. (Mandate #4)**

CPAB will achieve this by:

- Maintaining membership of AASOC and AcSOC.
- Continuing program of reviewing and commenting on proposed changes to International and Canadian standards.

**4. Improve our ability to achieve our mission by building CPAB's profile by participating in a program of discussion of CPAB findings and ongoing subjects of importance to quality financial reporting and auditing. (Mandates #5 and 6)**

CPAB will achieve this by:

- Continuing the annual publication of our public report and supplement this by our database of findings.
- Identifying 'hot topics' and establish a program of public comment and discussion on them with academia, the profession, government, firms and other regulators.

**5. Develop strong relationships with international counterparts and establish links to enable inspections of audits of Canadian reporting issuers outside of Canada to take place. (Mandate #7)**

CPAB will achieve this by:

- Working closely with PCAOB in reviewing jointly registered firms in Canada and the U.S.
- Carrying out joint inspections with CPAB equivalents of auditor of reporting issuers based outside North America.

**6. To attract on a continual basis the number and calibre of people required to satisfactorily carry out CPAB's mandates. (All Mandates)**

CPAB will achieve this by:

- Establishing a knowledge base and pipeline of people currently in practice who will become available over the next 5 years and develop an active and ongoing recruiting campaign.
- Participating in 'life after retirement' programs put on by audit firms.
- Developing an intensive and extensive training program using professional Institutes/Ordre, academia and international counterparts.

## **Part 2 – Operationalizing The Plan**

# **Mandate 1 (Membership Requirements)**

**ESTABLISH AND MONITOR MEMBERSHIP REQUIREMENTS FOR FIRMS THAT AUDIT REPORTING ISSUERS IN CANADA.**

## ***Background***

Firms are required to file a signed participation agreement and consents from partners and staff who work on reporting issuers. Each firm must also file with CPAB a quality control report explaining its quality control system. CPAB does a desk review of this information but does not audit it unless the firm is selected for inspection. Firms must correct their systems for any CPAB findings for which CPAB makes recommendations or imposes requirements, restrictions or sanctions. There are no other requirements that firms must meet in order to be permitted to audit reporting issuers.

## ***Challenges to Achieving Mandate***

- Firms may resist if membership requirements are perceived to be too restrictive or exclusive.
- Firms may have limited information on their investment in quality in either time or dollars.

## ***Objectives***

### ***Year 1***

- Participating firms will have demonstrated a system of quality control of audit working paper files and reports.
- Participating firms will have demonstrated their adherence to satisfactory standards of training.

### ***Year 2***

- Contribute to the development of a consensus of measuring the cost and benefits of quality with interested international regulatory agencies and academia.

## ***Strategies to Accomplish this Mandate***

### ***Ongoing***

- Develop and implement an expanded set of membership requirements and expand our standard inspection program to cover the compliance of the firms with these requirements.
- Monitor implementation by the firms of recommendations made by CPAB following inspections.

### ***Year 1***

- Require firms to demonstrate a system of quality monitoring as required under GSF - QC

### ***Year 2***

- Review comparative investment in quality of participating firms carrying out audits of reporting issuers. (Particularly for the six national firms)
- Commence discussions with PCAOB, FRC and representatives of academia on measuring the cost of quality.

## ***Expected Outcomes***

- List of membership requirements to which participating firms must adhere to and comparison to those of selected international regulatory agencies.
- Standards to measure the cost and benefits of quality have been identified.
- Comparisons of investment in / expenditure on quality by the 6 national firms.

## **Mandate 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.**

### ***Background***

CPAB has developed and annually reviewed and updated a robust inspection program and has inspected each year since its inception all firms with 50 or more reporting issuer clients and over three years directly all firms registered with the PCAOB. The Professional Institutes/Ordre have inspected other firms that audit reporting issuers.

### ***Challenges to Achieving Mandate***

- May not be able to attract quality or quantity required of qualified staff particularly in specialist areas.
- May not be able to access working papers determined by reporting issuers to be privileged.
- Failure by CPAB to act on warning signals arising in an audit subject to CPAB inspection that is subsequently determined to have been inadequate.
- Firms/reporting issuers question the amount of time spent on inspecting firms with few reporting issuers.

### ***Objectives***

#### ***Ongoing***

- Maintain acceptable standards for our program of practice inspection of firms that audit reporting issuers in Canada.
- Inspect (or have inspected) all firms that audit reporting issuers every three years and more often in certain defined circumstances.

### *Year 1*

- Have Bill 151 proclaimed and brought into force.
- Put in place a risk based method of selecting firms and reporting issuers for review.

### *Year 2*

- Develop and put in place a program of internal quality control to be applied to CPAB's files.
- Establish an information system on retiring partners/senior managers from firms in Canada and use in recruiting efforts.
- Achieve recognition by the audit firms and reporting issuers of our right to access privileged work papers in at least the four provinces where most of the reporting issuers are located.

## ***Strategies to Accomplish this Mandate***

### *Ongoing*

- Continue the program of hiring a combination of retired partners and other technically strong individuals from the six national firms.
- Determine manpower needs to carry out the mandates received and establish plans to meet these needs.

