Canadian Public Accountability Board
Conseil canadien sur la reddition de comptes

MARCH 2022

2021 ANNUAL REPORT

Enhancing confidence in Canada's public company audits

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

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A message from Benita Warmbold, Chair

2021 marked the final year in executing CPAB's 2019-21 strategic plan. I thank the CPAB team for their contribution to driving the organization's ambitious goals and my director colleagues for their commitment and engagement over this period.

Key to the board's work in 2021 was providing oversight and guidance as management conducted its regulatory assessments and delivered on its annual operating commitments to protect the investing public during another uncertain year. Solidly positioned to work remotely thanks to an effective pivot last year, management met the balance of its strategic priorities as the environment continued to evolve.

The board leveraged technology to maintain robust communication with each other and with management despite ongoing challenges to in-person connection. We were quickly reminded of the benefits of meeting face-to-face versus screen-to-screen at our first hybrid board meeting in November. I look forward to the time when we can return to more in-person interaction — all the while balancing the desire for increased personal connections with the benefits of technology-enabled efficiencies, and of course, changing health and safety considerations.

CPAB's increased regulatory intervention was an area of significant board attention in 2021 — including six enforcement actions and two investigations. Enforcement actions typically arise from deficiencies identified during our inspection of reporting issuer audit files at an audit firm, while the investigations we have performed were initiated as a result of whistleblower complaints. One investigation was completed and settled in 2021 and a second investigation was settled in early 2022, both at annually inspected audit firms. Enforcement actions have increased primarily because of elevated inspection findings at certain audit firms, which in many cases were the result of the firms having difficulty conducting more complex audits in new or emerging industries. Overseeing CPAB's approach to public disclosures, including consideration of broad-based stakeholder input which will inform management's recommendations in the coming year, was also a focus in the latter half of the year.

Discussion with management regarding CPAB's enterprise risk management and ensuring the organization's strategy remains relevant and on track is a top priority for the board. We continued to oversee management's assessment of issues impacting audit quality and the future of the audit including the elevated opportunity for business fraud in the current environment, and challenges related to emerging industries, advances in the use of technology and performing audits remotely.

Board succession and renewal remained a focal point. We were pleased to welcome Richard Payette as a new director in 2021. Fluent in both official languages, Richard is a senior executive based in Quebec who brings valued experience in audit, business management and leadership, including organizational and digital transformation. We said goodbye to Sheila Fraser and Guy Fréchette who retired from the board and we thank both for their invaluable contributions over the years.

Looking ahead, we approved CPAB's 2022-24 strategic plan at the November board meeting — an ambitious three-year blueprint for enhancing confidence in Canada's public company audits. In 2022 the board's key priorities will include oversight of CPAB's public disclosures review and implementation of the first year of the new strategic plan, employee health and well-being and an ongoing focus on board diversity. I look forward to working with my director colleagues and the CPAB team on bringing this plan to life.

B. Warmbold

Benita Warmbold, FCPA, FCA
Chair

A message from Carol Paradine, CEO

2021 marked a very high level of regulatory activity at CPAB. Essentially free from the operational disruptions that attend the early stages of crises, we were able to home in on our strategic commitments in this last year of our three-year strategy. We acted swiftly to address rising inspections findings at certain annually inspected firms. We ordered and monitored a record number of regulatory interventions including investigations and sanctions, restrictions and requirements on firms who fell short of performing quality audits. Employee engagement was high; we maintained a flexible approach to work while also easing into more in-person communication in the last half of the year. I'm hopeful we will be able to connect live more often in 2022, as conditions permit.

This year's regulatory assessments indicated inconsistent audit performance among the 11 annually inspected audit firms. While, in my view, no significant departure from the applicable auditing and ethical standards is acceptable, CPAB had established a level of expected improvement for the audit firms. Two of the four largest firms met our target of no more than 10 per cent of files inspected with significant findings. Audit quality at many of the other annually inspected firms remains a serious concern; we saw an aggregate finding rate of 54 per cent, compared to 63 per cent in the prior year. Overall, our reviews point to persistent and disappointing deficiencies in the areas of professional skepticism, sufficient audit evidence and forward-looking estimates.

CPAB's regulatory intervention mechanisms are important to driving improvements. This year's enforcement and investigative activity targeted specific audit quality concerns. We conducted investigations at two annually inspected audit firms; one settlement was reached and resulted in the imposition of requirements and sanctions on the firm, including public censure. A second investigation was concluded and settled in 2022. We have imposed restrictions and/or requirements on several firms and have devoted extensive resources to evaluating firms' implementation of quality action plans. In many instances these intervention mechanisms will need to continue into 2022.

Strong quality management systems at all public company accounting firms are critical to long-term audit quality and supporting firm resilience during times of change. Our work over the last four years has positioned us well for overseeing firms' implementation of the new standards on quality management.

This year CPAB conducted a broad public consultation on our disclosures; in 2022 we will complete our review of the feedback we received and expect to expand the nature and extent of disclosure of our inspections and enforcement and investigation activities. We will work closely with securities commissions, provincial Chartered Professional Accountant (CPA) bodies and governments to effect any necessary legislative changes.

On the matter of CPAB's access to audit working papers in certain foreign jurisdictions, anticipated amendments to National Instrument 52-108 and the Companion Policy 52-108 (Auditor Oversight) were passed in January 2022. In our view these amendments provide a streamlined approach that will facilitate CPAB's role in protecting the interests of the investing public in Canada without unduly increasing the efforts of audit firms, reporting issuers or regulators.

As we counted down the final months of our 2019-21 strategy, we engaged with audit committees, investors, other regulators and CPAB employees to map out the next strategic period. We also examined firm root cause analyses of audit deficiencies which identified themes related to adequacy of resources, how effectively firms prioritize high-quality audits, client acceptance and continuance, industry expertise and the complexity of the organizations and systems being audited. Insights from this work helped lay the foundation for our 2022-24 strategic plan. Over the next three years we will focus on audit firm culture and governance improvement, audit quality issues related to Canada's emerging industries, the evolution of how the audit is performed, and supporting our employees in their commitment to serving the public interest.

I wish to thank CPAB's board of directors for its wisdom over the past three years and its guidance on our roadmap through 2024, along with the entire CPAB team for their tireless efforts in driving high-quality audits. I look forward to working with all stakeholders to advance our shared goal to enhance confidence in Canada's public company audits.

Carol Paradine

Carol Paradine, FCPA, FCA
Chief Executive Officer

CPAB Strategy

2021 marked the final year of CPAB's 2019-21 strategic plan. We appreciate the hard work and dedication of the entire CPAB team in meeting our 2019-21 strategic commitments and key performance measures.

