



IFIAR 2018 Member Profile – CPAB

<p>1. Jurisdiction</p>	<p>1.1 Insert the name of the jurisdiction in English:</p> <p>Canada</p>
<p>2. Member¹</p>	<p>2.1 Insert the name of the Member, both in the local language and in English:</p> <p>The Canadian Public Accountability Board (CPAB) Conseil canadien sur la reddition de comptes (in French)</p> <p>2.2 Include relevant contact information, including postal address, telephone numbers, a link to the website and other relevant information:</p> <p>150 York Street, Suite 900 P.O. Box 90 Toronto, Ontario Canada M5H 3S5 Tel: 416-913-8260 www.cpab-ccrc.ca</p> <p>2.3 Include the basis for establishment of the Member, as well as the legislation or regulations which provide the Member the authority/mandate with respect to audit regulation. Please describe with an appropriate level of detail the mission and responsibilities of the Member with respect to audit regulation:</p> <p><i>Establishment</i> CPAB was incorporated on April 14, 2003 under the <i>Canada Corporations Act</i> by the Canadian Securities Administrators, the Office of the Superintendent of Financial Institutions (Canada) and the Institutes of Chartered Accountants in Canada as part of a regulatory response to perceived deficiencies in financial reporting by reporting issuers. It was continued under the <i>Canada Not-for-Profit Corporations Act</i> in June 2014.</p> <p><i>Responsibilities</i> CPAB’s purpose is to contribute to the public confidence in the integrity</p>

¹ In the case where there are two or more regulators from the same jurisdiction that have been approved according to Section 2.3 of the IFIAR Charter, they together are considered as one Member. In that case, regulators are requested to include information for both organizations in the Member Profile.



	<p>of financial reporting of public companies in Canada by effective regulation and by promoting quality, independent auditing. This is accomplished through performance of the activities listed in paragraph 101 of CPAB's Rules (found at http://www.cpac-crc.ca/en/About/CPAB%20Rules/Pages/default.aspx).</p> <p><i>Authority</i> The Canadian Securities Administrators' National Instrument 52-108 – Auditor Oversight (NI 52-108) imposes certain requirements on Canadian reporting issuers and on auditors that prepare auditors' reports with respect to the financial statements of reporting issuers. NI 52-108 requires financial statements filed by a reporting issuer to be audited by a 'participating audit firm' (i.e. an audit firm that has entered into a participation agreement with CPAB and thereby becomes subject to CPAB's oversight). A comparable requirement is imposed on audit firms, requiring them to be participating audit firms if they audit the financial statements of a Canadian reporting issuer.</p> <p>2.4 Have there been any major changes to the Member's organization or to the governing legislation since completing last year's Member Profile?</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>If yes, please describe these changes with an appropriate level of detail:</p>
<p>3. Governing Body Composition and members</p>	<p>3.1 Describe with an appropriate level of detail the current composition of the Member's governing body, including the ratio between Board members who are independent from the audit profession and those who are not². The audit profession includes, for example: audit firms, professional accountancy bodies and bodies or entities associated with the audit profession.</p> <p>Consistent with CPAB By-law No. 1, Article 3 as further described below.</p> <p>3.2 What are the eligibility criteria / requirements and composition requirements for the members of the governing body?</p> <p>In accordance with CPAB By-law No. 1 Article 3, the Board of Directors shall consists of:</p> <ul style="list-style-type: none"> • At least 5 Non-Accountant Directors, • At least 3 Accountant Directors (Professional Accountants)

² An individual is independent of the profession even if he is a CPA, Chartered Accountant, or holder of another equivalent qualification, as long as this individual is not employed by or affiliated to a registered audit firm, nor employed by or affiliated to of a professional accountancy body, nor employed by or affiliated to bodies or entities associated with the audit profession.



	<p>and there shall always be fewer Accountant than Non-Account Directors,</p> <ul style="list-style-type: none"> • At least two directors must have oversight regulatory experience, including at least one Professional Accountant and at least one person with audit oversight regulatory experience. <p>For the purposes of appointment to the Board, CPAB’s By-laws define a “Professional Account” as an individual with a professional accounting designation; who is not a sole proprietor, partner, member, director, officer or employee of a participating audit firm; has not been a sole proprietor, partner, member, director, officer or employee of a participating audit firm during the 1-year period prior to appointment; and has relevant satisfactory experience.</p>
	<p>3.3. Is each member of the governing body independent from the audit profession? The audit profession includes, for example: audit firms, professional accountancy bodies and bodies or entities associated with the audit profession.</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>
	<p>3.4 If the answer to question 3.3 is “No”, is the majority of the members of the governing body non-practitioner?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>
	<p>3.5 If the answer to question 3.3 is “No”, which safeguards are in place to provide for the Member’s overall independence from the audit profession?</p> <p>Not applicable</p>
	<p>3.6 Is there a restriction or recusal process that is applicable to members of the governing body of the Member who are current or former auditors/practitioners?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Does this include a “cooling-off” period for former auditors?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>If yes to either of the above, please describe:</p> <p>In accordance with CPAB By-law No. 1 a Director cannot be a sole proprietor, partner, member, director, officer or employee of any Participating Audit Firm for a 1-year period prior to appointment.</p>