### *Year 1*

- Set up an internal working group to develop strategy for gaining access to privileged work papers.
- Develop an information system that records market information so that CPAB may maintain a reward and incentive system that is perceived to be competitive by our staff and the market.
- Develop and follow a risk based system of selecting firms and audits to review.
- Analyze activities and resources of selected international audit regulators and compare to CPAB.

### ***Year 2***

- Develop with the Provincial Institutes/Ordre an inspection program to be carried out by them on behalf of CPAB at selected participating audit firms.
- Develop a program with the Provincial Institutes/Ordre that will allow each party to rely on the other.
- Craft a system to set out information contents for our files and implement controls to ensure files contain such information.

### ***Year 3***

- Review methodologies with other international audit regulators.

## ***Expected Outcomes***

- Success in all lawsuits that are undertaken to establish the principle that CPAB may access privileged work papers.
- Inspection coverage over the three-year period of all participating audit firms.
- A process for reviewing the inspection process to make it more effective and efficient.
- A listing of firms and reporting issuers ranked by risk level.
- Comparison of activities and resources of selected international audit regulators.
- An agreement with the Provincial Institutes / Ordre relating to reviews of participating audit firms.

## **Mandate 3 (Discipline)**

*DEVELOP AND IMPLEMENT A PROGRAM OF DISCIPLINARY ACTION AGAINST FIRMS OR INDIVIDUALS THAT DO NOT PERFORM AUDITS IN ACCORDANCE WITH EXISTING STANDARDS.*

### ***Background***

CPAB was given the authority under National Instrument 52-108 to place requirements, restrictions or sanctions to participating firms and has placed a number of firms under requirements to take or refrain from certain actions. It has also struck one firm off the register of participating firms. Some of the larger firms have shown resistance to acceptance of some findings and have indicated concerns about the CPAB's inspection and ratings process particularly with respect to the gradings of individual engagement files.

### ***Challenges to Achieving Mandate***

- Firms and the Professional Institutes/Ordre may challenge CPAB findings with potentially costly and drawn out legal battles.
- CPAB may not be able to establish mutually acceptable measurements when 'professional judgment' is a key criterion in the evaluation of audit performance.
- There is a lack of authoritative pronouncements on definition of 'audit failure' or 'audit deficiency'.
- Need for judgment in applying principles based accounting standards.

### ***Objectives***

#### ***Year 1***

- Have in place a series of definitions of such matters as 'auditing failure', 'audit quality', 'audit deficiency' etc.

- Establish internal panels within CPAB to adjudicate/opine on accounting, auditing and independence issues raised by CPAB.

#### ***Year 2***

- Achieve a consensus with the firms and the Provincial Institutes/Ordre on these definitions.
- Have in place a hierarchy of responses (i.e. requirements / restrictions / sanctions) to be applied by CPAB to breaches of professional conduct and standards that it identifies in its inspections of participating firms.

### ***Strategies to Accomplish this Mandate***

#### ***Year 1***

- Review findings of CPAB, Professional Institutes/Ordre and the courts relating to accounting and auditing deficiencies so that we can identify appropriate definitions for use in our reports with full understanding as to the meaning of the terms.
- Identify desired make up of expertise of panels and begin to appoint them.
- Establish a working group with the Professional Institutes/Ordre to develop agreement on the definitions.

#### ***Year 2***

- Ascertain how these terms are defined by other international regulatory entities and consider implications for CPAB.

### ***Expected Outcomes***

- Appointed panels that will review decisions made by CPAB inspections teams.
- An agreed list of definitions and suggested sanctions for each type of breach of standards.
- A process to monitor the activities of other oversight bodies related to public accounting.

## **Mandate 4 (Professional Standards)**

*MONITOR AND SUPPORT THE CONTINUING DEVELOPMENT OF CANADIAN AND INTERNATIONAL ACCOUNTING, AUDITING AND INDEPENDENCE STANDARDS.*

### ***Background***

CPAB considers the application of GAAP and GAAS in its inspection of financial statements reported on by and files prepared by participating firms and assesses them against those standards. As such, CPAB has a significant interest in requiring these standards to be as robust as possible. CPAB does not have the authority to set GAAS but has required firms to expedite one standard established by the CICA.

### ***Challenges to Achieving Mandate***

- May not be able to keep pace with the rapid changes in these standards due to the significant investment of time that is required to adequately assess and monitor proposed changes.
- May be unable to hire sufficiently qualified staff to understand and critique the impact of proposed changes.
- CICA and firms may object if CPAB wishes to impose standards that are higher than GAAS.

### ***Objectives***

#### ***Ongoing***

- Have an established program of monitoring all proposed changes to existing accounting, auditing and independence standards. (International, US and Canadian)

- Maintain membership of the Auditing and Assurance Standards Oversight Council (AASOC) and the Accounting Standards Oversight Council (AcSOC).

#### *Year 1*

- Have documented existing auditing standards that are weak and which when applied fail to automatically produce a good audit.