We made progress in building on and expanding our assessments of firm quality management systems, escalated our regulatory intervention activity, increased our dialogue with key stakeholders such as audit committees, management, investors and other regulators, sought stakeholder feedback on our public disclosures, and expressed our perspectives on a variety of current and emerging audit quality matters.

Below are highlights over the last strategic period.

STRATEGIC COMMITMENT ONE:

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

Outcome:

- Quickly addressed pandemic related auditing challenges and successfully pivoted to working remotely.
- Implemented innovations recommended by our team in the areas of technology systems, risk management, human resources and finance.
- Expanded our formal learning program related to emerging and complex technological tools used in next generation audits (artificial intelligence, advanced analytics, blockchain).
- Improved the structure and depth of our enterprise risk management program.

STRATEGIC COMMITMENT TWO:

Drive targeted, systemic changes to accelerate audit quality improvements.

Outcome:

- Designed and implemented a framework and criteria for assessing audit firm quality management systems. This includes annual testing of the operating effectiveness of these systems at five annually inspected firms.
- Increased our enforcement resources and developed an enforcement escalation framework.
- Approval of changes to National Instrument 52-108 to improve our access to component auditor audit files in foreign jurisdictions.

STRATEGIC COMMITMENT THREE:

Impact how the future audit is performed and regulated.

Outcome:

- Provided our perspectives and expectations on fraud, going concern and use of technology and the impact of the pandemic on audits.
- Influenced the direction of amendments to international auditing standards through participation in discussion groups, issuance of comment letters and publications and discussions with the Canadian and international auditing standards boards.
- Increased focus on emerging industries including crypto and cannabis where we observed higher rates of inspection findings.

STRATEGIC COMMITMENT FOUR:

Influence global audit quality consistency.

Outcome:

- Led the International Forum of Independent Audit Regulators (IFIAR) Technology Task Force including meeting with each of the six large global firms to understand their approach to development and certification of global automated tools and techniques.
- Presented globally on topics such as investor expectations related to fraud, audit firm culture, and implementing audit firm quality management systems.

2019-21 Key Performance Measures Assessment

The following measures were established as part of our 2019-21 strategic planning process.

AREA	PERFORMANCE MEASURE	TARGET	OUTCOME
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.	Completed assessments at the four largest firms and initial assessment of one other annually inspected firm. Assessment of other annually inspected firms to coincide with implementation of new international quality management standard in 2022.
STAKEHOLDER FEEDBACK	Results of stakeholder feedback.	80% consider CPAB an effective, trusted regulator.	84 per cent of audit committee members provided overall rating of CPAB as excellent or good as an effective regulator.
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.	Employee engagement score of four out of five in 2021 survey (slightly below Gallup global mean of 4.4 for financial, government and not-for-profit sector) and retention rates (93 per cent) above 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.	No significant findings from external reviews.

Participating audit firm targets

- In 2021, two of the four largest firms met the target of no more than 10 per cent of files inspected with significant findings; the finding rate at the largest firms decreased from 20 per cent to eight per cent over the three-year period.
- The findings rate at the other annually inspected firms in 2021 is substantially above our target; four firms had significant findings in more than 50 per cent of files inspected and three firms had significant findings in more than 25 per cent of files inspected.

2022-24 Strategic Plan

As we look ahead to 2022-24, audit attention must continue to be on those matters most important to the investing public. As a critical foundation to the integrity, reliability and investment appeal of Canadian capital markets, the quality of audits cannot be static — we must strive for continuous improvement.

In setting our priorities for the next three years we evaluated risks, challenges and opportunities in the current environment, along with how we performed against the key performance measures in our 2019-21 strategic plan. In 2022-24, CPAB will strengthen our regulatory effectiveness and advance higher quality audits. We expect to see strong quality management systems and cultural changes at the audit firms that will reinforce their priority commitment to delivering high-quality audits. A critical focus for CPAB will be implementing an updated framework for disclosure of our inspection and enforcement activities that will contribute to meeting the needs of our stakeholders in supporting audit quality. The four strategic commitments in our strategic plan are:

1. Advance a quality-driven culture across auditors of Canada's public companies.

- Culture is a critical influencer of a firm's ability to deliver high-quality audits. An effective culture emphasizes doing the right thing — all the time, putting the public interest first.

2. Tackle emerging audit quality challenges head on.

- Canada's capital markets offer opportunities for new and emerging companies to raise capital. The number of reporting issuers in emerging industries is on the rise bringing unique, industry-specific auditing challenges.

3. Evolution of the audit.

- Technological advancements, changing stakeholder expectations, evolving business models and many other factors are influencing the need for audits to keep up — especially in the way they are performed and the information that is audited.

4. CPAB's team and culture — guided by our public interest responsibility.

- Connecting our team with a common purpose and set of values is critical to CPAB's ability to deliver its mandate.

Governance Report

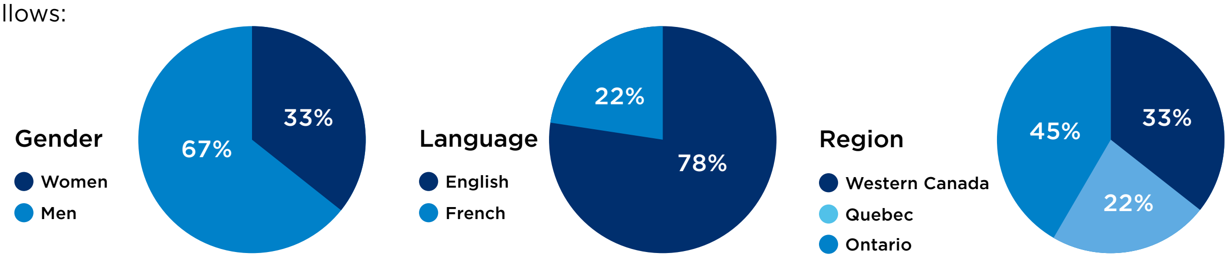
Responsible corporate governance

CPAB's operating practices and governance structure remained unimpeded by the ongoing pandemic environment and our board of directors oversaw our delivery on our strategic commitments throughout 2021.

Board composition

During 2021 we progressed our search for experienced board candidates. CPAB's by-law requires our board to comprise individuals with certain prescribed skills including accountants and those with audit regulatory experience. At the same time, we also actively engaged in expanding the diversity of our board to include capital market, investor, legal and technology experience, and to reflect our communities. We will continue our board membership renewal initiatives into 2022.