	<p>3.7 Other than the governing body, are members of the profession involved in the Member's organization (e.g., in a management or inspection function)?</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>If yes, please describe their role with an appropriate level of detail:</p>
<p>4. Funding Arrangements</p>	<p>4.1 Describe the main funding arrangements of the Member, including the setting and approval of the budget and the fees, if any:</p> <p>CPAB derives all of its revenue from "participation fees" paid by Canadian reporting issuers. To facilitate the collection process, CPAB invoices audit firms and the firms in turn bill their reporting issuer audit clients per agreement with CPAB and with the understanding of the reporting issuer. Participation fees are calculated as a percent of reporting issuer's audit fees.</p> <p>On an annual basis, CPAB's management develops a strategic plan and budget and determines the participation fee percentage required to enable CPAB to recover its annual operating costs and provide a reasonable reserve for contingencies. The strategic plan, budget and a proposed participation fee percentage is presented to the Board of Directors for approval.</p> <hr/> <p>4.2 Is the funding free from undue influence by the profession?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Please describe with an appropriate level of detail the safeguards in place to prevent undue influence by the profession:</p> <p>We do not get fees from any member of the profession directly. None are on our Board, nor is any employee an active member of the profession.</p>
<p>5. Inspection System</p>	<p>5.1 Does the Member have the responsibility for recurring inspections of audit firms undertaking audits of public interest entities (PIEs)?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>



	<p>5.2 Is this responsibility undertaken directly or through oversight of inspection conducted by another organization?</p> <p><input checked="" type="checkbox"/> Directly <input type="checkbox"/> Through Oversight</p> <p>If through oversight of another organization, please describe with an appropriate level of detail the other organization, its relation to the Member, its role, and the arrangements for oversight:</p> <hr/> <p>5.3 Please describe with an appropriate level of detail the requirements and practices regarding the frequency of inspections:</p> <p>CPAB’s Rules 403 and 404 specify the required frequency of inspections of participating audit firms:</p> <ul style="list-style-type: none"> • Annually if 100 or more reporting issuer audit reports are issued during a calendar year. • At once every two years if 50 – 99 reporting issuer audit reports are issued during a calendar year. • At least once every three years if less than 50 reporting issuer audit reports are issued during a calendar year. <p>CPAB has entered into a Memoranda of Understanding with the provincial regulators of public accountants who perform inspections of some of the smaller audit firms. CPAB’s Director of Interprovincial Relations reviews the provincial inspection reports and arranges for CPAB staff to supplement a provincial inspection if necessary.</p>
<p>6. Audit and Financial Market</p>	<p>6.1 Provide the number of audit firms subject to inspections. Include an indication of the number of public interest audits (PIEs) and other audits that fall under the Member’s oversight or mandate.</p> <p>As of December 2017, 286 participating audit firms were registered with CPAB and therefore subject to inspection. CPAB’s mandate is limited to the inspection of firms that audit Canadian reporting issuers. There are approximately 7,400 reporting issuers in Canada.</p> <hr/> <p>6.2 What are the sizes and market shares of each of the largest audit firms in the Member’s jurisdiction?</p> <p>The Canadian member firms and foreign affiliates of the Big 4 global networks audit 64% of Canada’s reporting issuers, representing more than 98% of the market capitalization.</p>