### **Strategies to Accomplish this Mandate**

#### *Ongoing*

- Monitor and comment on the ongoing program of changes planned by the CICA to Canadian accounting and auditing standards and by the IAASB.
- Review and comment on selected proposed new standards in Canada and internationally on auditing, accounting and independence.
- Attend meetings and monitor the activities of AASOC and AcSOC and consider the amount of their resources in relations to their work program.

#### *Year 1*

- Identify areas of concern with existing and proposed standards and discuss possibilities of improvement with appropriate professional bodies.
- Develop plans to deal with any proposed standards which are clearly inappropriate.

### **Expected Outcomes**

- AASOC, AcSOC and securities regulators value the input into and influence on the development of Canadian accounting, auditing and independence standards.
- AASOC and AcSOC renew CPAB's membership on these councils.
- Firms agree that the extent of their audit work will go beyond 'weak standards'.

## **Mandate 5 (Communications)**

**INFORM PARTICIPANTS IN THE CANADIAN AND INTERNATIONAL CAPITAL MARKETS OF CPAB'S ROLE, ACTIVITIES, FINDINGS AND OPINIONS.**

### ***Background***

CPAB has published regular public reports on its findings as well as an annual report but there has been little interest in those findings. It has participated in a number of conferences (mainly in Western Canada) where its presentations have been well received; however, the audiences have been almost completely from the smaller audit firms.

### ***Challenges to Achieving Mandate***

- Lack of interest in the Canadian market in CPAB's role or recognition of its importance.
- Possibility that some market participants may prefer CPAB not to be seen as a significant or public factor.
- Difficulty in attracting the high quality of staff needed to develop positions that are sound.

### ***Objectives***

#### ***Ongoing***

- Publish annual and public reports.

#### ***Year 2***

- To have a documented program of disseminating information on CPAB activities to a broad range of stakeholders through speeches and writings.
- Demonstrably have improved public awareness of the public and annual reports.

## ***Strategies to Accomplish this Mandate***

### ***Ongoing***

- Continue to publish a public report on results of CPAB's activities.
- Each year give regional public sessions to CPAB registrants on the findings from CPAB's inspections.

### ***Year 1***

- Establish a group within CPAB to liaise with academics to develop the program in the preceding strategy.

### ***Year 2***

- Develop an annual program of presentations to such authorities as the Professional Institutes/Ordre, CSA, six national firms, other international regulators etc.
- Implement a program of writing articles and giving speeches by CPAB officers.

## ***Expected Outcomes***

- Greater visibility within business and professional community, leading to heightened interest in CPAB pronouncements.

## **Mandate 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.***

### ***Background***

CPAB has not followed an active public relations program.

### ***Challenges to Achieving Mandate***

- May not be able to identify topics that attract the interest of the other significant market participants.
- Possible perception of other participants as to whether CPAB is encroaching on their turf.
- Firms or their clients consider an active public relations program to be an unwarranted extension of CPAB's activities.
- May not be able to attract calibre of people required to participate in and lead such discussions.

### ***Objectives***

#### ***Year 1***

- Publish annually the report on findings by the inspection teams.
- Provide input on one or more issues being reviewed by other international regulatory agencies.

### *Year 2*

- Identify topics related to the auditing of reporting issuers that are of significance to Canadian business. (e.g. Definition of audit quality, concentration within the profession, need/likelihood of firms other than the six global ones becoming more international, cost and benefits of audit quality, need and usefulness of International Forum of Independent Audit Regulators (IFIAR).

## **Strategies to Accomplish this Mandate**

### *Year 1*

- Develop a summary of best auditing practices (at different size of firm levels) and publicize results.
- Plan distribution of the results of the discussions on the topics.
- Review like programs followed by other international regulatory agencies.
- Establish an internal group to liaise with academia.
- Liaise with academia to conduct research on important auditing matters.

### *Year 2*

- Implement and lead a program of discussion of selected topics of interest to the audit profession.

## **Expected Outcomes**

- We will have held 2 seminars on our findings of best practices.
- Publication of papers on our findings of best practices and on issues of public importance.

## **Mandate 7 (International)**

- (A) COORDINATE WITH SIMILAR OVERSIGHT ENTITIES IN OTHER COUNTRIES, OR WITH A TRANSNATIONAL OVERSIGHT ENTITY, THE OVERSIGHT OF CANADIAN AUDITING FIRMS THAT AUDIT PUBLIC COMPANIES THAT ARE REGISTERED IN JURISDICTIONS OTHER THAN CANADA.
- (B) COORDINATE WITH SIMILAR OVERSIGHT ENTITIES IN OTHER COUNTRIES OR WITH A TRANSNATIONAL OVERSIGHT ENTITY TO REVIEW AUDIT FIRMS BASED OUTSIDE OF CANADA THAT AUDIT ALL OR PART OF A CANADIAN REPORTING ISSUER.

### ***Background***

CPAB has established a close working relationship with the PCAOB and they place considerable reliance on our work. CPAB has also been a participant in the predecessor body to IFIAR and has filed information to demonstrate that it meets the criteria to be a founding member. CPAB has done only limited work related to the international activities of the firms that it reviews.

