cpab ccrc

Canadian Public Accountability Board
Conseil canadien sur la reddition de comptes

MARCH 2021

2020 ANNUAL REPORT

Regulatory oversight in a global pandemic

CPAB-CCRC.ca

Our Vision

The Canadian Public Accountability Board (CPAB) is a leading audit regulator that reinforces public confidence in Canada's capital markets.

Our Mission

CPAB promotes sustainable audit quality through proactive regulatory oversight, facilitating dialogue with domestic and international stakeholders, and publishing practicable insights to inform capital market participants.

Our Strategic Commitments

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.

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A message from Benita Warmbold, Chair

2020 was a year very few of us could have expected, full of events that caused us to review and reconfirm our priorities from a very different angle. It also marked increased collaboration with other regulators and heightened interaction with audit firms as management worked through the various challenges the crisis brought. I wish to thank CPAB's employees for demonstrating flexibility, professionalism and endurance over the past 12 months, and my director colleagues for their insights and commitment to good governance as we adapted to the impact of the global pandemic.

CPAB's board quickly adapted to the virtual meeting experience and increased the frequency of our deliberations. Meetings in early March centred on the execution of CPAB's transformation from the office to an entirely remote operation, the health and safety of employees, and the potential longer-term impacts of carrying out our mandate remotely. The transition was relatively smooth, and CPAB successfully implemented a secure, remote inspections program with minimal delay. The wellbeing of our team remains a top priority.

As the situation unfolded, the board's primary focus was providing oversight as management addressed the impact of the pandemic on audits and audit regulation while delivering on its 2020 operating commitments. Activity also included board succession and renewal, and monitoring management's progress on CPAB's 2019-21 strategic plan.

As Canada's public company audit regulator charged with protecting the investing public's interests, CPAB views its work through a risk lens. The economic upheaval of 2020 highlighted three areas: the increased possibility of corporate fraud, the reliability of going concern assessments, and the importance of professional skepticism. The pandemic increased the risk of potential irregularities in the financial world, underscoring the need for scrupulous compliance with auditing standards and timely, proactive audit regulation. The board considered management's assessment of the impact of these and other issues on audit quality, including novel and emerging industries, technology and Participating Audit Firm[1] culture and governance.

CPAB made notable advances in this second year of its three-year strategic plan and in managing risk. The board evaluated management's approaches to regulatory innovation, CPAB's audit quality assessment work and enforcement mechanisms.

Board renewal is critical to effective organizational oversight and our efforts continued in this area. To ensure breadth of experience and calibre of directors, the board takes a skills-based approach while emphasizing diversity and inclusion. Sheryl Kennedy retired this year – we thank her for more than 10 years of exemplary service, particularly her contributions as Vice Chair. We were pleased to welcome Don Chynoweth, a senior executive based in Western Canada, who brings deep and broad leadership and governance expertise across public and private sectors in Canada and internationally.

I'll close by extending my sincere appreciation to CPAB's board of directors, management and employees who, under extraordinary circumstances, continued to advance CPAB's strategy to accelerate higher quality audits in Canada.

Benita Warmbold, FCPA, FCA
Chair

[1] For the purposes of this report a Participating Audit Firm (audit firm) is a public accounting firm that audits Canadian reporting issuers.

A message from Carol Paradine, CEO

2020 was an extraordinary year. Global economic and workforce disruption gave rise to a number of critical accounting and auditing issues and challenged auditors to adjust to performing audits and overseeing that work remotely.

Inside the same 48 hours that our team began working from home, CPAB, audit firm leaders and other regulators held the first of many meetings to discuss the implications of the pandemic on the audit. In the ensuing weeks and months CPAB presented and published our perspectives on a number of these areas, including fraud and going concern, along with considerations for auditors and audit committees.

CPAB's regulatory oversight has consistently highlighted the importance of a critical mindset and appropriate audit supervision to performing high-quality audits; our regulatory assessments continue to expose gaps in the application of these and other key elements. As audits are performed remotely and business challenges persist, strict adherence to auditing standards and the application of due care must not be compromised.

Inspections results this year have been mixed; while the overall level of significant findings has decreased slightly the results varied considerably by audit firm. Three of the four largest firms met the target of 10 per cent or fewer significant inspection file findings and all four made progress on meeting 90 per cent of CPAB's quality management systems (QMS) criteria by 2021. The significant findings rate at the seven other annually inspected firms increased to 63 per cent, an unacceptably high level. Targeted discipline, investigation and enforcement measures are being undertaken to address specific instances of breaches of auditing standards or the professional code of conduct.

The recommendations of the Canadian Audit Quality Roundtable working groups in the areas of fraud detection, going concern assessment, professional skepticism and novel industries/emerging issues emphasize the need for vigilance. The impact of COVID-19 further highlighted the significance of this work and its relevance to all industries and sectors in Canada; implementation of the recommendations by the audit profession will be critical to improving audit quality and reducing loss to the investing public, particularly as global economic uncertainty remains.

CPAB's four strategic commitments – regulatory effectiveness, accelerating audit quality improvements, impacting the future audit and influencing global audit consistency – remained priorities for management throughout 2020. While regulating effectively in a global crisis required certain pivots, we kept our focus on driving audit quality. For example, CPAB continued to pursue legislative change to support its mandate as an independent audit regulator. We worked with the Canadian Securities Administrators to improve CPAB's access to audit work performed by component auditors in foreign jurisdictions. We expect finalization of the applicable rule changes in 2021.

I want to thank CPAB's board of directors for its guidance through the crisis and its insightful reflections on our overall strategy during 2020, and CPAB's employees for their steadfast commitment to staying focused on our strategic commitments while adapting to the uncertainty of the environment. I look forward to improved audit quality results and full implementation of audit firm quality management systems in the coming years.

Carol Paradine, FCPA, FCA
Chief Executive Officer

STRATEGIC COMMITMENTS PROGRESS: DRIVING REGULATORY EFFECTIVENESS

We are pleased that, despite the impact of the pandemic, we continued to make progress on the strategic commitments outlined in our 2019-21 strategic plan. We reassessed our priorities in light of the crisis, concluding that our key priorities remained relevant and to stay the course. In 2021 we will draft our next three-year plan, taking a fresh look at our mandate, regulatory effectiveness and the significant changes in our environment that have occurred over the past three years.

STRATEGIC COMMITMENT **ONE**

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

Highlights

- Measureable shift to a more proactive culture that embraces change.
- Seventy-five per cent employee engagement rate; successful transition to working remotely.
- Upgraded technology capabilities across the organization; targeted in-depth training for our information technology audit specialists.

STRATEGIC COMMITMENT **TWO**

Drive targeted, systemic changes to accelerate audit quality improvements.

Highlights

- QMS evaluations at four large firms; full assessment to be completed for the fifth largest firm in 2021.
- Launched Inspections Forum Series – four sessions with 186 audit partners and senior staff on key topics identified during prior year inspections.
- Reviewed governance practices at large audit firms and shared observations on areas for improvement.
- Engaged with audit committee chairs of 361 reporting issuers on current audit quality topics including the impact of the pandemic.

STRATEGIC COMMITMENT THREE
Impact how the future audit is performed and regulated.

Highlights

- Met with audit firm leadership and coordinated efforts with the provincial securities commissions and Office of the Superintendent of Financial Institutions to respond to the impact of the pandemic on audit quality.
- Issued six COVID-19-focused publications covering key issues such as fraud, going concern and internal controls; hosted twelve audit committee forums featuring discussions on the impact of COVID-19 on audits and audit oversight.
- Following the inaugural meeting of the Canadian Audit Quality Roundtable co-hosted by CPAB and the Office of the Superintendent of Financial Institutions in 2019, this year CPAB led the creation of working groups to study and report on fraud, going concern, professional skepticism and novel industries/emerging issues.
- Reviewed and evaluated large firm processes to design, approve and implement technology tools used in the audit.

STRATEGIC COMMITMENT FOUR
Influence global audit quality consistency.

Highlights

- High level of involvement in international project to review fraud and going concern in the audit of financial statements, including providing input from the results of our thematic reviews in these areas.
- Dialogue with investors in Canada and internationally through the International Forum of Independent Audit Regulators (IFIAR) Investor and Other Stakeholders Working Group with a specific focus on auditor responsibilities for fraud detection.
- Led the creation of IFIAR's Technology Task Force.
- Extensive interaction and engagement through IFIAR with the largest global audit firms on the impact of the pandemic.

Our full 2019-21 strategic plan is available at www.cpab-ccrc.ca.

KEY PERFORMANCE MEASURES: 2020 ASSESSMENT

AREA	PERFORMANCE MEASURE	TARGET	DECEMBER 2020 ASSESSMENT
AUDIT FIRM QUALITY SYSTEMS	Progress of CPAB assessments of firm quality management systems.	Comprehensive assessments at 100% of all annually inspected firms against all five published criteria.	Quality management systems assessments complete at four largest firms. Full assessment for fifth largest firm to be completed in 2021. Assessment of other annual firms deferred to coincide with the timing of the international quality management standard (ISQM 1) in 2022.
STAKEHOLDER FEEDBACK	Results of stakeholder feedback[2].	80% consider CPAB an effective, trusted regulator.	Triennial stakeholder survey conducted in late 2020 through early 2021. Results will be available in Q2 2021.
EMPLOYEE ENGAGEMENT	Employee engagement as measured by employee survey. Employee retention.	Employee engagement scores exceeding industry average after three years. Retention rates above industry average.	Seventy-five per cent employee engagement rates in 2020 — a notable increase over 2019. Ninety-one per cent employee retention rate in 2020 (2019: 88 per cent; 2018: 88 per cent). Above CPA profession industry average.
CPAB GOVERNANCE	Review of CPAB's corporate governance and adherence to CPAB's mandate.	No significant findings from external review of CPAB's corporate governance performed annually.	Target met.

[2] As measured by tri-annual survey of audit firms, audit committees and other key stakeholders involved in the audit.

CPAB Leadership Team

Carol Paradine
Chief Executive Officer

Jennifer Cooper
Senior Director, Enforcement and Discipline

Malcolm Gilmour
Vice President, Inspections

Kristina Heese
General Counsel and Corporate Secretary

Adrienne Jackson
Senior Director, Communications

Jeremy Justin
Chief Risk Officer and Vice President, Strategy

Margo Longwell
Senior Director, Quality, Firm Risk and Registration

Ewa Noganska
Acting General Counsel and Corporate Secretary

Heidi Scorgie
Regional Vice President Western Canada

M. Philippe Thieren
Regional Vice President Eastern Canada and Chief Financial Officer

Lily Watson
Director, Talent

CPAB Board of Directors

Benita M. Warmbold
Chair,
Toronto, Ontario

Ian Bourne[2]
Calgary, Alberta

Renaud Caron[2]
Montreal, Quebec

Don G. Chynoweth[1]
Calgary, Alberta

Julie Dickson, O.C.[1]
Ottawa, Ontario

Sheila Fraser, O.C.[2]
Ottawa, Ontario

Guy Fréchette[1]
Montreal, Quebec

Bruce C. Jenkins[1]
Toronto, Ontario

Kevin Kelly[1]
Toronto, Ontario

Alice Laberge[2]
Vancouver, British Columbia

1 Member of the Risk and Audit Committee
2 Member of the Human Resources and Governance Committee

GOVERNANCE REPORT

Responsible corporate governance

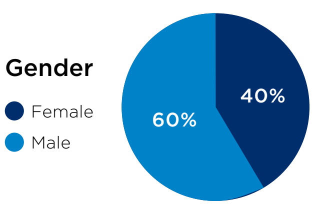
Responsible corporate governance is critical to fulfilling CPAB's regulatory oversight mandate and to fostering public confidence in the integrity of financial reporting by Canadian reporting issuers. CPAB's operating practices and governance structure supported our delivery on our strategic commitments throughout 2020.