<p>7. Main Other Responsibilities of the Member <u>within</u> the area of Audit Oversight</p>	<p>7.1 Please indicate whether the Member has responsibility for tasks other than Inspections within the area of Audit Oversight:</p> <p><input type="checkbox"/> Registration/Licensing <input type="checkbox"/> Audit and/or Ethics Standard Setting <input type="checkbox"/> Permanent Education of Auditors <input checked="" type="checkbox"/> Enforcement <input checked="" type="checkbox"/> Other: <u>Inspections related tasks</u></p>
	<p>7.2 If the Member has the responsibility for <u>Registration/Licensing</u>, please indicate whether this responsibility is undertaken directly or through oversight of Registration/Licensing conducted by another organization?</p> <p><input type="checkbox"/> Directly <input type="checkbox"/> Through Oversight</p> <p>If directly, please describe the responsibility with an appropriate level of detail. If through oversight, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession are involved in decision-making). Also give a description of the powers of the other organization and procedure applied, as well as the role of the Member in these procedures.</p>
	<p>7.3 If the Member has the responsibility for <u>Audit and/or Ethics Standard Setting</u>, please indicate whether this responsibility is undertaken directly or through oversight of Audit and/or Ethics Standard Setting conducted by another organization?</p> <p><input type="checkbox"/> Directly <input type="checkbox"/> Through Oversight</p> <p>If directly, please describe the responsibility with an appropriate level of detail. If through oversight, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession are involved in decision-making). Also give a description of the powers of the other organization and procedures applied, as well as the role of the Member in these procedures.</p>
	<p>7.4 If the Member has the responsibility for <u>Permanent Education of Auditors</u>, please indicate whether this responsibility is undertaken directly or through oversight of Permanent Education of Auditors conducted by another organization?</p> <p><input type="checkbox"/> Directly <input type="checkbox"/> Through Oversight</p> <p>If directly, please describe the responsibility with an appropriate level of detail. If through oversight, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession are involved in decision-making). Also give a</p>



	<p>description of the powers of the other organization and procedures applied, as well as the role of the Member in these procedures.</p> <hr/> <p>7.5 If the Member has the responsibility for Enforcement, please indicate whether this responsibility is undertaken directly or through referral to other organization(s)?</p> <p><input checked="" type="checkbox"/> Directly <input type="checkbox"/> Through Referral</p> <p>If through referral, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession are involved in decision-making). Also give a description of the enforcement powers of the other organization and procedures applied, as well as the role of the Member in these procedures.</p> <hr/> <p>7.6 If the Member has the responsibility for other tasks within the area of Audit Oversight, please describe with an appropriate level of detail:</p> <p>In accordance with paragraph 101 of CPAB’s Rules lists, the following inspections and audit quality related tasks are performed in addition to conducting inspections:</p> <ul style="list-style-type: none"> • Establishing and maintaining requirements for the participation of public accounting firms that audit reporting issuers in the Board’s oversight program • Requiring remedial action by participating audit firms when necessary or appropriate • Conducting investigations and review proceedings and imposing, where appropriate, requirements, restrictions or sanctions on participating audit firms • Working in close conjunction with professional regulatory authorities • Referring matters as appropriate to securities regulators • Providing comments and recommendations on accounting and assurance standards to relevant standard-setting and oversight bodies; and • Reporting to the public at least annually on the results of its activities
<p>8. Main Other Responsibilities of the Member <u>outside</u> the area of Audit Oversight</p>	<p>8.1 Please describe with an appropriate level of detail whether the Member has responsibility for tasks outside the area of audit oversight such as Supervision of Financial Reporting or Securities Regulation:</p>



<p>9. Major Events and Activities</p>	<p>9.1 Describe any recent major events and activities:</p> <p>CPAB’s 2016-2018 strategic plan addresses the more systemic barriers to audit quality to drive sustainable, high quality audits by focusing on the following five strategic imperatives:</p> <ul style="list-style-type: none"> • Further build risk identification and mitigation strategies into CPAB culture • Continue to enhance inspections • Develop practical and meaningful thought leadership • Expand awareness and understanding of issues related to audit quality across key stakeholders • Field a high-performance team <p>CPAB held its fourth Audit Quality Symposium: Earning Investor Confidence in May 2017. The Symposium was attended by corporate directors, regulators, standard setters, leaders from public accounting firms and other professional organizations, investors and academics. Further information about the key messages that arose from the discussions held at the Symposium can be found here http://www.cpab-crc.ca/Documents/Topics/Audit%20Quality%20Symposium/2017%20AQ%20Key%20Messages%20EN.pdf</p> <p>In November 2017, CPAB reported the results of its 2017 inspections of the Big 4 firms noting a continued trend of reduced findings over the past 3 years. In 2017, CPAB inspected 86 (2016:87; 2015:93) engagement files – 6 of which had significant findings (2016:11; 2015:24). Remediation work is required when significant inspection findings are identified. Two restatements have been required to date.</p> <p>While each Big 4 had an acceptable level of inspections findings overall in 2017, CPAB noted inconsistencies in the quality with which audits are executed. We are evolving our inspection approach in 2018 to better assess a firm’s overall audit quality and understand impediments to the consistency with which audits are performed. In particular, we will focus on the importance of quality systems and controls to the audit process by incorporating additional operational evaluations of the effectiveness of accountability structures and processes in place to manage and mitigate risks to audit quality.</p>
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