### ***Challenges to Achieving Mandates***

- May not achieve recognition, particularly from European authorities, of CPAB's independence from the audit profession.
- Other international audit regulators may not be able to carry out work on CPAB's behalf and/or legal impediments to such cooperation.
- We may not be able to impress the other agencies with our knowledge, experience and professionalism if we are unable to hire persons with requisite skills.
- Participating firms do not have detailed records of the international activities of their clients.

## **Objectives**

### *Ongoing*

- Maintain strong relationships with the PCAOB.

### *Year 1*

- Be recognized as a founding member of the International Forum of Independent Audit Regulators (IFIAR). (i.e. meet the membership criteria established by that entity).
- Document an understanding of the international activities of Canadian registered issuers.

### *Year 2*

- Obtain recognition from the EU that the Canadian audit oversight system is satisfactory and that the EU may rely upon the inspections performed by CPAB rather than requiring Canadian audits of entities registered in European countries to be reviewed by regulators based in the EU.

### *Year 3*

- Have agreements for joint inspection in place with countries where Canadian reporting issuers have significant operations.

## **Strategies to Accomplish these Mandates**

### *Ongoing*

- Discuss barriers to accessing audit work papers outside of North America.

### *Year 1*

- Work closely with the PCAOB in reviewing jointly registered auditing firms in Canada and the US.
- Hold planning meetings with the PCAOB to cover activities of both parties in each others country.

- Examine the current composition of the ‘ex officio’ segment of the Board of Directors.
- Prepare analysis of activities of Canadian reporting issuers that are outside of Canada.
- Participate actively in IFIAR.

#### *Year 2*

- Carry out joint inspections of auditors of selected reporting issuers with home country CPAB equivalents.
- Carry out joint inspections of selected reporting issuers which have significant operations outside of Canada.

#### *Year 3*

- 

### ***Expected Outcomes***

#### *Year 1*

- Increased reliance on CPAB by the PCAOB.
- Membership of and participation in IFIAR.

#### *Year 2*

- Acceptance of CPAB by the EU

## **Part 3 - Background**

## **Appendix A - Significant Accomplishments to Date**

1. Developed a system of registration for and registered all audit firms that audit or wish to audit reporting issuers.
2. Accomplished the first mandate by developing, implementing and continuously improving a robust system of inspection.
3. Established credibility with the firms being inspected for the thoroughness and quality of CPAB reviews.
4. Carrying out a system of hiring that has resulted so far in having both the appropriate quantity and quality of resources.
5. Exerted influence on the development of auditing, independence and accounting standards through membership of AASOC and AcSOC and by commenting on relevant exposure drafts..
6. Established a strong financial base while not increasing the percentage of audit fees charged since commencing operations.
7. Established a strong working relationship with the PCAOB.
8. Caused improvements in the quality of audits and quality control systems applied by public accounting firms.

## Appendix B - Environmental Scan

### General

1. There will be a high profile audit failure with related public criticism of the audit firm and its regulator.
2. The economy will probably slow down creating downward pressures on the revenues and earnings of audit firms.
3. Certain reporting issuers will have difficulty in obtaining auditors.
4. Demographics will continue to impact the supply of accountants to all segments of the accounting profession.
5. Cost will become a more significant factor in the selection of an audit firm.

### CPAB Activities

1. CPAB currently reviews only a small percentage of clients of audit firms. This scope of CPAB's activities may be increased if the concept of 'public interest entity' is extended e.g. any or all of credit unions, 'MUSH entities' (municipalities, universities, schools and hospitals) pension funds / hedge funds were to be added to our responsibilities.
2. The PCAOB will modify AS 2 which may cause the CSA to consider bringing back 52-111 in a modified form consistent with the new US standard.
3. The work of audit firms will become more continuous as suggested in the Big 6 authored document 'Global Capital Markets and the Global Economy' and the matters on which they report will be extended.
4. The number of participating audit firms will significantly diminish as mergers increase and smaller firms drop out of the reporting issuer market.
5. The number of foreign firms to be inspected will increase; CPAB will review audits by foreign firms of overseas Canadian divisions.

6. Some audit firms will exit the market for audit services for reporting issuers.

## **Audit Firms**

1. Audit will become a reducing segment of their business and take up less time of senior management at the national firms.
2. As a result of the economy slowing down, firms will again start to emphasize the need for new business.
3. There will be more discussion and concern about the dominance of the Big 4 firms and the possible emergence of new international groupings; however, they will be much smaller than the Big 4.
4. Earnings pressures will affect the firms for the first time in several years.
5. Audit partners (and staff) will elect to specialize outside of audits of reporting issuers.
6. Retirement ages for partners may be increased; conversely, openings for new partners may be fewer.
7. Consolidation of national firms into international firms will continue.
8. Regional groupings within international firms will increase.