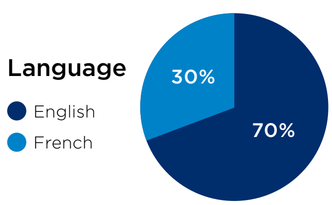
Board composition

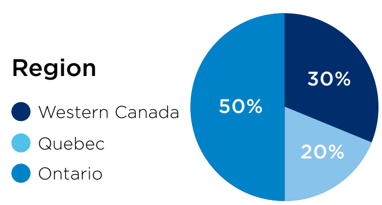
CPAB's board has overall responsibility for supervising the management of CPAB's activities and affairs. The breadth of expertise of our directors provides complementary skillsets and a range of views that encourages constructive challenge of management.

CPAB's by-law requires the board comprise a combination of directors with professional accountant, non-accountant, audit oversight and non-audit regulatory experience. While ensuring compliance with our legal requirements, CPAB strives to expand director diversity when recommending the composition of its membership to the Council of Governors and when filling executive positions.

In mid-2020 Sheryl Kennedy retired from the board and Don Chynoweth joined as our newest director. At the end of 2020 four out of ten board members were female. Three out of ten directors were fluent in both English and French, three were from Western Canada, two from Quebec and five from Ontario.







In 2021 we will continue our efforts to broaden the diversity of our board to better reflect the Canadian population. Our strategy includes identifying prospective board candidates from the black, Indigenous Peoples, people of color and LGBTQ+ underrepresented populations.

Board committees

The board discharges its oversight responsibilities directly and with the assistance of two standing committees — the Risk and Audit Committee and the Human Resources and Governance Committee.

The Risk and Audit Committee assists the board in oversight of CPAB's financial planning and reporting, the system of corporate controls and the external audit process. The committee also oversees CPAB's risk universe including oversight of management's identification and monitoring of key risks, establishment of risk tolerance and development of risk mitigation strategies.

The Human Resources and Governance Committee makes recommendations to the board on issues related to human resources, corporate governance, board composition and succession, the formation and membership of committees, the objectives, performance and compensation of CPAB's CEO and other officers and the content and enforcement of CPAB's codes of ethics. The committee also oversees the annual evaluation of the board, Chair and committees and oversees CPAB's talent management strategies.

Annual board meetings

Eight board meetings, five Risk and Audit Committee meetings and four Human Resources and Governance Committee meetings were held in 2020. While the board was scheduled to meet five times during the year, additional meetings were held to discuss CPAB's strategic plan, emerging issues and address matters relating to the COVID-19 crisis.

MEETING ATTENDANCE

	Board of Directors Meetings	Risk and Audit Committee Meetings	Human Resources and Governance Committee Meetings
Benita Warmbold	8/8	5/5	4/4
Sheryl Kennedy*	4/4	2/3	2/2
Ian Bourne**	8/8	2/2	4/4
Renaud Caron	8/8	N/A	4/4
Don Chynoweth***	2/2	1/1	N/A
Julie Dickson	8/8	5/5	N/A
Sheila Fraser	8/8	N/A	4/4
Guy Fréchette	8/8	5/5	N/A
Bruce C. Jenkins	8/8	5/5	N/A
Kevin Kelly	8/8	5/5	N/A
Alice Laberge	8/8	N/A	4/4

* Retired in June 2020.
** Became Vice Chair in June 2020.
*** Joined board in July 2020.

Director compensation

Director compensation is reviewed annually. The board approved recommendations based on an external consultant's compensation assessment in 2019 and which came into effect in 2020 as follows:

Retainer	2020	2019
Board Chair retainer	$175,000	$175,000
Vice Chair retainer	57,500	48,000
Director retainer	50,000	48,000
Committee Chair retainer	60,000	55,250

In addition to the annual retainers, directors (except for the board Chair) received a per meeting attendance fee of $1,500 for meetings of two hours or longer and a per meeting attendance fee of $750 for meetings shorter than two hours.

Member classes

CPAB is a not-for-profit organization with two member groups — the Council of Governors and the Provincial Audit Regulator Members (PARMs).

The Council of Governors is composed of the Chair of the Canadian Securities Administrators (CSA), the Chair of the Ontario Securities Commission, the Chair of the *Autorité des marchés financiers*, 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 Council of Governors appoints CPAB's directors and performs an annual assessment of CPAB's governance practices and performance against our mandate.

The PARMs comprise provincial audit regulators that oversee audit firms whose aggregate Canadian audit fee revenue from reporting issuers in their province is at least $7 million per provincial audit regulator. The PARMs annually appoint CPAB's external auditor.

Independence and ethics

Independence and maintaining the highest standards of ethical conduct among our employees and directors are critical to our role in protecting the investing public. CPAB directors are independent of CPAB and cannot have current positions or material relationships with audit firms regulated by CPAB. The directors must comply with our **Code of Ethics for CPAB's Board of Directors**. They must report any financial interests or other relationships that might affect or appear to affect their independence or objectivity, and do not receive any identifying information from management regarding the audit firms or reporting issuers. The positions of Chair of the board and CPAB's CEO are separate; the CEO is not a member of the board.

Our inspectors have significant technical auditing and accounting expertise often gained at the audit firms we regulate. Our **Code of Ethics for Staff and Consultants** imposes comprehensive employee disqualification provisions regarding matters involving certain audit firms. For example, we prohibit CPAB inspectors from partaking in inspections or investigations of audit firms where the inspector was an employee or partner during the ten preceding years.

The board assesses director independence and our codes of ethics annually. During 2020 we expanded the post-employment and post-appointment restrictions to further guard against the possibility of actual or perceived conflicts of interest when employees or directors leave CPAB.

Whistleblower Hotline

Our confidential Whistleblower Hotline is publicly available through our website to enable the anonymous reporting of matters of concern related to CPAB, our employees, audit firms we inspect or Canadian reporting issuers. CPAB monitors and responds to concerns, tips and inquiries received through the Whistleblower Hotline and from other sources. These channels of communication provide important information about potential misconduct that could otherwise be difficult to detect. Reports received in 2020 have either been resolved or are under review.

2020 OPERATIONAL HIGHLIGHTS

Audit quality insights

2020 audit quality assessments overview

During 2020, we inspected 119 audit files and identified significant findings in 35 files. This 29 per cent finding rate compares to 33 per cent across 142 files in 2019. The pandemic caused us to initially delay some inspections as we adjusted to a remote working environment. As a result we deferred inspections of smaller audit firms to early 2021.

Three of the four largest firms had inspection results that improved or were consistent with the prior year, meeting the target of no more than 10 per cent of files inspected with significant findings. One large firm did not meet the target and continued to have finding levels in excess of 10 per cent. While we saw some strengthening of quality management systems, there is still more work to be done to achieve the target of 90 per cent of criteria rated as either acceptable or acceptable with opportunities for enhancement by 2021. We continue to be concerned about the elevated finding rates at one of the large firms and a decision regarding additional regulatory intervention will be made in 2021.

Of significant concern is the increase in findings at many of the other annually inspected firms, where the aggregate significant finding rate was 63 per cent (22 of 35 engagement files), compared to 54 per cent (20 of 37 engagement files) in the prior year.

CPAB's assessment landscape

All public accounting firms that audit a Canadian reporting issuer must register with CPAB[3]. At December 31, 2020, 248 (2019: 267) audit firms were registered; 87 (2019: 95) of those firms do not currently audit reporting issuers.

Each year, CPAB inspects all firms that audit 100 or more reporting issuers. There are currently 11 firms (2019: 14) in this group which audit almost 6,700 reporting issuers. These firms, and their foreign affiliates, audit approximately 99.5 per cent of all reporting issuers as measured by market capitalization.

Based on our inspections findings, we provide mandatory recommendations to improve audit quality which the audit firm must implement within a defined period — usually 180 days; this deadline is much shorter for more serious findings, particularly where there may be a potential restatement of the financial statements.

Our Rules provide a framework of remediation, discipline and enforcement mechanisms to address audit quality deficiencies at the firm and file levels. We conduct incremental risk assessments of firms subject to potential disciplinary/enforcement action to ensure the level of intervention matches the risk profile of the firm and the risk that significant findings pose to the investing public. We use a graduated approach to regulatory intervention that starts with recommendations, monitoring and remedial actions and escalates in severity in proportion to the seriousness of the significant findings.

[3] Securities legislation defines what constitutes a reporting issuer; each of the 13 Canadian securities commissions maintains a list of the reporting issuers in their jurisdictions.

Targeted remediation and enforcement action has either been completed or is in progress to address firms with unacceptably high levels of significant findings. We have increased our monitoring of firms with unacceptable levels of significant findings including action taken on our recommendations. Coming into the year two firms were operating under restrictions, requirements or sanctions; two non-annually inspected firms increased this number to four in 2020. Two investigations were commenced and are ongoing. Further details of enforcement action undertaken in 2020 and the escalation of our regulatory intervention is outlined in the **Enforcement Overview** on **page 21** of this report.

Two restatements have been required since our 2019 annual report, one at an annually inspected firm and one at a non-annually inspected firm. Where a restatement is required the firm must work with the reporting issuer and its legal counsel to effect the restatement as soon as possible — usually within the next quarterly reporting cycle.

The move to remote work and the economic upheaval has created a number of new audit risks. We have interacted extensively with the audit firms this year on their approach to addressing these risks. While we have inspected some audit files that were completed during the pandemic, including 14 engagement files with March 31, 2020 or later year ends, files where both the reporting issuer financial reporting process and the audit were performed remotely will not be available to inspect until 2021.

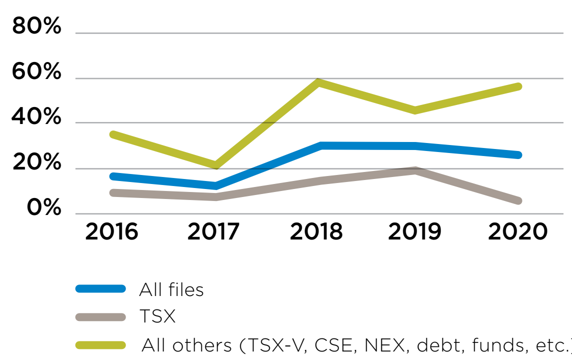
Common inspection findings and trends

Twenty-six per cent of files inspected at the 11 annually inspected firms had significant findings (2019: 29 per cent). In the past five years, the overall level of inspection findings has remained unacceptably high. While we have seen improvement related to audits of entities listed on the Toronto Stock Exchange (TSX), we have observed a steady increase in the number of findings in audits of other reporting issuers. In 2020 our annual inspections included 64 audit files of TSX listed entities and 43 other non-TSX listed entities (2019: 66 TSX; 43 other).