At the end of 2021 the board comprised nine directors. Sheila Fraser and Guy Fréchette retired in June 2021. Richard Payette joined as our newest director in March 2021. At the end of 2021 our board diversity presented as follows:



Board committees focus areas

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 overseeing CPAB's enterprise risks, financial planning and reporting, system of corporate controls and the external audit process. During 2021 the committee focused on fiscal and operational risks, cybersecurity and pandemic-related risks as well as emerging industry issues including in the crypto and cannabis sectors.

The Human Resources and Governance Committee makes recommendations to the board on issues related to human resources, corporate governance, board composition, board and senior leadership succession and effectiveness. Notable activities during 2021 were oversight of pandemic-related matters such as resourcing implications, as well as management's governance review including the review hearings process established under the CPAB Rules. The committee also recommended — and the board approved — amendments to the Code of Ethics for Staff and Consultants clarifying existing restrictions against improper use of confidential information and expanding the conflict-of-interest provisions. This code, along with the Code of Ethics for our Board of Directors, is available on our website.

Annual board meetings

Nine board meetings, four Risk and Audit Committee meetings and four Human Resources and Governance Committee meetings were held in 2021. While the board was scheduled to meet five times during the year, additional meetings were held to discuss CPAB's strategic plan and public disclosures consultation, and to address regulatory intervention matters related to 2020 firm inspection results. The board's deliberations continued virtually throughout most of the year with a shift to a hybrid meeting in November 2021.

	Board of Directors Meetings	Risk and Audit Committee Meetings	Human Resources and Governance Committee Meetings
Benita Warmbold	9/9	4/4	4/4
Ian Bourne	9/9	4/4	4/4
Renaud Caron	8/9	N/A	4/4
Don Chynoweth	9/9	3/3	1/1
Julie Dickson	9/9	4/4	N/A
Sheila Fraser*	6/6	N/A	1/1
Guy Fréchette*	7/7	2/2	N/A
Bruce C. Jenkins	9/9	4/4	N/A
Kevin Kelly	9/9	4/4	N/A
Alice Laberge	9/9	N/A	4/4
Richard Payette**	5/5	3/3	1/1

* Retired from board in June 2021.
** Joined board in March 2021.

Director compensation

The Human Resources and Governance Committee annually reviews director compensation and makes recommendations to the board for approval. The most recent external director compensation assessment was conducted by a consulting firm in 2019; resulting changes to director, Vice Chair and committee Chair retainers were implemented in 2020 and sustained during 2021.

Director retainers

Retainer	2021	2020	2019
Board Chair retainer	$175,000	$175,000	$175,000
Vice Chair retainer	$57,500	$57,500	$48,000
Committee Chair retainer	$60,000	$60,000	$55,250
Director retainer	$50,000	$50,000	$48,000

In addition to annual retainers, directors (except the board Chair) receive 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 appoints CPAB's directors and performs an annual assessment of CPAB's governance practices and performance against our mandate. The PARMs annually appoint CPAB's external auditor. For a detailed description of this aspect of our governance please refer to CPAB's Statement of Accountability and Governance Practices available on our website.

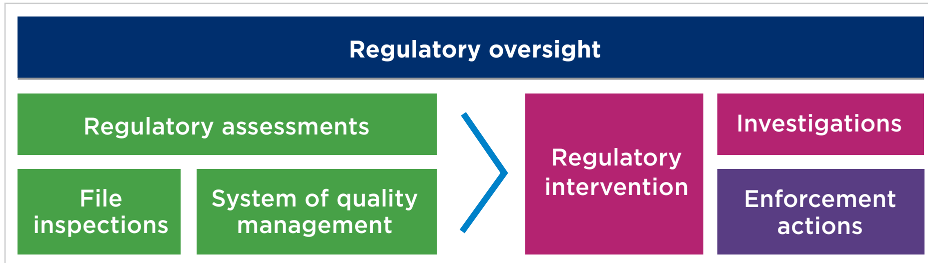
Whistleblower Hotline

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 2021 have either been resolved or are under review.

2021 Operational Report

Regulatory Oversight

Our regulatory oversight of public accounting firms that audit Canadian reporting issuers includes the inspection of completed audits of financial statements and the system of quality management,[1] and regulatory intervention.



This year we reached a record number of enforcement decisions arising from 2020 audit firm inspections and investigations. During our 2021 regulatory assessments we observed some improvements in file inspection results and the systems of quality management at some audit firms. However, the quality of audit files continues to be inconsistent, and in some cases significant improvement is required. We expect a continued high level of enforcement and other regulatory intervention in 2022.

2021 regulatory assessments

CPAB's assessment landscape

All public accounting firms that audit a Canadian reporting issuer must register with CPAB[2]. At December 31, 2021, 267 (2020: 248) audit firms were registered; 92 (2020: 87) 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 (2020: 11) in this group which audit approximately 7000 reporting issuers. These firms, and their foreign affiliates, audit approximately 97.1 per cent of all reporting issuers as measured by market capitalization.

Engagement file inspections

In 2021 we inspected 134 audit files and identified significant findings in 38 files. This 28 per cent finding rate compares to 29 per cent across 119 files in 2020. Audit files inspected are not intended to be a representative sample, an overview of our review selection process is on page 16.

Two of the four largest firms met the target of no more than 10 per cent of files inspected with significant findings. One large firm that met the target in the prior year did not meet the target in 2021. None of the four largest firms had significant findings of more than 15 per cent.

Of serious concern is the high level of significant findings at many of the other annually inspected firms where the aggregate finding rate was 54 per cent (22 of 41 engagement files), compared to 63 per cent (22 of 35 engagement files) in the prior year. The findings rate at many of these firms is substantially above our target of no more than 10 per cent of files inspected with significant findings.

One restatement at a non-annually inspected firm has been required since our 2020 annual report. Where a restatement is required the firm must work with the reporting issuer to effect the restatement as soon as possible — usually within the next quarterly reporting cycle.

[1] The inspection of the system of quality management for all annually inspected firms includes an evaluation against CPAB's quality management systems (QMS) assessment model (Quality Management Systems assessments: Strengthening Audit Quality) for the four largest annually inspected firms and one other annually inspected firm; and an evaluation of compliance with the Canadian standard on quality control (CSQC 1) for firms that perform audits and reviews of financial statements, and other assurance engagements. Collectively referred to as system of quality management.

[2] 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.