## **The Profession**

1. The profession will continue the transition to international accounting and audit standards.
2. In Canada, an independent board will be established to monitor the development and implementation of independence standards.
3. Pressure will continue to build to limit the liability of auditors.
4. Concerns will be expressed by the audit firms over the extent and cost of external regulation of the accounting profession.

## Appendix C – Expansion of Mandates

**Mandate #3** – has been added as the need to apply disciplinary measures flows from NI 52.108. Given that authority we need to have procedures and standards that can be recognized and understood by the participating firms. This flows from by-law 1.3.1(k) duties of the board

**Mandate #4** – In assessing the work done by the firms, we test that work against standards. Because these standards are such an integral part of our work, it follows that we must seek to be in a position to exercise strong influence over their development. This flows from the articles of incorporation and by-law 1.3.1(l)

**Mandate #6** – This was in the original mandates but I have expanded it by identifying key areas related to the improvement of the auditing of financial statements. It also referenced in the articles of incorporation.

**Mandate #7** – This is an expansion of an original mandate and sets out the need for working with other audit regulators in more detail than was originally envisaged.

Originally, CPAB had 5 mandates. All of them are retained in this plan although two of the original ones have each been split into two to give them more clarity and focus.

As noted above there are two new mandates that are recommended #3 and #4. In each case these deal with matters fundamental to CPAB's mission and were recognized in the by-laws or articles of incorporation.

## Appendix D – People

### Background

CPAB has been able to hire sufficient people of the required calibre to date. It currently has 15 permanent professional staff, plus 4 part-time consultants on its inspection staff (16.5 FTEs). Its current plan indicates a need for 17.5 permanent professional staff and 8 part-time consultants, combined this would be 20.5 FTEs. (*See Table 4 for summary of staff changes and Table 5 for a calculation of staff needs*). A tightening market for highly qualified accountants has meant that since inception CPAB has always been struggling to match its numbers with its needs.

### Challenges to Accomplish Related Mandates

- A very difficult hiring market with the six national firms retaining staff (particularly retired partners) rather than losing them.
- The narrowness of sources available for CPAB to hire from given the nature of its compliance oriented activities.
- The very high quality of people that CPAB needs to attract to create, enhance and maintain a high profile.
- The age profile of our current staff complement and the consequent need for succession planning.
- Possibility of increased external control from governments or Securities Commissions.

### Objectives

#### *Ongoing*

- Hire enough people to meet defined needs.

- Hire or have access to specialists in income tax, valuations and information technology.

#### *Year 1*

- Establish a pipeline of people identified in each of the firms who meet CPAB's requirements
- Achieve a better balance between cities of residence of CPAB staff and location of participating firms.

### **Strategies to Accomplish Related Mandates**

#### *Ongoing*

- Identify retiring partners in the six national firms over the next three years.
- Determine manpower needs to carry out CPAB's mandates and establish plans to meet those needs.

#### *Year 1*

- Develop an information system so that CPAB may maintain a reward and incentive system that is perceived to be competitive by both staff and the market
- Make appearances at meetings of retiring partners of the six national firms where CPAB can explain opportunities available.
- Meet with and establish relationships with search firms in Montreal and Vancouver
- Establish connections with Auditor Generals, internal auditors, standards setters and academia to get exposure of the career opportunities at CPAB.

#### *Year 2*

- Reduce travel requirements by performing more desk reviews.

## Expected Outcomes

### *Ongoing*

- CPAB has sufficient staff to meet its requirements for each of the next three years.

### *Year 1*

- CPAB attracts and retains staff in staff in locations other than Toronto
- CPAB has an information system that identifies staff needs and who in the profession will be able to meet them.

# Appendix E – Quality

## Background

CPAB's primary communications with the firms that it inspects are the daily interaction with partners and staff of a firm as CPAB reviews various aspects of its operations, and a formal written report that details the findings from its inspection. Its principal communication to the Canadian business community has been an annual public report that summarizes matters initially identified in the individual reports. It follows that these communications must be at a very high standard and supported by very high quality of work as they are the main communications tool for CPAB

## Challenges to Accomplish Related Mandates

- We may not be able to attract the right quantity or quality of staff who can impress the partners and staff of the firms under review.
- Reports being issued may be successfully challenged or ignored by firms.
- Reports may not be germane to the issues faced by the firms and have few important findings.
- Inability to access work papers determined to be privileged by the reporting issuer.

## Objectives

### *Year 1*

- Have a system of independent quality monitoring of CPAB files and reports in place.
- Develop and introduce a system of quality control whereby each report is independently reviewed before issue.

### *Year 2*

- Have a system of standards of file documentation in place.
- Achieve recognition of our right to access privileged audit work papers.

## **Strategies to Accomplish Related Mandates**

### *Year 1*

- Develop and introduce a system of quality monitoring of reports issued by CPAB.
- Discuss with selected national regulatory agencies the possibility of them carrying out a quality monitoring inspection of CPAB.
- Appoint a staff person to develop standards of file documentation.
- Appoint internal group to develop strategy to gain access to privileged work papers.

## **Expected Outcomes**

### *Year 1*

- High acceptability of our reports to participating firms.
- A standard for file documentation and a monitoring system to ensure that it is followed.