One restatement has been required across the annually inspected firms since our 2019 annual report. We also observed, not in connection with our inspections, a general increase in the number of restatements in 2020 compared to 2019.

PER CENT OF FILES WITH SIGNIFICANT FINDINGS

Five-year trend



The most common findings were related to auditing estimates involving significant assumptions and judgments about future conditions or events. Deficiencies included:

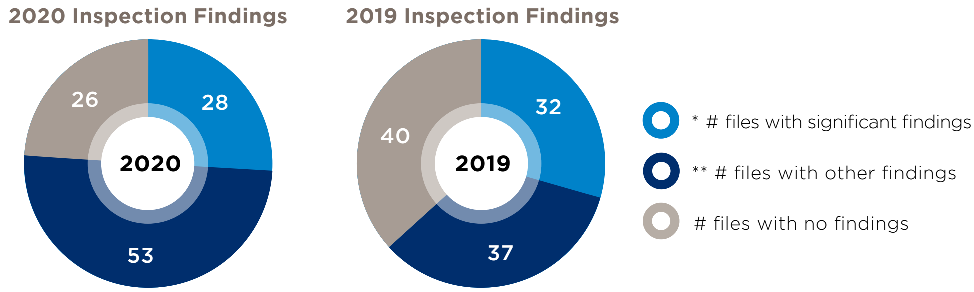
- Insufficient procedures to assess management's selection and application of methods, assumptions and data used in developing fair value estimates.
- Lack of retrospective reviews of management judgments and assumptions.
- Insufficient evidence to demonstrate how inconsistent information was considered and resolved by the engagement team.
- Over-reliance on management representations without corroboration with third party evidence.
- Lack of evaluation to assess whether significant deficiencies in internal control exist when management has not taken appropriate steps to understand or address estimation uncertainty.

We also identified concerns over the quality of audit evidence obtained to address the risks of material misstatement and the effectiveness of supervision and review by more senior engagement team members. Audit firms must incorporate a greater level of professional skepticism through all stages of the audit. Effective challenge of management on key judgments requires engagements to be staffed with sufficient resources at all levels, including specialized expertise where needed. Firm leadership must ensure senior team members have sufficient time to invest in each audit engagement to effectively supervise and review the work of those with less experience.

2020 ANNUAL FIRM INSPECTIONS SNAPSHOT

CPAB inspected 11 annual firms in 2020 and 107 engagement files (2019: 109) and identified significant findings in 28 files (2019: 32).

- Four largest firms: 72 engagement files; six with significant findings.
- Seven other annually inspected firms: 35 engagement files; 22 with significant findings.



*Significant findings — A significant inspection finding is defined as a deficiency in the application of generally accepted auditing standards related to a material financial balance or transaction stream where the audit firm must perform additional audit work to support the audit opinion and/or is required to make significant changes to its audit approach. CPAB requires firms to carry out additional audit procedures to verify there was no need to restate the financial statements due to material error, or to substantiate that they had obtained sufficient and appropriate audit evidence with respect to a material balance sheet item or transaction stream to support their audit opinion.

**Other findings — A noted deficiency in the application of generally accepted auditing standards related to a material balance sheet item or transaction stream where CPAB is able to conclude, without the engagement team performing additional procedures to support the audit opinion, that the deficiency is unlikely to result in a material misstatement. These findings, while not significant, indicate areas for improvement.

Firm-specific assessments

The firm-specific assessments for Deloitte LLP, Ernst & Young LLP, KPMG LLP and PwC LLP include the results of our engagement file inspections and our evaluation of the firms' quality management systems. The firm-specific assessments for the other seven annually inspected firms include our engagement file inspections; we have not evaluated the quality management systems of these firms.

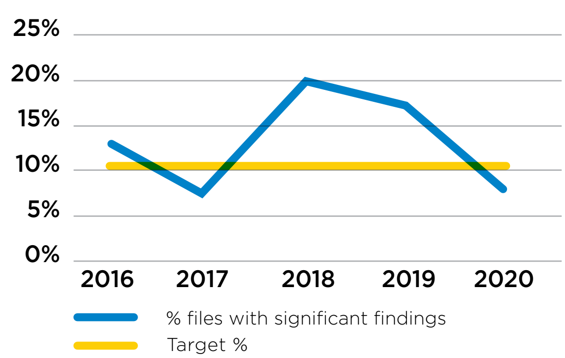
Deloitte LLP, Ernst & Young LLP, KPMG LLP & PwC LLP

Significant inspection findings have declined in the past two years. We inspected 72 files (2019: 72) and identified significant findings in six of those files (2019: 12). Two firms improved over the prior year and three firms met the target of no more than 10 per cent of files with significant findings.

The firm that did not meet the 10 per cent target, (and did not meet the target in previous years), must perform a number of procedures to identify underlying factors observed this year that continue to impact audit quality, including the implications on the effectiveness of its quality management systems. Mandatory development and implementation of specific actions that will result in meaningful improvement to audit quality will be undertaken by the firm. A decision regarding additional regulatory intervention will be made in 2021.

SIGNIFICANT FINDINGS VS TARGET

Five-year trend



The three firms that did not meet the target in 2019 acted on CPAB's recommendations and developed or updated detailed action plans to address their quality issues. Successful implementation of longer term initiatives, including planned enhancements to the firms' quality management systems, will be critical to achieving improved sustained audit quality.

Remediation work being performed by these audit firms has either been completed or is in process. No restatements have been required since our 2019 annual report.

We evaluated the quality management systems at each firm. The table below indicates the number of firms within each rating by criteria for each of 2020 and 2019. Firm progress against the target of 90 per cent of firm quality management systems criteria rated as acceptable or acceptable with opportunities for enhancement by 2021 was mixed.

		Acceptable	Acceptable with opportunities for enhancement	Needs improvement	Requires significant improvement
Accountability for audit quality	2020	1	3		
	2019		4		
Risk Management	2020	2	2		
	2019	2	2		
Talent & Resource Management	2020		1	3	
	2019		1	2	1
Oversight	2020	1	1	1	1
	2019		2	1	1

Each firm made progress in responding to CPAB's 2019 observations including amending existing or implementing new processes and controls and linking them to our assessment criteria.

However, firm leadership needs to commit sufficient resources to respond to deficiencies, integrate CPAB's quality management systems framework into their implementation plan for the new international standards on quality management effective in 2022 and continually evaluate the nature, timing and extent of monitoring controls to ensure they remain appropriate. Quality management systems that clearly document key processes and controls and identify risks and the development of responses that recognize the iterative nature of the new international quality management standards and CPAB's assessment criteria will be critically important.

2020 QUALITY MANAGEMENT SYSTEMS ASSESSMENTS BY CRITERIA

The following is a summary of our assessment and recommendations for each criterion. Not all assessments or recommendations apply to all firms.

ACCOUNTABILITY FOR AUDIT QUALITY

Responsibility and accountability for audit quality is clearly defined, delegated and monitored across firm leadership.

Assessment
- All firms improved in response to our 2019 recommendations.

Recommendations for improvement
- Refine performance management processes to demonstrate how leadership is held accountable for audit quality.
- Define how responsibility and accountability for experts is delegated and monitored, including ongoing review of availability to carry out assigned responsibilities.

RISK MANAGEMENT

Client and audit risk are identified and effectively measured, monitored and responded to.

Assessment
- Controls and processes to monitor decisions to accept new or continue with existing clients are established at all firms.

Recommendations for improvement
- Provide evidence to demonstrate the operating effectiveness of controls related to identification, review and intervention in high-risk engagements and challenge of decisions to continue with existing clients.

TALENT & RESOURCE MANAGEMENT

Competency and capacity at all levels of talent, including experts, is proactively aligned to address changing needs, priorities and risks.

Assessment
- All firms made improvements to respond to deficiencies identified in 2019 but more work is necessary.
- Significant inspection findings indicate controls to ensure partners and staff have enough time to dedicate to specific audits are not designed appropriately or operating effectively.

Recommendations for improvement
- Implement changes to controls that ensure all engagements are assigned resources with the appropriate competency and capacity to execute quality audits.
- Proactively monitor assignment of technical resources so that specialized expertise is assigned to support engagement teams.
- Monitor excessive hours and document actions by leadership to support engagement teams.

OVERSIGHT

Leadership has visibility on the progress of audit work and changes in risk to initiate proactive issue resolution.

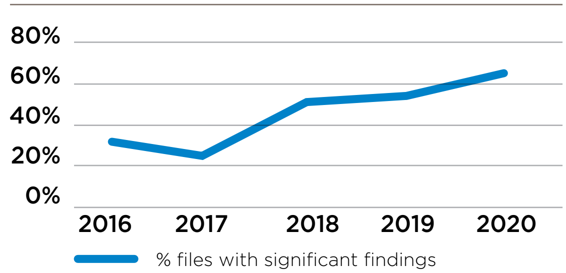
Assessment
- All firms made improvements to respond to deficiencies identified in 2019 but more work is necessary.
- Significant inspection findings indicate that controls related to leadership oversight may not be appropriately designed or operating effectively.

Recommendations for improvement
- Retain evidence of ongoing monitoring controls to identify material changes in engagement scope, risk or other matters where intervention may be required.
- Establish a defined milestone program to provide leadership with visibility into the progress of engagements.
- Formalize escalation and oversight mechanisms.

Davidson & Company LLP, DMCL LLP, Manning Elliott LLP, McGovern Hurley LLP, MNP LLP, Raymond Chabot Grant Thornton LLP, Smythe LLP

Significant inspection findings have increased over the past five years. We inspected 35 files (2019: 37) and identified significant findings in 22 of those files (2019: 20). Four firms (2019: three) had significant inspection findings in more than 50 per cent of files inspected and two firms (2019: four) in more than 25 per cent of files inspected. One firm (2019: none) had no significant findings thereby meeting the target of no more than 10 per cent of files with significant findings.

SIGNIFICANT FINDINGS
Five-year trend



Targeted remedial and enforcement action[4] is in place for firms with unacceptably high levels of significant findings. Enhanced regulatory intervention was undertaken to address specific breaches of professional standards including entering into formal undertakings and increased monitoring of firms with high levels of significant findings to ensure timely action on recommendations for improvement. The undertakings included actions such as the preparation of comprehensive audit quality action plans, additional staff and partner training, enhanced client acceptance and continuance processes, cultural assessments and in some instances agreements to limit the reporting issuers audited or partners involved in the public company audit practice. Further regulatory intervention as a result of our 2020 inspection findings is being considered and decisions will be made in 2021.

