



Strategic Plan 2019-21

Accelerating Audit Quality

2021: Audit Quality 4.0

The Canadian Public Accountability Board (CPAB) is focused on the future of audit quality and the protection of the investing public. The next three years promise both challenges and opportunities in audit regulation and in the drive for high quality, consistent audits of public companies in Canada.

Enabling disruptors such as new technologies and new businesses will reshape the audit as we know it. The demand for different skills from auditors and regulators alike is already here. Machine learning and artificial intelligence have started to replace certain audit procedures and emerging industries including cannabis and cryptocurrency are currently impacting Canada's public markets.

The 2021 audit environment will require an agile and progressive regulator keenly focused on improving audit quality and heightening investor protection. CPAB has consulted with key stakeholders, including investors, audit committees, other regulators and our employees in developing this strategic plan.

Over the next three years, CPAB will drive sustainable solutions to accelerate audit quality. To do this we will pursue innovation, continuous improvement and next generation audit quality while engaging with the stakeholders that impact and depend on audit quality. Regulatory excellence, trust and professionalism will be core to all our work.

2019-21 Strategic Commitments: Driving Regulatory Effectiveness

Through 2019-21, CPAB will strengthen our regulatory effectiveness and drive higher quality audits by committing to:



ONE

Cultivate a proactive, adaptive and innovative culture that elevates our regulatory effectiveness.



TWO

Drive targeted, systemic changes to accelerate audit quality improvements.



THREE

Impact how the future audit is performed and regulated.



FOUR

Influence global audit quality consistency.



STRATEGIC COMMITMENT ONE

Cultivate a proactive, adaptive and innovative culture that elevates our regulatory effectiveness.

CPAB was established in 2003. Over the past 15 years, there has been a significant improvement in the quality of audits of public companies in Canada. Our success is predicated on the quality and diversity of our people and how we work as a team. We will continue to focus on leadership, workforce and culture enhancements to maximize organizational capability and position CPAB as an employer of choice.

To meet this commitment, CPAB will:

- Cultivate the next generation of leaders.
- Enhance our professional development, coupled with forward-looking talent management strategies and practices.
- Pursue innovation, continuous improvement and operational excellence in everything we do.
- Deepen our management of current and emerging risks by implementing an enterprise risk management program and appointing a Chief Risk Officer.
- Broaden our expertise in emerging and complex technological tools to enhance our inspections of next generation audits.



STRATEGIC COMMITMENT TWO

Drive targeted, systemic changes to accelerate audit quality improvements.

In Canada, public accounting firms must do more to fully embed audit quality on a consistent basis. To do this, we expect them to have quality management systems that manage risk, emphasize strong governance and culture, and deploy highly trained professionals with skillsets tailored by industry and areas of expertise. Having the right people working on the right things at the right time, all the time is essential to delivering high quality audits, consistently.

We will measure progress of the firms in meeting our expectations through our audit file inspections and our assessment of firm quality management systems using the following indicators:

- Percentage of audit files inspected with no significant findings (target of 90 per cent with no significant findings by 2021).
- Percentage of firm quality management systems with a rating no lower than “Acceptable with opportunity for enhancement”¹ (phased implementation with a target of 90 per cent of the quality system components within each Big Four firm with this rating by 2021).

To meet this commitment, CPAB will:

- Test and evaluate firm quality management systems and recommend improvements to drive consistent, high quality audits. This will include reviewing how we communicate our assessment results.
- Continue our commitment to risk-based inspections of individual reporting issuer audit files.
- On our own and in collaboration with professional and industry organizations, set clear expectations on the need for continuous improvement and increased focus on audit quality matters among key stakeholders including the auditor, audit committee and management.
- Advance our regulatory model through public communication of our inspection findings and thought leadership insights.
- Review our regulatory toolkit including assessing our disciplinary and communication mechanisms.

¹ Categories used in evaluation framework for firm quality systems (high to low) – Acceptable, Acceptable with opportunities for enhancement, Needs improvement, Requires significant improvement, No control in place.



STRATEGIC COMMITMENT THREE

Impact how the future audit is performed and regulated.

The future audit will need to adapt to changes in technology, emerging industries and stakeholder expectations, just to name a few:

- Technologies such as blockchain and artificial intelligence create opportunities to improve financial reporting and audit quality, but pose risks as well.
- New industries – like cannabis and cryptocurrency, for example – are bringing new audit and financial reporting challenges.
- Changing expectations of stakeholders (including investors) that depend on the reliability provided by the audit.

All of these changes will have a significant impact on audit approaches and methodology, the skillsets required to perform an audit, and the auditing and ethical standards that guide auditor behavior and performance.

To meet this commitment, CPAB will:

- Raise our regulatory voice to influence and shape current issues impacting audit quality.
- Assess and communicate the benefits, challenges and risks of changes to the audit due to the use of data analytics, artificial intelligence and other technological tools.
- Proactively assess the audit risks and challenges created by reporting issuers operating in new and emerging industries.
- Influence the setting of standards and guidance for auditors, including those that are responsive to new industries, emerging technologies and other changes in the business environment.



STRATEGIC COMMITMENT FOUR

Influence global audit quality consistency.

Many Canadian reporting issuers have global operations. The quality of Canadian audits is affected by the consistency of audit quality around the world. Close coordination is essential to achieving an appropriate level of uniform audit quality across all jurisdictions.

To meet this commitment, CPAB will:

- Continue to enhance our ability to access audit work of Canadian reporting issuers performed in foreign jurisdictions.
- Positively impact the effectiveness of the International Forum of Independent Audit Regulators (IFIAR) as a leading member of the board of directors and working groups.
- Establish and build on CPAB's national and international presence as an authoritative thought leader on audit quality matters and as a credible, trusted regulator.
- Collaborate with international regulators to establish methodologies to assess data analytics, artificial intelligence and other technological tools used by auditors.

Key Performance Measures

From now until the end of 2021 CPAB will assess the progress of participating audit firms in improving audit quality and our effectiveness as a regulator in overseeing this improvement using the following criteria.

AREA	PERFORMANCE MEASURE	TARGET
<p>AUDIT FIRM QUALITY SYSTEMS</p>	<p>→ Progress of CPAB assessments of firm quality management systems</p>	<p>→ Comprehensive assessments at 100% of all annually inspected firms against all five published criteria</p>
<p>STAKEHOLDER FEEDBACK</p>	<p>→ Results of stakeholder feedback</p>	<p>→ 80% consider CPAB an effective, trusted regulator</p>
<p>EMPLOYEE ENGAGEMENT</p>	<p>→ Employee engagement as measured by employee survey</p> <p>→ Employee retention</p>	<p>→ Employee engagement scores exceeding industry average after three years</p> <p>→ Retention rates above industry average</p>
<p>CPAB GOVERNANCE</p>	<p>→ Review of CPAB's corporate governance and adherence to CPAB's mandate</p>	<p>→ No significant findings from external review of CPAB's corporate governance performed annually</p>

In addition to the above criteria we will continue to be accountable for financial stewardship of our operations.