System of quality management evaluations

Two of the four largest firms met the target set for quality management systems (QMS) assessment ratings of acceptable or acceptable with opportunities for enhancement set for 2021; one firm missed the target related to talent and resource management and one firm missed the target related to oversight.

Enforcement actions[3]

Requirements were placed on one of the four largest firms in 2021 in response to the level of significant findings in our 2020 inspection.

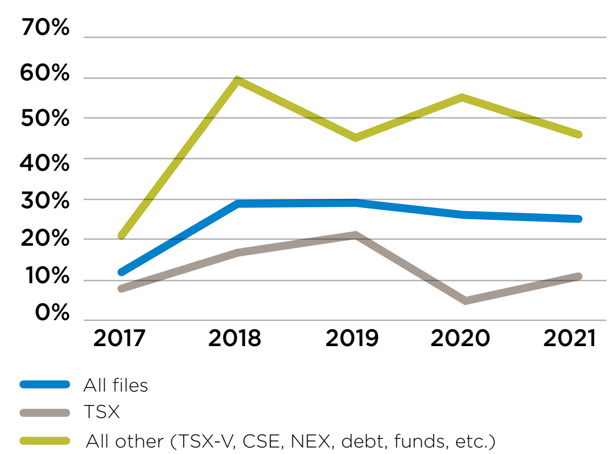
Requirements and restrictions were placed on four of the seven other annually inspected firms in 2021 in response to the level of significant findings in our 2020 inspections. These types of enforcement actions can arise from our regulatory assessments or as a consequence of an investigation. Further details of enforcement actions undertaken in 2021 and the escalation of our regulatory intervention is outlined in the Enforcement Overview on page 17 of this report.

Common inspections findings and trends

Twenty-five per cent of files inspected at the 11 annually inspected firms had significant findings (2020: 26 per cent). In 2021 our annual inspections included 73 audit files of Toronto Stock Exchange (TSX) listed entities and 43 other non-TSX listed entities (2020: 64 TSX; 43 other). In the past five years, the overall level of significant findings in other non-TSX listed entities has remained unacceptably high.

No restatements have been required across the annually inspected firms since our 2020 annual report.

Per cent of files with significant findings
Five-year trend



The audit areas most frequently reviewed in 2021 include revenue and related accounts, inventory, goodwill and intangible assets, business combinations and investments. These areas were selected because they were generally significant to the reporting issuer's financial statements or included complex issues or judgment. The most common recurring findings related to auditing estimates involving significant assumptions or judgments about future conditions or events. In September 2021 we published **Auditing accounting estimates: Strengthening audit quality** and in March 2022 we published **Audit evidence: Strengthening audit quality**, communications to all audit firms registered with CPAB with more detail on the nature of deficiencies, CPAB's expectations and the practices observed in audit files with no inspection findings.

New or evolving business models and emerging industries, such as crypto and cannabis, create different risks, for example those due to potential fraud or error, that need to be identified and assessed, so that appropriate responses can be designed and implemented. Some examples of significant findings related to emerging industries and complex or unusual transactions observed at other annually inspected firms include:

- Auditors of reporting issuers holding crypto-assets did not always obtain sufficient evidence to support the existence and ownership of digital currencies. In the cannabis industry, significant findings included insufficient fraud risk assessment and audit response when a significant portion of revenues and expenses was transacted in cash and insufficient evidence to support key inputs used to estimate the fair value of biological assets.

[3] Enforcement actions include undertakings, requirements, restrictions and sanctions.

- Auditors did not demonstrate an understanding of the business rationale for unusual transactions and contradictory evidence, when identified, was either dismissed or rationalized. Auditors need to be open and alert to the possibility that unusual material transactions may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets. There were increased significant findings in situations where the transaction consideration was paid through the issuance of shares. These findings most often related to non-cash consideration and fair value measurement in business combinations, asset acquisitions and investments by investment entities. Significant unusual transactions require more persuasive audit evidence to obtain reasonable assurance that the financial statements are not materially misstated.

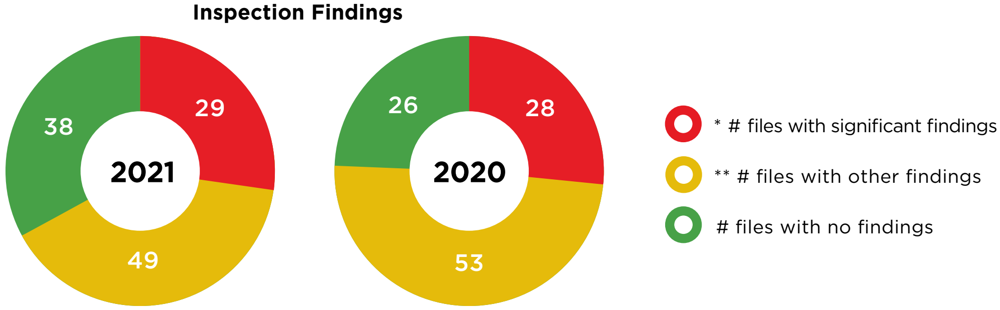
- In many instances third party service providers are involved in running a significant portion of the reporting issuer's operations, processing transactions or holding assets. Auditors did not always obtain sufficient evidence to evaluate the design and implementation of relevant controls at the reporting issuer over the activities undertaken by the service organization. A sufficient understanding of the significance of the services provided and their effect on the reporting issuer's internal control is necessary to ensure risks of material misstatement are identified, assessed and appropriately addressed.

2021 annual firm inspections snapshot

CPAB inspected 11 annual firms in 2021 and 116 engagement files (2020: 107) and identified significant findings in 29 files (2020: 28).

- Four largest firms: 75 engagement files; seven with significant findings.
- Seven other annually inspected firms: 41 engagement files; 22 with significant findings.

Inspection Findings



*Significant findings — A significant 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.

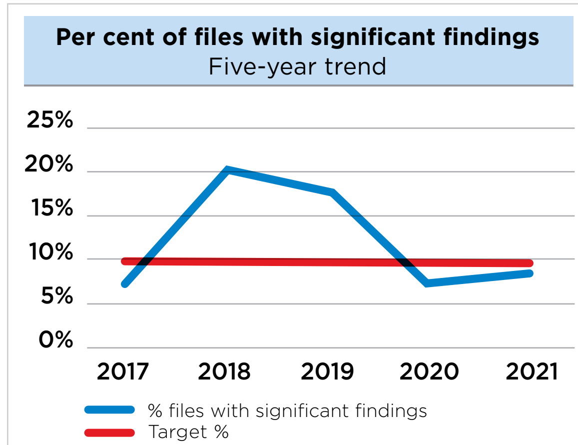
Firm-specific assessments

The firm-specific assessments include the inspections of completed audits of Canadian reporting issuers and their system of quality management. Reviews of the latter incorporate an evaluation of compliance with current quality management standards for all annually inspected firms and an assessment against CPAB's QMS assessment criteria for the four largest firms and one other annually inspected firm.