In 2021 we will complete preliminary evaluations of quality management systems at select annually inspected firms taking into consideration the level of significant inspection findings and number and market capitalization of reporting issuers audited by the firm; all other annually inspected firms will be assessed in conjunction with implementation of the new international quality management standards. We are encouraging these firms to begin early implementation of these standards.

Non-annually inspected firms

We execute a tailored inspection methodology to assess non-annually inspected firms. Common inspection findings and potential causal factors leading to significant findings are incorporated into our risk analysis of these firms and the companies they audit. We inspected 12 audit files (2019: 33) and identified significant findings in seven (2019: 15) of these across eight non-annually inspected firms (2019: 24). One restatement has been required since our 2019 annual report. The balance of our 2020 non-annual inspections will be completed during the first quarter of 2021.

The level of inspection findings at these firms is unacceptably high. In 2020, we imposed restrictions and requirements on two firms. Follow up inspections will be performed to assess the effectiveness of the actions in response to our recommendations and determine whether further regulatory intervention is necessary.

Overseeing audit quality in a global pandemic: heightened vigilance is essential

Unpredictability and volatility will affect the complexity and measurement uncertainty surrounding many accounting estimates, including going concern evaluation, complex valuations, impairment of assets and allowances for expected credit losses. We expect audit challenges will be more prevalent for engagement files inspected in 2021. When assessing the risk of material misstatement, auditors must be alert to the subjectivity of accounting estimates, ineffective internal controls, management bias and events and conditions that increase the risk of fraud. Heightened vigilance will be essential as audit work continues to be performed remotely in 2021.

Firms should have processes and controls in place to monitor the progress and changes in the risks of individual engagements to enable firm leadership to provide support as needed:

- **Supervision and review:** Sufficient staff with the appropriate level of experience and time must be assigned to execute quality audits. Identification and assessment of risks, either due to fraud or error, and designing procedures that are responsive to those risks, will require increased professional skepticism and involvement of more senior members of the engagement team throughout all stages of the audit.
- **Sufficiency of resources:** Firms must be alert to circumstances that may impact the ability to issue audit opinions in line with previously agreed timelines, including remote working conditions, staff illness or other factors that cause resource limitations.
- **Specialized expertise:** Experts must understand their responsibility and accountability for audit quality; firms must have processes and controls to proactively monitor the assignment of experts. We anticipate an increased need for specialized expertise, particularly in the areas of liquidity, valuation, accounting, auditing and forensics.
- **Oversight:** Increased oversight is needed so that firm leadership can effectively assess the progress of audit work and changes in risk to support engagement teams in a timely manner. This could include additional monitoring at the firm level to identify declines in the financial condition of reporting issuers that cast significant doubt on their ability to continue as a going concern and delays in audit work.

[4] Enforcement or disciplinary action may include mandating the firm to change its audit practices, provide additional training, restricting a firm from taking on new clients or auditing public companies altogether and other remedial actions. See section 600 of CPAB's Rules for a comprehensive list.

Engagement teams must sharpen their focus in these areas:

- **Increased fraud and error risk:** Historically, economic upheaval has resulted in increased financial fraud. Auditors should understand the impact of the pandemic on the reporting issuer and its environment, particularly any changes to internal controls and indicators of management bias. Areas that could be more susceptible to fraud include revenue recognition and impairment. Remote working conditions that result in changes to the control environment may also create an increased risk of errors going undetected or opportunities for misappropriation of assets and cyberattacks.
- **Going concern:** Management may need to consider a range of factors related to current and expected profitability, debt repayment schedules and sources of replacement financing to demonstrate the reporting issuer's ability to continue as a going concern. Auditors must increase professional skepticism when evaluating management's assessment, including consistency with information obtained throughout the audit and being alert to contradictory information. We expect additional circumstances where management needs to perform a more detailed assessment to support that the going concern basis of accounting is appropriate.

Continued focus on designing and implementing strong quality management systems will be critical for firms to improve audit quality as the profession navigates an unprecedented level of uncertainty. We are also:

- Requiring certain annually inspected firms to develop processes and controls to respond to CPAB's quality management systems assessment criteria.
- Encouraging other annually inspected firms to begin early implementation of the international standards on quality management (ISQM 1) and engagement quality reviews (ISQM 2, as well as International Standard on Auditing 220, Quality Control for an Audit of Financial Statements).
- Developing a scalable model to evaluate quality management systems of the other annually inspected firms in conjunction with the required implementation date of the new international quality management standards in 2022.

Foreign jurisdictions access

In 2020 we obtained access to review component auditor working papers located in foreign jurisdictions for four engagement files selected for inspection. For a fifth file, we were precluded due to local law impediments from obtaining access to the component auditor working papers.

Certain foreign auditors and countries continue to prevent CPAB from inspecting audit work of Canadian public companies conducted in those foreign jurisdictions. We are concerned about the potential impact of this on auditor oversight, integrity of financial reporting and, ultimately, the investing public. With CPAB's assistance the Canadian Securities Administrators have tabled proposed amendments to National Instrument 52-108 and the Companion Policy 52-108 (Auditor Oversight) which, if passed, will assist CPAB in accessing audit work performed outside of Canada. CPAB expects the proposed amendments will come into force in 2021.

(For a detailed list of jurisdictions where CPAB has been unable to access audit working papers, please visit www.cpab-ccrc.ca).

2020 inspections scope

How CPAB chooses files to review

CPAB's risk-based methodology for choosing files (and the specific areas of those files) for inspection is not intended to select a representative sample of a firm's audit work. Instead, it is biased towards higher-risk audit areas of more complex reporting issuers or areas where the audit firm may have less expertise, so there is a greater likelihood of encountering audit quality issues. Our inspections do not look at every aspect of every file and are not designed to identify areas where auditors met or exceeded standards. Results should not be extrapolated across the entire audit population, but instead viewed as an indication of how firms address their most challenging situations.

Registered firms

At December 31, 2020, 248 audit firms were registered as a Participating Audit Firm with CPAB. During the year, 17 new firms registered (three Canadian and 14 foreign firms). Thirty-four firms withdrew from registration and two firms' registration was terminated for failing to comply with administrative requirements. Audit firms that voluntarily participate in the **Protocol for Audit Firm Communications of CPAB Inspection Findings with Audit Committees** (Protocol) share significant file-specific inspection findings with their reporting issuers' audit committees. In 2020, 24 of the 35 files with significant findings were shared by the audit firm with the relevant audit committee (2019: findings shared with 35 of 47 reporting issuer audit committees).

Nine of the 11 annually inspected firms participate in the Protocol — a complete list is available at **www.cpab-ccrc.ca**. We strongly encourage all audit firms to share significant file-specific inspection findings with their reporting issuers' audit committees.

How firms respond to CPAB findings

The majority of CPAB's inspection findings in 2020 required the audit firm to carry out additional audit procedures to verify there was no need to restate the financial statements due to material error. The remaining findings required the audit firm to add considerable evidence to the audit file to show it had obtained sufficient and appropriate audit evidence with respect to a major financial statement item. For the 11 annually inspected firms, one restatement has been required (2019: two).

Enforcement Overview

Throughout the inspection cycle CPAB expects the firms to resolve issues as they arise during our reviews.

Our Rules provide a framework of remediation and enforcement mechanisms to address audit quality deficiencies at the firm and file levels. This allows us to respond quickly when we believe more work is required to support the audit opinion. For example, CPAB operates under the principle that, within 10 days of determining a file deficiency, we notify the firm. We then require their written response within the next 10 days. Remediation must be completed within a defined period — usually 180 days; this deadline is much shorter for more serious findings, particularly where there may be a potential restatement of the financial statements. CPAB expects firms to remediate file deficiencies before their reporting issuer's next quarterly report or next audit committee meeting.

What happens when a firm does not show improvement?

If a firm fails to improve audit quality deficiencies, CPAB has the authority to escalate its regulatory intervention by imposing requirements, restrictions and sanctions. This can include restricting a firm from taking on new clients or auditing public companies altogether. Such regulatory intervention helps to ensure that firms act quickly and appropriately to resolve deficiencies.

Requirements typically involve CPAB mandating the firm to change its audit practices, conduct culture assessments or provide additional training, for example, to improve quality. If audit quality has not improved during a follow-up inspection of an audit firm operating under a requirement, or if CPAB feels the performance of the firm and the severity of the lack of audit quality in the first instance requires so, CPAB will impose a restriction.

Restrictions typically involve CPAB limiting the audit firm's practice in some way. If there is demonstrated continued lack of improvement of audit quality at an audit firm with a requirement or restriction already in place, or if in the first instance there is demonstrated egregious behavior, CPAB will impose a sanction.

With the imposition of a sanction, CPAB would typically severely limit the audit firm's practice and obligate the firm to notify the audit committees of its reporting issuer clients. Other forms of intervention at this level may include assignment of an independent monitor to observe and report on a firm's compliance with the professional standards, termination of one or more audit engagement and/or public censure.

2020 enforcement actions

As of December 31, 2020, there were restrictions imposed on two firms. CPAB has restricted the acceptance of new reporting issuers and required an external professional to act as engagement quality control reviewer on all public company audits for both firms. One of the two firms is also required to engage an external professional to perform quality monitoring of the firm's system of quality control and of completed reporting issuer assurance engagements. Both firms will continue to operate under these requirements and restrictions until each has demonstrated improved audit quality. There were no sanctions imposed in 2020.

When does CPAB initiate an investigation?

In addition to the power to impose requirements, restrictions and sanctions as a consequence of an inspection, such actions may also be imposed as a consequence of an investigation. An investigation is commenced when CPAB considers that a Violation Event[5] may have occurred, and it wishes to seek additional information.

Investigation activity is prioritized to address areas of emerging or significant risks to the investing public and risks associated with quality control deficiencies. In 2020, two investigations were initiated.

Are CPAB's enforcement actions publicly available?

Although public disclosure is not mandatory under our Rules, CPAB has the authority to publicly hold firms to account by ordering disclosure of various requirements, restrictions and sanctions to a firm's reporting issuer clients or the public. Disclosure may be imposed to address issues that pose the greatest risk to the investing public and to deter other firms from engaging in similar conduct. For example, a public censure may be published on CPAB's website or, in serious cases, in a news release. CPAB considers the seriousness of the Violation Event and the risk of harm to the investing public when making this determination. In 2020, there were no such disclosures.

Can a firm challenge CPAB's regulatory intervention?

Firms have the right to petition for a review proceeding before any requirements, restrictions or sanctions are imposed by CPAB. An independent panel of hearing officers appointed by the Council of Governors presides over these proceedings. There were no such challenges in 2020.

[5] A Violation Event is defined in CPAB's Rules as: (i) an act or omission in violation of CPAB's Rules or chartered professional accountant standards; (ii) a failure to supervise a person to prevent such violations, and the person has committed the act or omission; (iii) a failure to cooperate with the terms of an inspection or investigation, or (iv) a failure to comply with the terms of any requirement, restriction or sanction imposed by CPAB.

Driving audit quality in pandemic times — in conversation with our stakeholders

2020 was a year of heightened risk to high-quality audits. CPAB quickly shifted to address these risks, adapting how we engaged with stakeholders, focusing on conversations to address the associated impact and sharing good practices and perspectives.