## **Appendix F - Financial**

*ACHIEVE AND MAINTAIN A STRONG FINANCIAL POSITION AND HAVE SUFFICIENT FUNDS TO CARRY OUT ITS MANDATED ACTIVITIES.*

### **Background**

CPAB has established a strong financial position and has been able to maintain its fee level at a constant percentage of audit fees of reporting issuers. This has been helped as the level of audit fees paid by reporting issuer clients has risen over the previous year in each of 2004, 2005 and 2006 and is forecast to rise by another 10% this year.

### **Challenges to Achieving Mandate**

- Firms/reporting issuers challenge or publicly complain about the fees charged by CPAB.
- Perception that CPAB has become an expensive way of regulating the reporting issuer segment of the accounting profession.
- Firms/reporting issuers question the level of costs incurred by CPAB.

### **Objectives**

#### *Year 1*

- Establish financial reserves equal to projected maximum losses for three years of operations.
- Develop a defensible strategy for cost profile and revenue level.
- Have complete documentation of the firms and CPAB's fee sources (by firm / by reporting issuer).
- Determine appropriate cost comparisons for salary levels.

## **Strategies to Accomplish this Mandate**

### *Year 1*

- Maintain fees at a level comparable to those of other international regulatory agencies.
- Support fee level by a robust analysis of cost needs and a strong system of cost control.
- Analyze sources of fees that CPAB is basing its charges on.

### *Year 2*

- Carry out salary surveys of similar organizations that compete for accounting talent (CICA, Securities Commissions, National audit firms, PCAOB, FRC etc.)
- Review financial results of other international audit regulators and compare to CPAB.

## **Expected Outcomes**

### *Ongoing*

- A financially strong CPAB with a well established program for achieving an annual surplus.

### *Year 1*

- Lack of significant concerns being expressed by participating firms, reporting issuers or other participants about the level of CPAB's costs.
- Board approved targets for levels of earnings and reserves.

### *Year 2*

- Satisfactory comparison to pay scales of similar organizations.

## **Appendix G – Selected Policies and Activities of Other Regulators**

A comparison with other international audit regulators as to their scope of work, numbers of people, publication of reports and experience in accessing work done by audit firms outside their jurisdiction provides useful additional information. A study of this is being done by IFIAR, some initial findings are set out below. We have used US, UK, Japan and Australia as they are perhaps the most active regulators at this time.

### **Australia**

The reviews are under the authority of the Australian Securities Commission (ASIC):

- ASIC registers individuals rather than audit firms and has 5200 registered individual auditors at this time.
- The entities whose audits ASIC inspects include public and private companies, foreign subsidiaries and some investment companies. These total about 8,000.
- ASIC has 24 people dealing with the inspections 14 of whom are full time inspectors. Other duties include registration, surveillance and administrative support.
- To date ASIC has inspected the Big 4 twice (they have 96% of the market by market cap) and 8 other firms.
- ASIC does not use the Professional Institutes to carry out any reviews on its behalf.
- ASIC issues a private report to the firms inspected and a general public report. ASIC is considering whether to make the reports to the individual firms public.

## Japan

The reviews are done by the Certified Public Accountants and Auditing Oversight Board which is part of Financial Services Agency (FSA).

- There are 440 audit firms to be inspected and they audit about 5,500 entities that are eligible to have their audits inspected.
- Scope includes large public and private companies, non public financial institutions.
- There are 31 inspectors and supervisors plus 10 in the executive bureau
- The big four are reviewed at least every two years everyone else once every three years
- Similar to ourselves the CPAAOB uses the Japanese Institute of CPAs to review certain firms and reviews their reports.
- A public report is issued as well as a private report to each firm reviewed.

## United Kingdom

Reviews of audits are done by the Audit Investigation Unit (AIU) a section of the Financial Reporting Council (FRC). There is also a Professional Oversight Body which

...

- The AIU reviews the 9 largest audit firms in the UK which includes the Big Four, it also may review another 40 firms that are responsible for the audits of public interest entities.
- Scope includes public companies, major charities, pension funds, mutual companies, major subsidiaries and entities requested by a foreign regulator. There are about 1900 entities in these groupings
- AIU has 16 inspectors set to increase to 19 in 2007, the POB has 6 employees
- Big Four are inspected annually; others at least every three years.
- Other firms are inspected by the professional institutes

- Similar to Canada the FRC issues an annual public report and private reports to the firms. The FRC is considering the possibility of making the private reports public.

## **United States**

Audit inspections are carried out by the PCAOB.

- There are about 1,000 firms registered with the PCAOB it reviews all firms with 100 registered issuers annually and the rest over three years. It has just completed its first cycle.
- Scope includes about 15,000 entities which include subsidiaries that play a substantial role in the operations of a public company. A substantial role is currently set at 20%.
- PCAOB has over 500 employees half of whom are in the inspection division.
- PCAOB issues a three-part report on each firm inspected; part 1 is made public as is part 3 which is the firm's response to part 1. Part 2 is private.