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

We inspected 75 files (2020: 72) and identified significant findings in seven of those files (2020: six). One firm that met the target of no more than 10 per cent of files with significant findings in the prior year missed the target with 12.5 per cent of files with significant findings in the current year.

The firm that did not meet the target in 2020 showed improvement but missed the target in the current year with 12 per cent of files with significant findings. We will continue to track the firm's inspection results and quality initiatives. Requirements were imposed on this firm in 2021 and a decision regarding the modification and removal of existing requirements on this firm will be made in 2022.



We required the two firms not consistently meeting the target to update their quality action plans. Action plans are developed by the firm and include strategies to respond to our recommendations and targeted actions identified by the firm through their root cause analysis. These plans prioritize the steps the firm believes will have the greatest impact on improving audit quality and may include cultural assessments, improvements to firmwide controls and processes to support engagement teams, enhanced training and supervision, hiring more staff with greater expertise and in-flight quality reviews.

Remediation work being performed by these audit firms has either been completed or is in progress. No restatements have been required since our 2020 annual report.

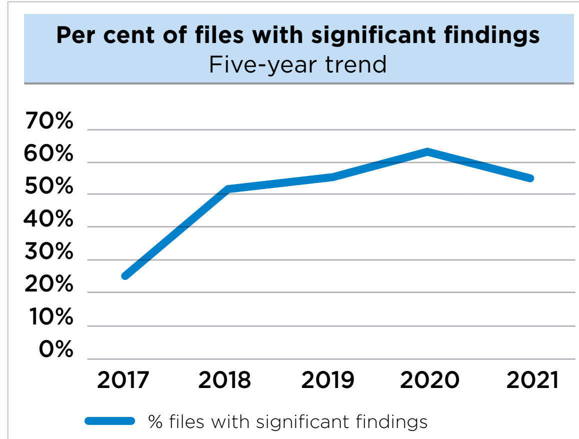
All QMS assessments resulted in ratings of acceptable or acceptable with opportunities for enhancement, with two exceptions; one firm was rated as needs improvement for talent and resource management and one firm as needs improvement for oversight. No criteria were rated as needs significant improvement. Significant findings at one firm indicate that certain controls over talent and resource management to ensure partners and staff have enough time to dedicate to specific audits are not designed appropriately or operating effectively.

The table below indicates the number of firms in each rating by criteria for 2021 and 2020.

		Acceptable	Acceptable with opportunities for enhancement	Needs improvement	Requires significant improvement
Accountability for audit quality	2021	3	1		
	2020	1	3		
Risk management	2021	4			
	2020	2	2		
Talent & resource management	2021		3	1	
	2020		1	3	
Oversight	2021		3	1	
	2020	1	1	1	1

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

We inspected 41 files (2020: 35) and identified significant findings in 22 of those files (2020: 22). Four firms (2020: four) had significant findings in more than 50 per cent of files inspected and three firms (2020: two) in more than 25 per cent of files inspected. No firm (2020: one) met the target of no more than 10 per cent of files with significant findings.



Enforcement action is in place for four firms with unacceptably high levels of significant findings over several years. Further details of enforcement actions undertaken in 2021 and the escalation of our regulatory intervention is outlined in the Enforcement Overview on page 17 of this report.

Decisions regarding the escalation of regulatory intervention and the modification and removal of certain existing enforcement actions will be made in 2022.

In 2021 we completed the first evaluation against CPAB's QMS assessment model at a fifth annually inspected firm. The firm made progress in documenting existing processes and implementing new controls and processes and linking them to our assessment criteria. As many controls and processes were implemented in 2021 or were still being developed, our assessment is that significant improvement is needed to comply with CPAB's QMS assessment model.

We required all other annually inspected firms to provide an implementation plan for the new quality management standards[4] that considers the nature and circumstances of the firm and its public company audit engagements. These plans prioritize the key areas of the new quality management standards that align with CPAB's QMS assessment model and that we believe will have the greatest impact on improving quality. We are obtaining updates on each firm's progress against its plan.

Non-annually inspected firms

We execute a tailored inspection methodology to assess non-annually inspected firms. Common inspections 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 18 audit files (2020: 12) and identified significant findings in nine (2020: seven) of these across 13 non-annually inspected firms (2020: eight). One restatement has been required since our 2020 annual report. Significant findings mostly related to new or evolving business models and emerging industries (see common inspection findings and trends discussed on page 10).

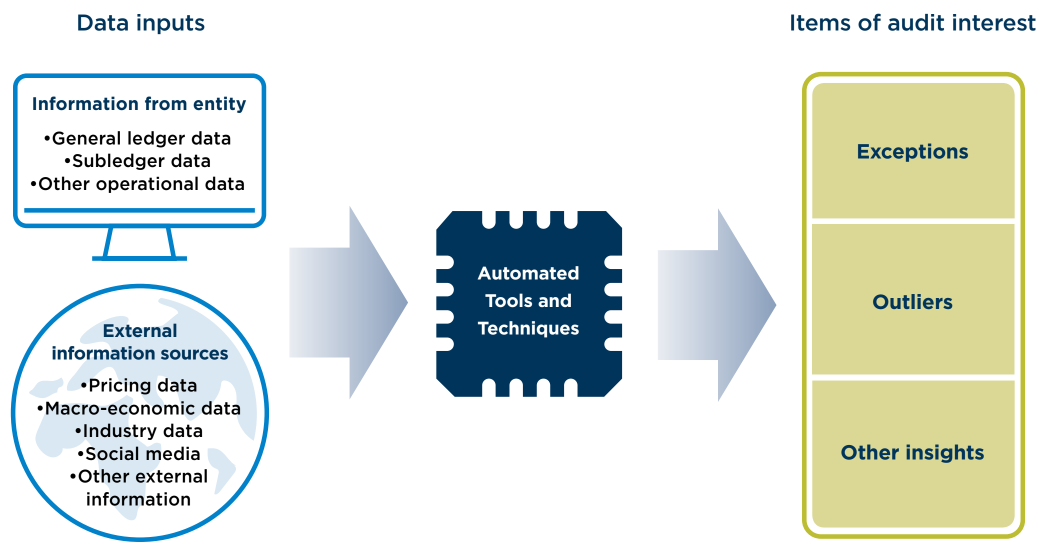
The level of inspections findings at these firms is unacceptably high. In 2021, we imposed restrictions and requirements on one firm and three firms continued to operate under requirements and restrictions from previous years. In 2021, follow-up inspections for two firms were performed to assess the effectiveness of the actions in response to our recommendations and to determine whether further regulatory intervention is necessary. Decisions regarding the escalation of regulatory intervention and the modification and removal of certain existing enforcement actions will be made in 2022.