Since the start of the pandemic, CPAB held regular conversations on current issues with audit firms and audit committees and issued six publications addressing risks related to going concern, fraud, internal controls and implications for audit committees.

AUDIT COMMITTEE OUTREACH

- **Nine Virtual Audit Committee Forums (183 individuals attended)**
- **Engagement with directors of 361 reporting issuers**

Audit Quality Roundtable working groups — recommendations to improve practice

In October 2019 CPAB and the Office of the Superintendent of Financial Institutions hosted an Audit Quality Roundtable focused on barriers to audit quality in Canada. As a follow up CPAB initiated four working groups to examine critical audit quality issues: fraud detection, going concern assessments, improving professional skepticism and responding to novel industries/emerging issues. Implementation of the recommendations of these working groups by the audit profession will be critical to improving audit quality and reducing loss to the investing public, particularly as global economic uncertainty remains.

CPAB Inspections Forum Series

Our inaugural Inspections Forum Series covered common inspection findings and highlighted areas for improvement. Two hundred and eight audit firm partners and senior audit practitioners attended four online sessions and access was also provided through a recorded version.

Influencing global audit quality consistency

In 2020 global audit regulators adjusted to the practical challenges of carrying out audit oversight during the pandemic, emphasizing the importance of high quality financial information and audits. We dedicated resources to the work of the International Forum of Independent Audit Regulators (IFIAR) and discussions with other audit regulators, including connecting with the global network audit firms to understand the impact of the pandemic on their audits and sharing our approaches to audit oversight with audit regulators around the world. We led the start-up of IFIAR's Technology Task Force charged with evaluating the impact of technology tools used by the largest audit firms.

Looking ahead

In 2021 we will focus on the areas we expect will have the most significant impact on audit quality and protecting the investing public including fraud, going concern and technology. We will also increase our outreach with key stakeholders that oversee and depend on high-quality audits, including audit committees, and increase our interactions with the investor community.

Our people — coming together in a crisis

COVID-19 presented unanticipated challenges for everyone at CPAB. We prioritized the safety and wellbeing of our people from the onset of the crisis, immediately transitioning to a remote work environment enabled by our team's flexibility and agility, technology and network infrastructure, collaboration tools and talent policies and guidelines.

Once our crisis response was triggered and we had provided our employees with the supports they needed to operate safely and effectively in the new environment, we began to look forward to the future of how and where we work, modifying as the year (and the pandemic) went on. We were acutely aware of the challenges our team faced in balancing work and personal responsibilities during the crisis. Regular pulse surveys and 1:1 conversations throughout the year assisted us in understanding and responding to how our people were adapting and to prioritize any additional support needed. Our monitoring will continue in 2021; we will likely implement a hybrid working approach, combining remote and onsite arrangements as the situation permits.

We delivered virtual learning initiatives centred on building the professional knowledge and skills that are critical to our regulatory effectiveness, including audit issues raised by emerging industries and the use of technology in the audit. We complemented this with non-technical and leadership training.

CPAB's employee pulse surveys showed significant engagement; the average response rate was 96 per cent. We closed off the year with a comprehensive employee engagement survey; 95 per cent of our employees participated (2019: 56 per cent). The survey showed 75 per cent engagement among our employees. We will address feedback related to employee wellbeing, workplace flexibility and career development in 2021.

We increased our headcount by five per cent, slightly lower than planned. We experienced higher retention of 91 per cent over previous years (2019 and 2018: 88 per cent).

CPAB values diversity, equity and inclusion. Sixty-one per cent of our employees are female (2019: 63 per cent). In 2020 the percentage of women on our leadership team increased to 70 per cent (2019: 60 per cent). Areas for improvement are increasing the diversity of our board and leadership team to more closely reflect the Canadian population.

KEY DEMOGRAPHICS

Gender	2020	2019	2018
Male	22 (39%)	20 (36%)	23 (46%)
Female	35 (61%)	35 (64%)	27 (54%)

Other key information	2020	2019	2018
Average number of employees	54	51	48
Employee retention rate	91%	88%	87%
Females on Leadership Team	7 (70%)	6 (60%)	4 (44%)

Underrepresented populations[6]	2020	2019	2018
Organization wide	20 (35%)	18 (33%)	16 (33%)
Leadership Team	1 (10%)	1 (11%)	2 (18%)

[6] BIPOC and LGBTQ+

Community Matters

As part of our Community Matters program, CPAB supports employees who wish to contribute to charitable initiatives through paid time off and corporate matching.

We continued our campaign to raise mental health awareness in the workplace through fundraising, educational sessions and employee support such as Mental Health in the Workplace, Introduction to Mindfulness and COVID-19 Fatigue and Handling Uncertainty, and CPAB's Employee Assistance Program. CPAB also donated to food banks across the country.

In 2021 CPAB will support mental health awareness and wellness through fundraising initiatives, internal education and by fostering a healthy and inclusive work environment.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

CPAB is an independent, federally incorporated, not-for-profit corporation without share capital. Established in 2003, CPAB contributes to public confidence in the integrity of financial reporting of public companies in Canada through effective regulation and by promoting quality, independent auditing. National instrument 52-108 of the Canadian Securities Administrators requires that auditors of Canadian reporting issuers' financial statements be registered and in good standing with CPAB.

Our core work combines annual assessments of firm quality management systems and risk-based audit file inspections either directly or in co-operation with other regulatory bodies in Canada and abroad.

This management's discussion and analysis (MD&A), prepared as of February 2, 2021, is an analysis of CPAB's operating results for the year ended December 31, 2020. It should be read in conjunction with the audited financial statements for the year ended December 31, 2020 and related notes which have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. It also includes the outlook for 2021, principal risks and uncertainties that could affect the organization and forward-looking information that describes CPAB's budget, estimates and forecasts. Forward-looking information can be identified by use of future conditional verbs such as will, should, would or could, or forward-looking terminology, such as budgets, estimates, anticipates, plans, intends and believes.

Forward-looking statements involve risks and uncertainty and reflect CPAB's current views of future events and financial performance. Risks and uncertainty are discussed in the risk management section of this MD&A. Forward-looking information is based on assumptions and estimates including but not limited to the long term economic impact of the pandemic on our revenues and the timing of resumption of travel. Actual results may substantially differ from the forward-looking information.

All amounts are expressed in Canadian dollars.

Financial highlights

CPAB is committed to prudent fiscal management and is operating on a cost-recovery basis. The chart below summarizes the key financial data over the last three years.

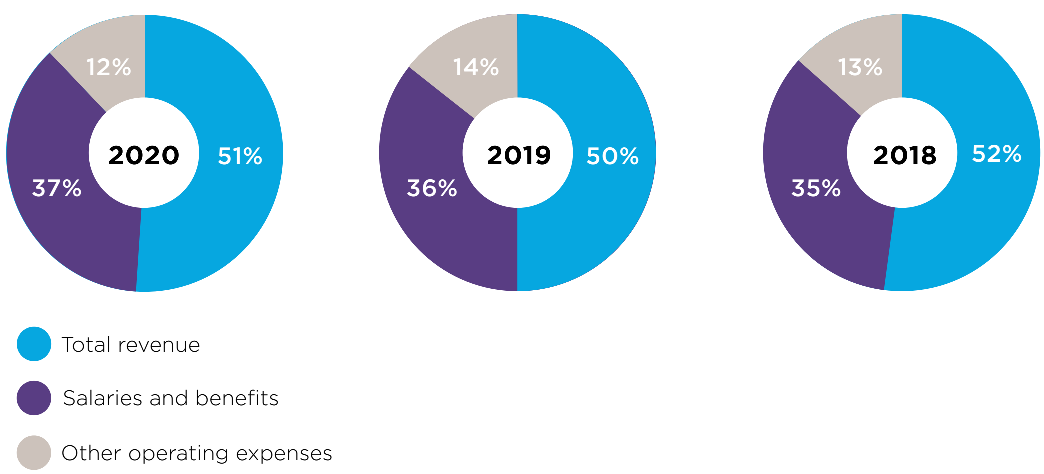
(in $'000)	2020 Actual	2019 Actual	2018 Actual
TOTAL REVENUE	**$ 18,044**	**$ 17,209**	**$ 16,870**
Salaries and benefits	13,098	12,413	11,236
Other operating expenses	4,240	4,935	4,319
TOTAL EXPENSES	**17,338**	**17,348**	**15,555**
EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE)	**$ 706**	**$ (139)**	**$ 1,315**
TOTAL ASSETS	10,556	10,286	9,485
TOTAL LIABILITIES	2,352	2,788	1,848
ACCUMULATED SURPLUS	**$ 8,204**	**$ 7,498**	**$ 7,637**

Revenue increased by $0.8 million or 4.85% to $18.0 million at the end of the year primarily as a result of higher audit fees. Total expenses were similar to last year; the increase in salaries and benefits was largely offset by travel expense savings.

In response to the global pandemic, CPAB moved to remote work and inspections and learning programs were conducted virtually. Since that period, travel costs were reduced to nil.

Operating results

STATEMENT OF OPERATIONS

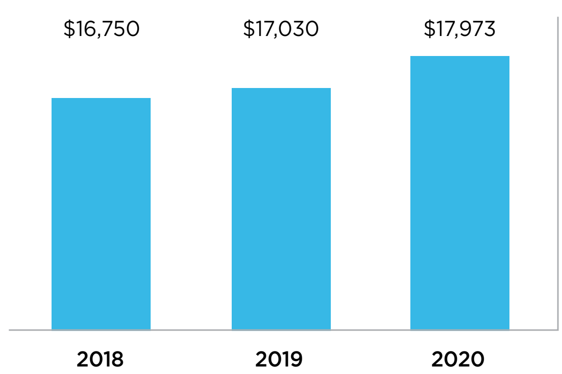


Revenues

CPAB derives the vast majority of its revenue from Canadian reporting issuers. Each year, CPAB invoices Participating Audit Firms that bill their reporting issuer clients.

Annual Participation fee revenue increased by 5.5% from $17.0 million in 2019 to $18.0 million mainly attributable to the increase in audit fees. In 2020, CPAB charged 1.22% (2019: 1.22%) of the total global audit fees billed to Canadian reporting issuers with a cap of $75,000 for foreign reporting issuer companies. The audit fees used to calculate CPAB Annual Participation fees are the fees disclosed on SEDAR/EDGAR (public company reporting systems used by securities regulators in Canada and the US, respectively) as of November 30, 2020. These fees relate to the 2019/2020 financial statements audit and were determined before the pandemic. As a result, current revenues were not impacted by the economic disruption; however, we are expecting an impact in future years.