# Part 4 - Tables

**Table 1****Number of Reporting Issuer Clients per Firm  
2004 - 2007**

| <b>Description</b>                                      | <b>Nov-04</b> | <b>Nov-05</b> | <b>Nov-06</b> | <b>Jan-07</b> |
|---|---------------|---------------|---------------|---------------|
| Number of RICs Per Firm:                                |               |               |               |               |
| Over 1,000  | 2             | 2             | 1             | 1             |
| 500 to 999  | 2             | 1             | 3             | 3             |
| 100 to 499  | 5             | 6             | 4             | 4             |
| 50 to 99  | 3             | 7             | 8             | 9             |
| 20 to 49  | 13            | 13            | 10            | 10            |
| 10 to 19  | 21            | 17            | 13            | 20            |
| 1 to 9  | 182           | 203           | 186           | 171           |
| none  | 7             | 13            | 21            | 22            |
| <b>Total # of Canadian Based Registered Audit Firms</b> | <b>235</b>    | <b>262</b>    | <b>246</b>    | <b>240</b>    |

**Notes:**

1. There also 40 foreign based firms, none of whom has more than 10 reporting issuer clients.
2. The distribution of reporting issuers between audit firms is quite stable and does not suggest any program of divestiture by the larger firms.

**Table 2**

**Number of Reporting Issuers  
by Size of Audit Fees <sup>1, 2</sup>  
2004 - 2007**

| Description                         | 2006         | Jan-07       |
|-------------------------------------|--------------|--------------|
| Breakdown by audit fees:            |              |              |
| Over \$10 million <sup>3</sup>      | 8            | 10           |
| \$5 million to \$9.9 million        | 12           | 12           |
| \$2 million to \$4.9 million        | 44           | 43           |
| \$1million to \$1.9 million         | 69           | 66           |
| \$500k to \$999k                    | 104          | 129          |
| \$100k to \$499k                    | 620          | 704          |
| \$50k to 99k                        | 478          | 583          |
| \$49k below                         | 3,415        | 3,378        |
| No fee reported <sup>4</sup>        | 2,065        | 2,004        |
| <b>Total # of Reporting Issuers</b> | <b>6,815</b> | <b>6,929</b> |

<sup>1</sup> Audit fees are as reported by the audit firms.

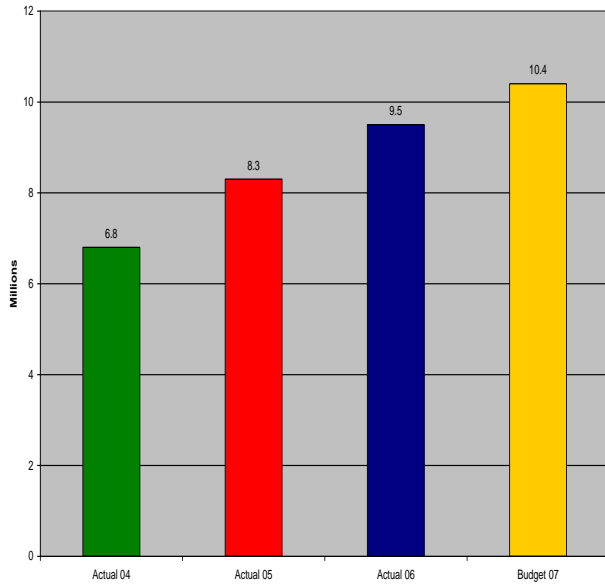
<sup>2</sup> Most of these fees are for the Canadian based auditors and exclude work done by overseas firms

<sup>3</sup> Six of these reporting issuers (4 in 2006) are US or UK companies audited by firms in those countries.  
The principal exchange for these reporting issuers is either New York or London.

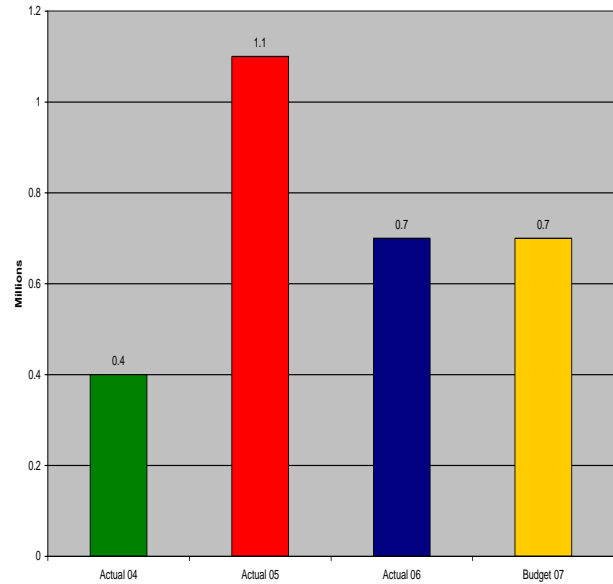
<sup>4</sup> Most of these are mutual funds whose fees are reported with the fund family.