[4]The Canadian standard on quality management (CSQM 1), quality management for firms that perform audits or reviews of financial statements, or other assurance or related services engagements (required to be designed and implemented by December 15, 2022), CSQM 2, engagement quality reviews and CAS 220, quality management for an audit of financial statements (effective date for CSQM 2 and ISA 220 is for audits and reviews of financial statements for periods beginning on or after December 15, 2022).

Evolution of the audit

Technology in the audit

We have observed an increased use of automated tools and techniques in audits including in substantive procedures associated with testing revenue recognition. Refer to our **Technology in the Audit** publication for more on this topic.



Advancements in audit technology are allowing auditors to analyze larger data sets to obtain deeper insights, identify unusual trends and to more effectively challenge management's assertions, which enhances the ability of auditors to exercise professional skepticism.

However, care is also required by auditors to avoid automation bias, which is a tendency to favour output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose. The use of technology does not make data inputs inherently more relevant or reliable, or the output of technology inherently more valuable or trustworthy. We have identified concerns in our inspections with the adequacy of audit work associated with testing the following:

- The accuracy, completeness and validity of data inputs used by auditors in their automated tools and techniques.
- Exceptions or outliers identified by the automated tools and techniques to ensure that they do not represent material misstatements of the financial statements.

Outsourcing

We continue to monitor a decades-long trend of reporting issuers outsourcing an increasingly broader range of their business activities to service organizations. That shift has meant, among other things, that internal controls over the outsourced operations are designed and implemented by service organizations and not by reporting issuers (i.e., user entities). This has elevated the prominence of the work performed by auditors of service organizations (i.e., service auditors) in audits of the financial statements of user entities and has increased the importance of the service auditor's work and related reports (i.e., System and Organization Controls reports (SOC reports)).

As described in CPAB's 2022-24 strategic plan, we will focus increasingly on evaluating the auditor's use of the work of specialists outside the engagement team, and specifically on the use of SOC reports as their reliance grows in certain industries such as fintech and where busines models have changed.

Looking forward

We have seen advances in audit quality and improvement in systems of quality management at the four largest firms. Strong systems of quality management will be essential to respond to the current environment and drive consistent levels of audit quality.

In our 2022-24 strategic plan CPAB commits to measuring firm progress based on our audit quality assessments using two indictors:

1. At least 90 per cent of audit files reviewed by CPAB have no significant findings at each of the annually inspected audit firms.

2. No findings or only minor areas for improvement from CPAB's evaluation of each of the annually inspected participating audit firm's compliance with system of quality management standards by the end of 2024.

Review of component audit work in foreign jurisdictions

In 2021 we obtained access to review component auditor working papers located in foreign jurisdictions for eight engagement files selected for inspections (2020: four). For one engagement file, we were precluded due to local law impediments from obtaining access to the component auditor working papers (2020: one). We identified significant findings in two foreign component auditor working papers (2020: none).

CPAB has historically been concerned with certain foreign auditors and countries preventing us from inspecting audit work conducted in those foreign jurisdictions for Canadian public companies. With CPAB's assistance the Canadian Securities Administrators (CSA) passed amendments to **National Instrument 52-108** and the **Companion Policy 52-108 (Auditor Oversight)** in 2022 which will assist CPAB in accessing audit work performed outside of Canada. These amendments require reporting issuers to direct audit firms who complete a significant portion of audit work for a reporting issuer's audit to enter into an agreement with CPAB to access their files and inspect their work if those firms will not provide access to CPAB voluntarily upon request. It is our perspective that the changes will be to the benefit of the investing public, audit firms, reporting issuers and regulators.

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

2021 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, 2021, 267 audit firms were registered as a participating audit firm with CPAB. During the year, 29 new firms registered (five Canadian and 24 foreign firms). Nine firms withdrew from registration and one firm's 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 2021, 36 of the 38 files with significant findings were shared by the audit firm with the relevant audit committee under the Protocol (2020: findings shared with 24 of 35 reporting issuer audit committees).

Ten of the 11 annually inspected firms participate in the Protocol — a complete list is available at www.cpab-ccrc.ca. While we strongly encourage all audit firms to share significant file-specific inspection findings with their reporting issuers' audit committees, we currently cannot compel the firms to do so. In 2021 CPAB conducted a public consultation on our disclosures which included a proposal to make the reporting of inspection findings to audit committees mandatory.

How firms respond to CPAB findings

The majority of CPAB's inspection findings in 2021 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. No restatements at the 11 annually inspected firms have been required (2020: one) and one restatement at a non-annually inspected firm has been required (2020: one).

2021 Regulatory Intervention

Enforcement actions and investigations are an integral part of CPAB's regulatory intervention and have increasingly been applied to improve audit quality and protect the investing public. This year CPAB completed one investigation of an annually inspected audit firm and imposed, among other enforcement actions, a public censure.

In 2021 we conducted a broad public consultation to obtain feedback on how CPAB could modify and expand the disclosure of our regulatory results, including enforcement actions and investigations. The majority of respondents supported some level of increased disclosure aligned with the level of significance of the enforcement action taken.

Enforcement actions

The chart below shows the requirements, restrictions and sanctions imposed or in force in 2021 compared to 2020. While the restriction on accepting new reporting issuers may relate to a firm's overall practice, there are also instances in which firms have been restricted from accepting reporting issuers that are high risk or operating in specific high-risk industries. These types of restrictions are imposed when CPAB believes there is a risk to the investing public. Recovery of enforcement compliance costs is a standard aspect of all enforcement actions.