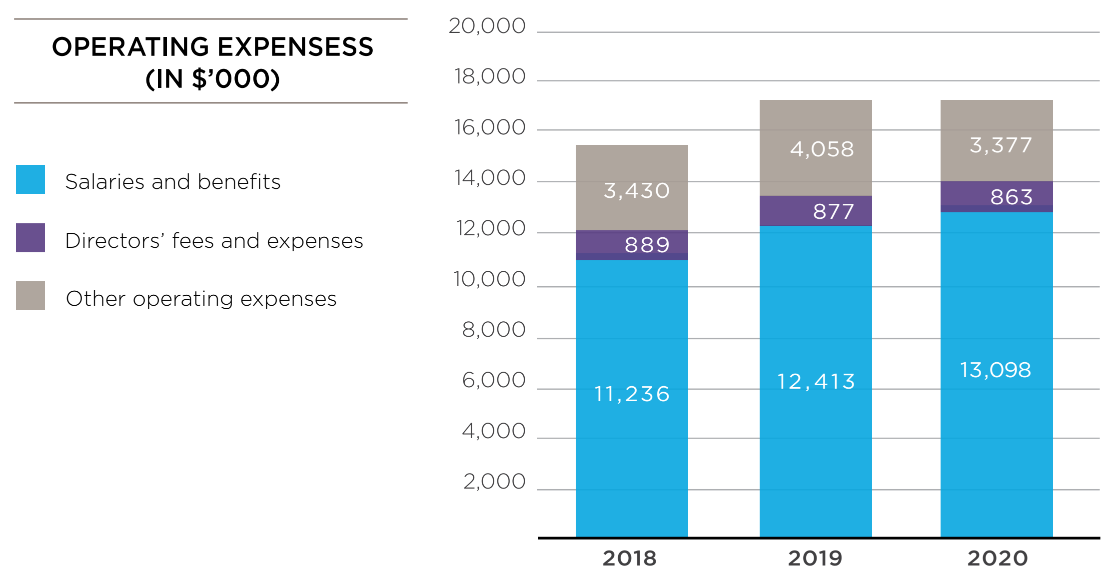
ANNUAL PARTICIPATION FEES (IN $'000)



Operating expenses

Overall, operating expenses amounted to $17.3 million. Higher salaries and benefits were largely offset by savings on travel expenses, outreach activities and professional services.

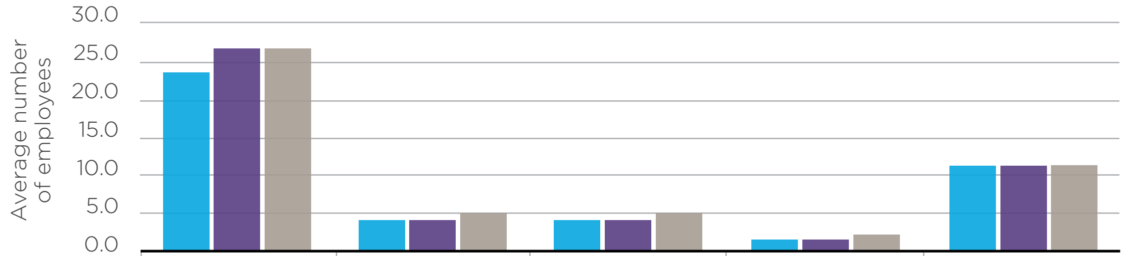
OPERATING EXPENSESS (IN $'000)



In 2020 salaries and benefits for inspection and corporate employees was CPAB's largest expense, totaling $13.1 million or 76% of total expenses of $17.3 million (12.4 million or 72% of total expenses in 2019).

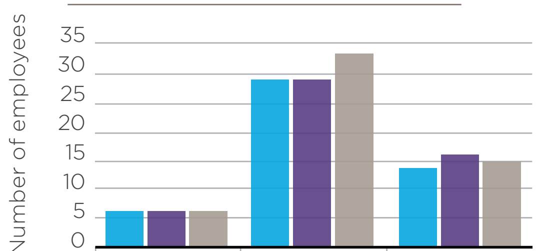
The increase of 5.5% or $0.7 million was mainly due to increased headcount to support expanded regulatory assessment work and the creation of a discipline and enforcement department. In 2020, CPAB had an average of 54 employees (2019: 51).

HEADCOUNT ANALYSIS



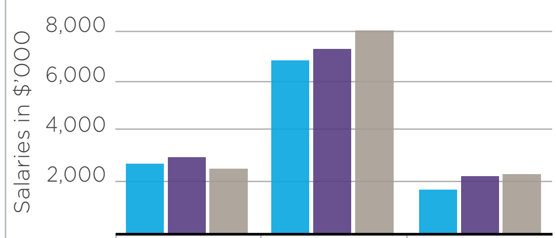
	Inspections	Outreach activities	Registration and risk	Legal, discipline and enforcement	Corporate
2018	25.0	5.0	5.0	1.0	12.0
2019	28.0	5.0	5.0	1.0	12.0
2020	28.0	6.0	6.0	2.0	12.0

HEADCOUNT BY CATEGORIES



	Executive team	Inspection team including risk	Other professional
2018	6	29	13
2019	6	29	16
2020	6	33	15

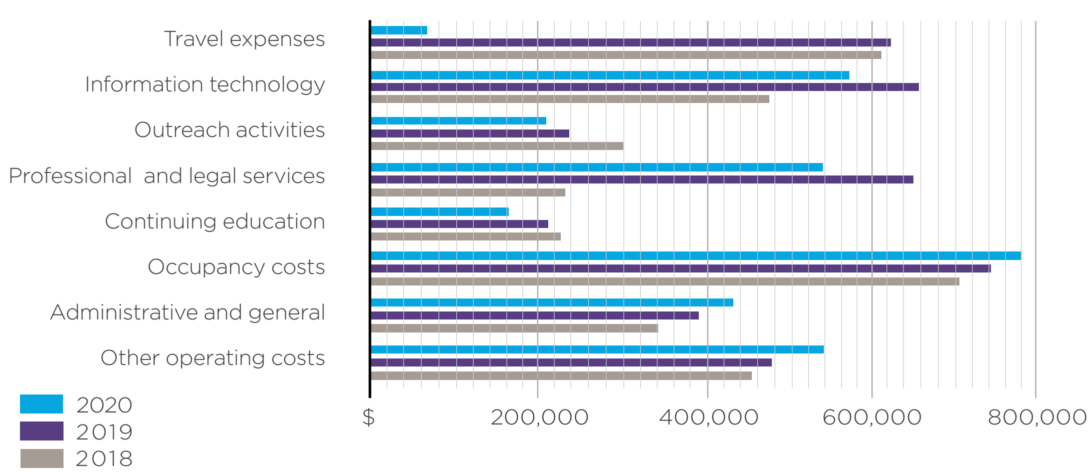
SALARIES BY CATEGORIES



	Executive team	Inspection team including risk	Other professional
2018	2,721	6,875	1,640
2019	2,914	7,317	2,182
2020	2,570	8,315	2,213

The following table shows operating expenses composition over the last three years excluding salaries and directors' fees.

OTHER OPERATING EXPENSES



Due to the pandemic, travel expenses declined from $633K in 2019 to $75K in 2020. Similarly, travel, facilities and food costs related to our continuing education program were not incurred after March 2020. As a result, continuing education costs decreased from $224K in 2019 to $175K in 2020.

Previous investments in process automation and new telecommunication technologies supported a smooth transition to remote work. As a result, apart from small equipment purchases to support remote work, the additional IT expenses were limited to assessing and reinforcing our cyber security. Information technology expenses decreased from $666K in 2019 to $583K in 2020 mainly due to decreased use of external IT consultants.

Professional and legal services decreased from $657K in 2019 to $548K in 2020, mainly attributable to a decrease in recruitment fees of $175K partially offset by a slight increase in legal fees.

Other operating costs include subscriptions and memberships, insurance and amortization costs.

Financial position

Condensed statement of financial position as of December 31

(in $'000)	2020	2019	2018
Cash and investments	$ 8,546	$ 8,342	$ 7,886
Accounts receivable and prepaid expenses	499	553	529
Accounts payable and accrued liabilities	1,959	2,319	1,442
Net working capital	**$ 7,086**	**$ 6,576**	**$ 6,973**
Equipment, leasehold improvements and intangible assets	1,510	1,390	1,070
Deferred lease inducements	392	468	406
Net Assets	**$ 8,204**	**$ 7,498**	**$ 7,637**

At December 31, 2020, CPAB had a working capital position of approximately $7 million (2019: $6.6 million). CPAB has established a guideline for a reserve of approximately four to six months of operational costs; this would be used to ensure business continuity should there be fluctuations in revenue and to maintain consistency in the Annual Participation fee.

While fluctuations in the timing of receipts caused a decrease in accounts receivable of $141K, prepaid expenses increased by $88K due to unused flight passes. Uncertainty remains regarding how long travel restrictions will be in place, but management anticipates these flight passes will be used before they expire on December 31, 2021.

Accounts payable and accrued liabilities decreased as a result of the 2019 accrual of $124K for leasehold improvements related to our office space that were paid in early 2020 and the timing of other payments.

CPAB's investment policy, updated in early 2020, requires that excess cash be invested in accordance with criteria assessing risk, yield and liquidity. Investments may be made in short-term government of Canada treasury bills, Canadian chartered bank term notes, top-rated certificates of deposit, money market funds, direct obligation of the Canadian governments and fixed income securities with an investment grade of AAA or plus.

Segmented information

Previously our core operations were organized into three segments: inspections, other regulatory activities and international.

We are no longer presenting separate segmented information as it does not reflect how the organization currently operates or the financial information reviewed by the chief operating decision-maker.

Outlook for 2021

CPAB is managing its finances efficiently to support the priorities outlined in our 2019-21 strategic plan. We will continue to promote sustainable audit quality through our audit quality assessment program and participate in discussions related to audit quality and audit policy domestically and internationally. We will reinforce our investment in developing our people and technology.

2021 CPAB operating budget (unaudited)

YEAR ENDED DECEMBER (in $'000)	2020 ACTUAL	2020 BUDGET	2021 BUDGET
REVENUE	**$ 18,044**	**$ 17,585**	**$ 19,020**
EXPENSES			
Salaries and benefits	13,098	12,725	13,600
Directors' fees and expenses	863	948	911
Travel	75	697	140
Occupancy costs	790	790	805
Administration and general	442	392	370
Information technology	583	693	830
Outreach activities	215	282	240
Continuing education	175	270	180
Insurance	176	150	202
Professional services	276	303	250
Legal services	271	150	500
Amortization	374	450	425
	17,338	**17,850**	**18,453**
EXCESS OF REVENUE OVER EXPENSES, (EXPENSES OVER REVENUE)	**$ 706**	**$ (265)**	**$ 567**

Commentary on the 2020 variances from budget

Except for revenue and legal expenses, differences between actual and budgeted operating costs are mainly attributable to the pandemic. Government and health authority restrictions lowered our travel expenses. Remote work brought some additional costs related to IT and health and safety equipment. The annual professional development meeting scheduled in March 2020 was replaced by virtual training sessions. As a result, net savings on our operating costs amounted to approximately $0.6 million.

Salaries and benefits for the year 2020 amounted to $13 million compared to a budgeted amount of $12.7 million. This was mainly due to a lower attrition rate than anticipated (10% vs 15%).

Increased legal fees were the result of more frequent consultations related to discipline and enforcement, National Instrument 52-108 and CPAB disclosures.