## Selected Financial Trends 2004 – 2007

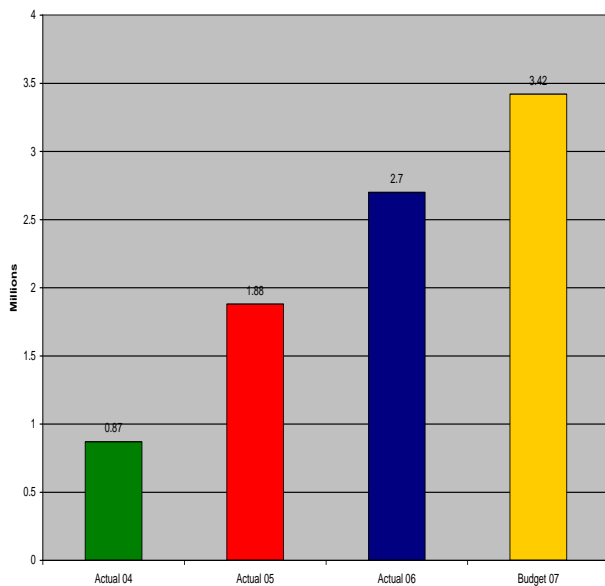
**Revenues**



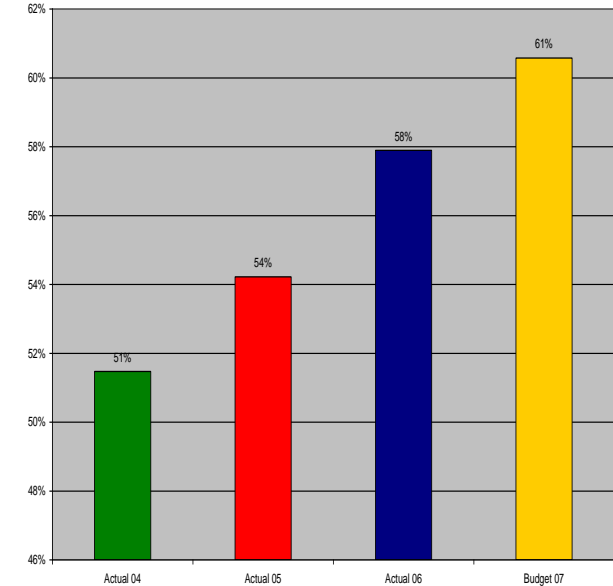
**Excess of Revenues Over Expenses**



**Cumulative Surplus**



**Salaries as Percentage of Revenues**



**Table 4**

**People Resources 2004 – 2007 (FTE)**

|                                     | 2004             | 2005      | 2006             | 2007 Plan        |
|-------------------------------------|------------------|-----------|------------------|------------------|
| Office of CEO                       | 2                | 2         | 2                | 3                |
| Inspection Staff <sup>1</sup>       | 10               | 13        | 14.5             | 17.5             |
| Inspection Consultants <sup>2</sup> | 2.5 <sup>3</sup> | .5        | 2                | 3 <sup>4</sup>   |
| Administration                      | 3                | 4.5       | 4.5 <sup>5</sup> | 4.5 <sup>4</sup> |
| <b>Total</b>                        | <b>17.5</b>      | <b>20</b> | <b>23</b>        | <b>28</b>        |

<sup>1</sup> Several staff members have flexible work arrangements

<sup>2</sup> Two Consultants were full time from their hiring; all others are less than 50%

<sup>3</sup> Two Consultants became full time staff at end of year

<sup>4</sup> Assumes having specialists 'on call'. FTE equivalent less than 4

<sup>5</sup> One staff person on maternity leave – half of 06 and half of 07

**Table 5**

## Estimate of People Needs

|  | Person Weeks |             |
|--|--------------|-------------|
|  | SR           | VP          |
| Weeks Available from Current Staff             | 645          | 176         |
| Planned Inspection Activity – <i>Note 4</i>    | (568)        | (172)       |
| Planned Other Activities – <i>Note 5 and 6</i> | (105)        | (51)        |
| <b>Shortfall</b>                               | <b>(28)</b>  | <b>(47)</b> |

**Notes:**

1. Each person added (assuming July 1 start) gives close to an additional 22 weeks.
2. Numbers do not include specialist consultants as they would increase both sides of the calculation
3. Time allocated to inspecting firms other than the Big 4 has been reduced but Big 4 allocation is approximately the same
4. Items under inspection activity that will be new in 2007 are reviews of US and overseas based firms and review of international segments of Canadian registered issuers.
5. Above does not include working on projects such as risk analysis, approach to mega audits and determining comparability across firms.
6. Other activities include methodology review and development, liaison with PICAs, updating database, training, etc.

**Number of Reviews Carried Out with PCAOB**

|                | <b># of Companies<br/>in Canada</b> | <b># of Companies<br/>in US</b> |
|----------------|-------------------------------------|---------------------------------|
| 2004 (Actual)  | 16                                  | None                            |
| 2005 (Actual)  | 23                                  | None                            |
| 2006 (Actual)  | 16                                  | None                            |
| 2007 (Planned) | 15                                  | 4                               |