Enforcement actions imposed or in force by year

	CPAB Enforcement Actions	Four largest firms	Other annually inspected firms	Non-annually inspected firms		Total imposed during 2021	Total imposed or in effect 2021
		Imposed and in effect in 2021	Imposed and in effect in 2021	Imposed or in effect in 2020	Imposed or in effect in 2021		
Restrictions	Restricted from taking on new higher risk reporting issuers	-	3	-	-	3	3
Restrictions	Restricted from taking on new reporting issuers	-	1	3	4	2	5
Requirements	Enhanced reporting to CPAB	1	4	1	1	5	6
Requirements	Additional training and/or coaching	2	4	1	1	6	7
Requirements	Enhanced engagement quality control review	-	1	3	3	1	4
Requirements	Mandated firm client portfolio review	-	4	-	-	4	4
Requirements	Mandated partner and manager portfolio review	-	4	-	-	4	4
Requirements	Appointment of an independent monitor	1	2	-	-	3	3
Requirements	Enhanced disclosure of CPAB inspection findings and recommendations to partners within the firm	1	2	-	-	3	3
Requirements	External professional to review the firm's system of quality control and completed audit engagements	-	2	1	1	2	3
Requirements	Cultural survey	1	1	-	-	2	2
Requirements	Provide engagement findings reports to audit committees	-	1	-	1	2	2
Requirements	Other (including completing inflight reviews, revising policies)	6	2	-	1	9	9
Sanction	Public censure	1	-	-	-	1	1
		13	31	9	12	47	56
	Number of firms or discrete enforcement actions	2	4	3	4	7	10

There were no requirements, restrictions or sanctions imposed or in effect for the four largest firms or the other annually inspected firms in 2020. The trend of significant inspection findings over the past three years at certain firms has resulted in the increase in enforcement actions in 2021. We expect a continued high level of enforcement and other regulatory intervention in 2022.

Investigations

In 2020 we commenced two investigations resulting from conduct self-reported by the firms involved. Our investigation into the conduct of personnel at Deloitte LLP (Canada) was settled in 2021; the second investigation at PwC (Canada) was settled in 2022.[5]

CPAB's regulatory intervention process

CPAB expects firms to resolve audit quality issues as they arise during an inspection. CPAB's Rules provide a framework of regulatory intervention mechanisms to address audit quality deficiencies at the file and firm levels.

Throughout the inspection process engagement teams and the audit firm are given the opportunity to provide their perspectives and written responses in relation to the facts, findings and recommendations arising from the inspection. Once the inspection has concluded, to protect the investing public and promote audit quality, unresolved matters may be escalated to regulatory intervention which can include enforcement actions and investigations.

CPAB commences an investigation when we consider that a Violation Event may have occurred and we wish to seek additional information. A Violation Event includes conduct that breaches CPAB Rules or standards of professional conduct for the audit profession and may have an impact on the provision of audit services. This includes a failure to comply with enforcement actions imposed on a firm.

Enforcement and investigations

CPAB escalates our regulatory oversight by proposing that a firm be subject to an investigation or enforcement actions including undertakings, requirements, restrictions or sanctions. Such regulatory intervention is designed to encourage sustained improvements to audit quality.

An undertaking is a contractual agreement between the firm and CPAB setting out specific components of a remediation plan targeted to address concerns emanating from an inspection or investigation. Requirements typically involve CPAB mandating the firm implement targeted actions or change certain practices to improve audit quality, such as conducting a culture assessment or providing additional training, etc. Restrictions typically involve CPAB limiting the audit firm's practice including restricting the firm from taking on new reporting issuer clients, high risk reporting issuer clients or reporting issuer clients in particular industries. Sanctions include but are not limited to a public censure and termination of a firm's status as a participating audit firm.

The initial decision to propose the imposition of enforcement actions is determined by CPAB's Enforcement Screening Committee where each matter is reviewed and a recommendation is formulated and brought to CPAB's board of directors for approval.

Following a decision by the board to propose enforcement actions formal notice is provided to the firm. The firm can challenge the proposed enforcement actions by petitioning for a review proceeding. If the firm does not petition for a review proceeding, the enforcement actions will come into effect and the firm must comply with them immediately. There were no such challenges in 2021.

[5] Details of the orders are available on our website.

CPAB disclosures consultation

In 2021 we conducted a public consultation to gather stakeholder input and to invite dialogue on potential changes to the information we disclose.

We were specifically interested in the investing public's feedback on our disclosure principles, what and how we communicate to audit committees and what we share publicly about our regulatory assessment results and intervention actions.

The consultation ran from July 19, 2021 to September 30, 2021. CPAB issued a consultation paper to solicit feedback. Stakeholders submitted written responses, completed a consultation survey and participated in 1:1 meetings with CPAB. We heard from corporate directors, audit firms, investors, other regulators and reporting issuer management; feedback is posted on CPAB's website at www.cpab-ccrc.ca/insights/disclosures.

Stakeholders for the most part supported increases to CPAB's disclosures across each of the three areas we consulted on — communication to audit committees, disclosure of the results of CPAB's regulatory oversight activities, and disclosures related to CPAB's enforcement actions. The strongest support was for moving from voluntary to mandatory sharing of significant file-specific findings with the relevant reporting issuer's audit committee, and increased disclosure of enforcement actions and investigations depending on the level of significance of the enforcement or investigation.

CPAB will complete its assessment of all stakeholder feedback in 2022. Changes to make the communication to audit committees mandatory and to allow us to disclose the results of our regulatory oversight activities by individual firm will require revisions to CPAB's rules and securities legislation. If regulatory change is warranted, additional consultation and regulatory approvals will likely be necessary. Any proposed modifications will be made public on CPAB's website.

External outreach — expanding the conversation about audit quality matters

Virtual conversations remained the norm in 2021 opening up new opportunities to expand our outreach to audit committee chairs and investors. While our total engagement levels reflected some fatigue among audit committee chairs and investors with virtual meetings, we were pleased to newly engage with 89 corporate directors and 17 investors, expanding our audit quality discussions to a broader group.

This dialogue also improves our awareness of current and emerging issues. Key topics this year included technology, internal controls, the impact of COVID-19 on audits and people, culture, cybersecurity, and environmental, social and governance (ESG) reporting.

Connecting with audit committees

Connecting with audit committee chairs of mid cap reporting issuers and those in emerging industries, including the cannabis and crypto sectors, was a priority.

In addition to annual audit committee forums for the mining, energy and real estate industries and financial institutions, we added sessions on the audits of cannabis and crypto companies reflecting the significant increase in market activity and reporting issuers in these sectors. Discussions focused on the importance of developing governance and internal controls at newly established companies to support high-quality financial reporting and to create the conditions needed to support high-quality audits.

Hearing from investors

Our discussions with investors in 2021 helped us to better understand their unique views on issues including fraud, ESG reporting, CPAB's disclosure consultation and the impact of the pandemic on audits.

We met with 32 investors with a heavier focus on Canada's largest institutional investors.