Commentary on the 2021 operating budget

Revenue

CPAB's 2021 revenues from Participating Audit Firms are calculated based on the audit fees disclosed by reporting issuers on SEDAR/EDGAR as of November 30, 2020. These fees, fixed before the pandemic, relate to the 2019 fiscal year audits with an average increase of 4.5% compared to the previous year. As a result, we anticipate revenue for 2021 to approximate $19 million.

Given the uncertainty over revenue beyond 2021 and the impact of the pandemic on audit fees in the future, management has maintained the 2021 fee rate at 1.22%. The surplus expected to be generated in 2021 will allow CPAB to keep the fee rate at the same level in future years even if there is an overall reduction in revenue, while maintaining its accumulated reserve at a level of between four to six months of operations.

Operating expenses

CPAB's operating expenses for 2021 are budgeted at $18.4 million. This is a 6.4% increase over the 2020 actual operating expenses and a 3.4% increase compared to the 2020 budgeted amounts.

In 2021, CPAB expects a 6% increase in its legal, discipline and enforcement and regulatory assessments teams. This reinforcement of our workforce should result in a 3.8% increase in salaries and benefits in 2021 compared to 2020.

The budget anticipates travel resuming in the fall 2021. A combination of virtual and in person meetings (where and when they might become feasible) should result in a continued overall reduction in travel expenses compared to pre-pandemic levels.

We have budgeted higher legal expenses for 2021 as we continue to enhance our investigation, enforcement and discipline processes and complete other projects currently in progress.

CPAB anticipates capital expenditures of approximately $0.7 million; $0.5 million relates to carry-forward 2020 budget items where the purchases were delayed (primarily information technology infrastructure, data management upgrades and certain leasehold improvements).

Beyond 2021, revenue will likely be reduced due to the economic impact of the pandemic on certain Canadian industries. With the exception of information technology, we expect operating cost increases will primarily be impacted by inflation.

Executive compensation

CPAB uses Mercer Canada's Professional Services Industry Compensation Survey and their consultancy services in establishing compensation ranges for its employees and executives. CPAB also monitors public comparative information provided by provincial securities regulators. Taken together, these practices support our efforts to provide compensation that is comparable and competitive.

Executive compensation in 2020, including all amounts paid to the CEO, Chief Risk Officer and Vice President, Strategy, Chief Financial Officer and Regional Vice President Eastern Canada, Vice President, Inspections and Regional Vice President Western Canada totaled $2.6 million (2019: $2.9 million). This includes salaries, accrued bonuses, registered retirement savings plan contributions and benefits.

Principal risks and uncertainties

CPAB's enterprise risk management program, led by our Chief Risk Officer and overseen by the Board of Directors, addresses all aspects of CPAB's operations. Management reviews and updates the plan at least annually.

In 2020, CPAB's crisis response was tested by the COVID-19 pandemic. The health and safety of our people was a priority and resources were mobilized to enable us to work remotely. We performed scenario planning to address the potential organizational impacts of the pandemic and financial disruption in the short and longer term.

The pandemic also heightened the threat of cyberattack and data security continued as a priority in 2020. Central to CPAB's ability to fulfill its mandate are database design, management and security, development of and support for the Participating Audit Firm registration information system, and connectivity to support our websites and other services used by remote users. In 2020 we also faced an incremental risk and implemented security controls related to CPAB accessing audit files remotely. CPAB manages our data security risk in various ways including, but not limited to: appropriate firewalls; regularly engaging third parties to perform ethical hack and security assessments on CPAB's infrastructure and application controls; internal phishing training for our people; use of hard-drive encryption and internet protocol based global positioning system tracking tools on all laptops and smartphone devices; monitoring all sites to ensure maximum uptime; managing laptops and servers through the use of systems to ensure all critical patches are deployed regularly, and maintaining offsite disaster recovery and backup facilities.

2020 Critical Risks

Risk	Mitigation
Data Security — risk of data loss or security breaches related to private and confidential data.	• Application of data security controls and regular third party security assessments on CPAB's infrastructure. The review in 2020 focused on our remote infrastructure and the impact of working from home on our data security.
Reputational — risk to CPAB and audit profession's credibility due to public scrutiny of an audit firm, CPAB or a reporting issuer.	• Coordinated response among regulatory sector to the impact of COVID-19 including identification of areas where guidance or support was required. • Support the implementation of working group recommendations on fraud, going concern, professional skepticism and novel industries/emerging issues.
Audit Transformation — risk of CPAB's inability to quickly respond to changes to the audit (e.g., analytics, blockchain, AI).	• Leading IFIAR's Technology Task Force to coordinate efforts to understand and evaluate efficacy of global audit tools. • Building information technology skillsets through professional development, targeted recruiting and identification of consultants.
Inspections — risk that inspections are unable to influence change resulting in continued audit execution inconsistency.	• Completion of the evaluation of quality management systems at four largest audit firms. • Launched Inspections Forums Series targeted to mid and small market audit firms.

In addition to our critical risks, the following risks could have a material impact on CPAB's ability to achieve our strategic priorities:

- **CPAB's fiscal health —** We are monitoring the financial outlook of Canadian reporting issuer audit fees given COVID-19 and implications for CPAB's long-term fiscal stability. Our accumulated reserves are currently sufficient to address potential short-term impacts on our resources.
- **Foreign jurisdictions —** Our risks include legal or other limitations on CPAB's access to audit working papers in certain countries. CPAB is continuing to pursue legislative change to support its mandate as an independent audit regulator. During 2020, we worked with the Canadian Securities Administrators to improve CPAB's access to audit work performed by component auditors in foreign jurisdictions. We anticipate finalization of the applicable rule changes in 2021.

FINANCIAL STATEMENTS

Responsibility for Financial Reporting

The annual financial statements and all financial and other information contained in this annual report are the responsibility of the management of CPAB.

Management has prepared the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, applying best estimates and judgments based on currently available information. The significant accounting policies are described in note 2 to the financial statements. Financial information contained in this report is consistent with that shown in the financial statements.

Management is responsible for the integrity and reliability of financial information and has established systems of internal procedural and accounting controls designed to achieve this. These systems also reasonably ensure that assets are safeguarded from loss or unauthorized use. The board of directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The board has created a Risk and Audit Committee to assist with these responsibilities. The Risk and Audit Committee met with the auditors, both with and without management present, to review the activities of each, as well as to review the financial statements.

Fuller Landau LLP has been appointed by the Provincial Audit Regulator Members as CPAB's auditors to express their opinion on the fair presentation of the financial statements. Fuller Landau LLP has had full and unrestricted access to the board of directors and management to discuss matters pertaining to their audit. The Risk and Audit Committee undertakes annually a formal review of the auditor's performance and makes a recommendation to the board of directors, which in turn makes a recommendation to the Provincial Audit Regulator Members, with respect to their reappointment for the coming year.

Carol Paradine, FCPA, FCA
Chief Executive Officer

Philippe Thieren, CPA, CA
Chief Financial Officer

Independent Auditors' Report

To the Members of Canadian Public Accountability Board/ Conseil canadien sur la reddition de comptes

Opinion

We have audited the financial statements of **Canadian Public Accountability Board/Conseil canadien sur la reddition de comptes**, which comprise the statement of financial position as at December 31, 2020, and the statements of changes in net assets, operations, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the **Canadian Public Accountability Board/Conseil canadien sur la reddition de comptes** as at December 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with Canadian Accounting Standards for Not-For-Profit Organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian Accounting Standards for Not-For-Profit Organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the organization's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the organization to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Fuller Landau LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
February 2, 2021

STATEMENT OF FINANCIAL POSITION
As at December 31

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 326,596	$ 2,706,731
Investments (note 4)	8,219,379	5,635,635
Accounts receivable (note 5)	90,717	231,851
Prepaid expenses	408,670	320,952
	9,045,362	8,895,169
Equipment and leasehold improvements (note 6)	1,191,031	1,229,753
Intangible assets (note 7)	319,188	160,695
	$ 10,555,581	**$ 10,285,617**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	$ 1,959,332	$ 2,319,568
Deferred lease inducements	392,269	467,915
	2,351,601	2,787,483
NET ASSETS		
Invested in property and equipment	1,510,219	1,390,448
Unrestricted	6,693,761	6,107,686
	8,203,980	7,498,134
	$ 10,555,581	**$ 10,285,617**

See accompanying notes.

Approved on behalf of the board:

_______________________________, Director
Benita Warmbold, FCPA, FCA, Chair

_______________________________, Director
Bruce Jenkins, FCPA, FCA

STATEMENT OF CHANGES IN NET ASSETS
For the years ended December 31

			2020	2019
	Invested in equipment, leasehold improvements and intangible assets	*Unrestricted*	*Total*	*Total*
Net assets, beginning of year	$ 1,390,448	$ 6,107,686	$ 7,498,134	$ 7,636,858
Excess of revenue over expenses (expenses over revenue) for the year	-	705,846	705,846	(138,724)
Purchase of equipment and leasehold improvements	290,039	(290,039)	-	-
Purchase of intangible assets	204,000	(204,000)	-	-
Amortization of equipment, leasehold improvements and intangible assets	(374,268)	374,268	-	-
Net assets, end of year	**$ 1,510,219**	**$ 6,693,761**	**$ 8,203,980**	**$ 7,498,134**

See accompanying notes.

STATEMENT OF OPERATIONS
For the years ended December 31

	2020	2019
REVENUE		
Fees (note 9)	$ 17,972,795	$ 17,029,778
Investment income	70,930	168,326
Other income	-	11,100
	18,043,725	**17,209,204**
EXPENSES		
Salaries and benefits	13,097,798	12,413,191
Directors' fees and expenses	862,530	876,569
Travel	75,494	632,506
Occupancy costs	789,720	751,080
Administrative and general	441,633	394,486
Information technology	582,805	665,715
Outreach activities	215,218	244,082
Continuing education	174,509	224,134
Insurance	176,146	142,634
Professional services	276,448	428,747
Legal services	271,310	228,252
Amortization of equipment and leasehold improvements	328,761	319,116
Amortization of intangible assets	45,507	27,416
	17,337,879	**17,347,928**
Excess of revenue over expenses (expenses over revenue)	**$ 705,846**	**$ (138,724)**

See accompanying notes.

STATEMENT OF CASH FLOWS
For the years ended December 31

	2020	2019
OPERATING ACTIVITIES		
Excess of revenue over expenses (expenses over revenue)	$ 705,846	$ (138,724)
Add back (deduct) non cash items:		
Unrealized gain on investments	(15,127)	-
Gain on sale of property and equipment	-	(7,600)
Amortization of equipment, leasehold improvements and intangible assets	374,268	346,532
Amortization of deferred lease inducements	(75,646)	(62,542)
Net change in non-cash working capital items (note 10)	(275,437)	747,342
Cash generated from operations	**$ 713,904**	**$ 885,008**
INVESTING ACTIVITIES		
Purchase of investments	(16,700,000)	(14,800,000)
Redemption of investments	14,100,000	14,300,000
Sale of property and equipment	-	7,600
Purchase of equipment and leasehold improvements	(290,039)	(281,495)
Purchase of intangible assets	(204,000)	(161,387)
Cash used in investing activities	**$ (3,094,039)**	**$ (935,282)**
Cash and cash equivalents used in the year	**$ (2,380,135)**	**$ (50,274)**
Cash and cash equivalents, beginning of year	2,706,731	2,757,005
Cash and cash equivalents, end of year (note 10)	**$ 326,596**	**$ 2,706,731**
Additional information		
Interest received	$ 82,750	$ 124,627

See accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020 and 2019

1. THE ORGANIZATION

The Canadian Public Accountability Board/Conseil canadien sur la reddition de comptes (CPAB/CCRC) is a corporation without share capital incorporated under the *Canada Corporations Act*. CPAB is exempt from income tax in Canada as a not-for-profit organization under Section 149(1)(L) of the *Income Tax Act* (Canada).

As Canada's public company audit firm regulator, charged with protecting the investing public's interests, CPAB oversees firms that audit the financial statements of Canadian reporting issuers. It promotes sustainable audit quality through its robust audit quality assessment program, commenting on accounting and auditing standards, engaging with key stakeholders including audit committees, public company financial management, other regulators and institutional investors to accelerate improvements in audit quality domestically and abroad, and providing practicable insights that inform capital market participants and contribute to public confidence in the integrity of financial reporting.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies below have been applied consistently to all periods presented in these financial statements

Basis of presentation
These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. These financial statements are presented in Canadian dollars which is also the functional currency of the organization.

These financial statements were approved and authorized for issue by the Board of Directors on February 2, 2021.

Use of estimates
The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the year. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the financial statements in future periods could be significant. Significant items affected by estimates in these financial statements are the useful life of assets, prepaid expenses, accruals and commitments. Actual results could differ from these estimates.

Revenue recognition
The organization charges two types of fees: an Intent to Participate fee that is collected from public accounting firms on their initial application to become Participating Audit Firms, and an Annual Participation fee. All fees are established to recover CPAB's costs, and to provide working capital for contingency purposes.

The Intent to Participate fee is a flat fee based on the number of reporting issuer clients of the applicant firm at the date of registration. Intent to Participate fees are recorded in the accounting period in which the firm is registered, and fees are received.

The Annual Participation fee is based on audit fees paid by the Participating Audit Firm's reporting issuer clients. This fee is billed annually or quarterly and recognized as revenue in the year to which it relates.

In certain circumstances, the organization charges additional fees to Participating Audit Firms to recover costs incurred to monitor those firms. These fees are included in other fees and are recognized in the accounting period in which the work is performed.

All other revenues are recorded when amounts are known and collectible.

Cash and cash equivalents
Cash and cash equivalents consist of cash and guaranteed investment certificates, with maturities not exceeding 90 days, and insignificant risk of changes in value.

Investments
Investments are composed of Guaranteed Investments Certificates (GICs) with maturities exceeding 90 days and Bond Pooled Fund units.

Initially, investments are recognized at fair value and subsequently measured at amortized cost except for Bond Pooled Fund units that are measured at fair value. Changes in fair value are recognized in the statement of operations as investment income.

Equipment, leasehold improvements and intangible assets
Equipment, leasehold improvements and intangible assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets commencing on the date when the assets are available for use.

The estimated useful lives are as follows:

Equipment and leasehold improvements	
Office equipment and furniture	5 –10 years
IT infrastructure and networks	4 – 5 years
Computing equipment	2 – 3 years
Leasehold improvements	Over the term of the lease (7 – 10 years)

Intangible assets	
Computer software	3 – 5 years
Website	5 years

Leases
All of the organization's leases are operating leases. Lease inducements received at the inception of a lease are deferred and recognized on a straight-line basis over the term of the lease.

Impairment of long-lived assets
Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of an asset exceeds its fair value. The impairment loss is measured as the amount by which the carrying amount exceeds fair value.

3. FINANCIAL INSTRUMENTS AND RISKS

The organization's financial instruments are composed of cash and cash equivalents, investments, accounts receivable and accounts payable and accrued liabilities.

Transaction costs are expensed as incurred. However, transaction costs related to financial instruments measured at amortized cost are recognized in the statements of the operations over the life of the financial instruments using the straight-line method.

Financial assets measured at cost are tested for impairment when there are indicators of impairment and the amount of the write-down is recognized in net income when incurred.

The cost of the GICs, plus accrued interest income, approximates their fair value. The fair value of quoted instruments including Canadian government bonds is based on the bid prices at the reporting date. During the year, the organization recognized an unrealized gain on changes in fair value of $15,127 (2019: nil) which has been included in investment income. Book value of other financial assets and liabilities approximates their fair value due to their short-term nature.

The organization is exposed through its operations to various financial risks.

Credit risk
The organization is exposed to credit risk with respect to accounts receivable and investments. As at December 31, 2020, its maximum exposure is the balances on the statement of financial position.

As at December 31, 2020, the organization did not have any overdue accounts receivable.

The organization holds investments to generate an optimal return while ensuring the availability of cash flow and protecting its capital. In 2020, it developed a new investment policy that provides additional guidance to mitigate the financial risks of the authorized investments categories. Investments are limited to GICs with major Canadian chartered banks and Canadian government or corporate bonds with a minimum AAA credit rating. Diversification of investments by issuers and industry reduces the overall credit risk of the portfolio of investments.

Liquidity risk
Liquidity risk is the risk that the organization will be unable to fulfill its obligations on a timely basis. CPAB's exposure to liquidity risk is low. As at December 31, 2020, the organization has cash and investments of $8.55 million (2019: $8.34 million) to settle current liabilities of $1.96 million (2019: $2.32 million).

In addition, the organization has access to a credit facility up to $2 million in the event of any short-term cash deficiencies.

Market risk
Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is composed of three types of risks: foreign currency risk, interest rate risk and price risk. The organization is not significantly exposed to price risk and foreign currency risk.

Interest rate risk
CPAB's exposure to interest rate risk is mainly limited to its investment in a Canadian government bond index fund.

GICs and short-term investments have interest rates ranging from 0.20% to 1.95% (2019: 1.6% to 1.95%). The average rate of interest earned on bank balances during the year was 0.83% (2019: 2.14%).

4. INVESTMENTS

Investments consist of:	2020	2019
GICs	$ 4,200,000	$ 5,600,000
Accrued interest	4,252	35,635
	4,204,252	5,635,635
RBC Canadian government bond index fund	4,015,127	-
	$ 8,219,379	**$ 5,635,635**

5. ACCOUNTS RECEIVABLE

	2020	2019
Accounts receivable	$ -	$ 170,300
Sales taxes recoverable	90,717	61,551
	$ 90,717	**$ 231,851**

6. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	Cost	*Accumulated Amortization*	*2020 Net*	*2019 Net*
Office equipment and furniture	$ 920,150	$ (729,692)	$ 190,458	$ 178,540
IT infrastructure and networks	1,176,288	(851,556)	324,732	214,566
Computing equipment	224,010	(142,992)	81,018	121,370
	2,320,448	(1,724,240)	596,208	514,476
Leasehold Improvements	2,029,165	(1,434,342)	594,823	715,277
Equipment and leasehold improvements	**$ 4,349,613**	**$ (3,158,582)**	**$ 1,191,031**	**$ 1,229,753**

7. INTANGIBLE ASSETS

	Cost	*Accumulated Amortization*	*2020 Net*	*2019 Net*
Computer software	$ 515,186	$ (297,794)	$ 217,392	$ 33,450
Website	127,245	(25,449)	101,796	127,245
Intangible assets	**$ 642,431**	**$ (323,243)**	**$ 319,188**	**$ 160,695**

As at December 31, 2020, computer software includes unamortized software under development of $204,000.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2020	2019
Trade accounts payable	$ 29,919	$ 154,292
Salaries, vacation and bonuses	1,845,309	1,888,551
Other accrued liabilities	84,104	276,725
	$ 1,959,332	**$ 2,319,568**

9. FEES

	2020	2019
Annual Participation fees	$ 17,928,595	$ 16,938,278
Intent to Participate fees	18,000	16,000
Other fees	26,200	75,500
	$ 17,972,795	**$ 17,029,778**

10. CASH FLOWS

Changes in non-cash working capital items are detailed as follows:

	2020	2019
Accounts receivable	$ 45,950	$ 39,231
Accrued interest	31,383	(6,255)
Sales tax recoverable	(29,166)	(14,083)
Prepaid expenses	(87,718)	75,737
Accounts payable and accrued liabilities	(235,886)	652,712
	$ (275,437)	**$ 747,342**

Cash and cash equivalents are composed of:

	2020	2019
Cash	$ 326,596	$ 519,534
Short-term investments	-	2,187,197
	$ 326,596	**$ 2,706,731**

As at December 31, 2019, accounts receivable included $124,350 of lease inducement to be received from the landlord. In fiscal 2020, the landlord agreed to offset this balance with the amount to be paid to its related contractor that performed the leasehold improvements. As a result, this amount has been considered as a non-cash transaction and has not been reflected in the cash flow statements.

11. BANK CREDIT FACILITY

The organization has access to a bank Credit Facility of $2,000,000 bearing interest at bank prime per annum. Amounts owing under the Credit Facility are payable on demand. No assets have been pledged as collateral for the Credit Facility and no charges are incurred until the facility is drawn down. At December 31, 2020 and 2019 the amount owing under the Credit Facility was nil.

12. COMMITMENTS

The organization has operating leases for its Montreal, Toronto and Vancouver offices. There are no asset retirement obligations associated with the leases.

For its Montreal office, the organization has issued an unsecured letter of credit to the landlord for an amount of $18,870.

CPAB's estimated minimum lease payments are as follows:

	Montreal	**Toronto**	**Vancouver**
Period	**2019–2029**	**2013–2024**	**2017–2027**
2021	$ 113,285	$ 626,073	$ 111,020
2022	114,780	634,063	113,891
2023	116,313	642,252	116,030
2024	118,713	379,544	117,437
2025	124,468	-	118,879
Thereafter	492,908	-	160,981
	$ 1,080,467	$ 2,281,932	$ 738,238
			$ 4,100,637

13. COVID-19

Following the emergency measures and travel restrictions taken by the Canadian government in response to the COVID-19 infection pandemic, CPAB has continued its activities remotely.

The COVID-19 pandemic has brought economic uncertainty and government assistance programs. COVID-19 did not significantly impact the financial position of the organization and CPAB did not participate in any government programs.

The long-term impact of COVID-19 on the audit fees on which CPAB's Annual Participation fees are calculated is uncertain. As of December 31, 2020, prepaid expenses include flight passes expiring by the end of 2021. Uncertainty related to timing of easing of travel restrictions and resumption of CPAB on-site inspections increases the risk that some of these passes may expire unused.

14. COMPARATIVE FIGURES

In 2020, with the development of new software, the organization has presented intangible assets separately from equipment and leasehold improvements on the statement of financial position sheet. Comparative figures have been reclassified to comply with the new presentation.

Corporate Information

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