Addressing audit quality matters

Fraud and going concern can have a significant impact on investors and the reputation of the audit. We performed additional reviews in 2021 on fraud and going concern to evaluate the work performed by auditors and will publish our observations in 2022, including improvements auditors can make in advance of any changes to the auditing standards.

We also evaluated how auditors are using technology to improve audit quality, including the ability to detect fraud. We have observed a growing use of technology and we see continued potential to improve audit quality through increased adoption and innovation. We provided our perspectives in our **Technology in the audit** publication including how we are seeing technology used, along with opportunities and challenges.

CPAB continued to lead the International Forum of Independent Audit Regulators (IFIAR) Technology Task Force. This work provides an important connection between audit regulators and global audit firms to improve understanding of the work performed by the firms to ensure quality in their global processes and use of technology.

The CPAB team — stronger than ever

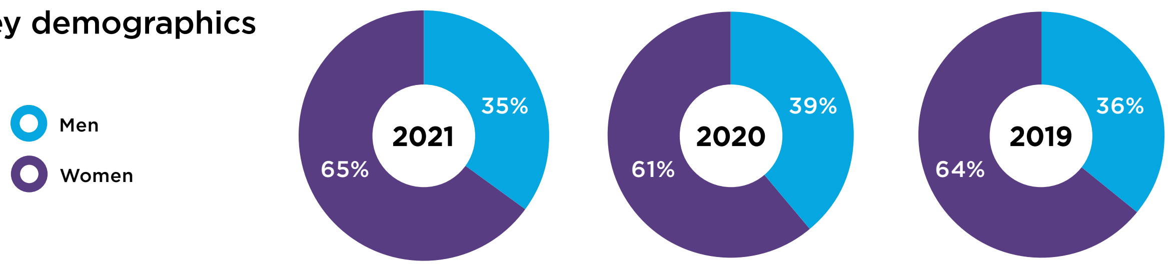
At CPAB we pride ourselves on a culture rooted in protecting the public interest. As COVID-19 challenges persisted throughout 2021, the safety and well-being of our employees remained paramount. Keeping the team engaged and motivated was a primary objective and we received positive feedback in this regard via regular employee engagement surveys.

Over the past year, CPAB leaders actively engaged in discussing and agreeing on work patterns that best reflect employee needs while aligning with CPAB's strategic commitments. We provided training and other assistance to employees and their families to support physical and mental wellbeing.

Ensuring our employees have the skills they need to drive audit quality now and in the future is critical to delivering on our mandate; we provided virtual learning programs to build professional knowledge and skills critical to regulatory effectiveness. We complemented this with non-technical, leadership and diversity and inclusion training. Employees were invited to join our 2022-24 strategic planning process and their participation was critical to our final roadmap and to the evolution of our core values.

We increased our average headcount by 11 per cent to address the additional volume of activity arising from quality management system assessments and emerging industries, as well as residual effects of the COVID-19 pandemic. The retention rate was 93 per cent (2020: 91 per cent). We are projecting an increase of 3.5 per cent in average headcount in 2022. Increased staffing levels have not resulted in a need to change our fee structure.

Key demographics



Other key demographics

	2021	2020	2019
Average number of employees	59	54	51
Employee retention rate	93%	91%	88%
Women on leadership team	7 (70%)	7 (70%)	6 (60%)

Underrepresented populations*

	2021	2020	2019
Organization wide	15 (23%)	20 (35%)	18 (33%)
Leadership team	1 (10%)	1 (10%)	1 (11%)

*BIPOC and LGBTQ2S+

Community Matters

The health and well-being of our communities matters to CPAB. Our people engage personally and professionally in a variety of activities that make our communities better places to live. CPAB also supports employees who wish to contribute to charitable initiatives through paid time off and corporate matching.

In 2021 we continued our campaign to raise mental health awareness through educational sessions. We fundraised and provided financial support to various charities that serve our communities.

Management's Discussion and Analysis

Overview

The Canadian Public Accountability Board (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 internationally.

This management's discussion and analysis (MD&A), prepared as of February 1, 2022, is an analysis of CPAB's operating results for the year ended December 31, 2021. It should be read in conjunction with the audited financial statements for the year ended December 31, 2021, and related notes, which have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. It also includes the outlook for 2022, 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 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, regulatory intervention revenue, the frequency and the nature of violation events, the short and longer-term impact of the pandemic on our revenue 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 operates on a cost-recovery basis. The chart below summarizes key financial data for the last three years.

(in $'000)	2021 Actual	2020 Actual	2019 Actual
TOTAL REVENUE[1]	**$ 19,086**	**$ 17,973**	**$ 17,041**
Salaries and benefits	14,243	13,098	12,413
Other operating expenses	4,433	4,240	4,935
TOTAL EXPENSES	**18,676**	**17,338**	**17,348**
Investment income (loss)[1]	(109)	71	168
EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE)	**$ 301**	**$ 706**	**$ (139)**
TOTAL ASSETS	11,454	10,556	10,286
TOTAL LIABILITIES	2,949	2,352	2,788
ACCUMULATED SURPLUS	**$ 8,505**	**$ 8,204**	**$ 7,498**

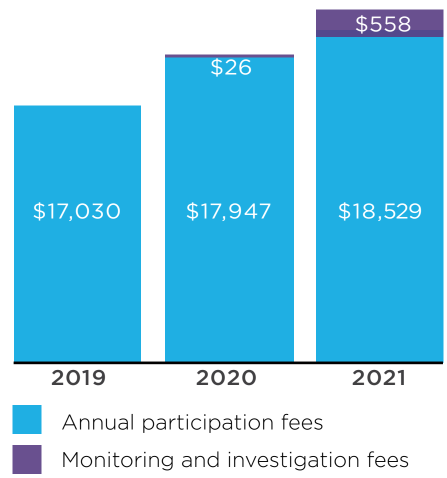
[1] Investment income (loss) was presented as part of total revenue in 2019 and 2020.

Revenue increased by $1.1 million or 6.2% to $19.1 million at the end of the year due to audit fee increases and regulatory intervention activities that generated additional revenue of $0.6 million. Total expenses increased by $1.3 million or 7.7% to $18.7 million. Higher salaries and benefits due to increased headcount, higher information and technology expenses and increased external legal and professional services contributed to this increase.

Operating results

Revenue

CPAB derives the majority of its revenue from Canadian reporting issuers. Other revenue includes billing to audit firms to recover costs incurred as a result of regulatory intervention. This includes the enforcement compliance costs recovery and the recovery of costs incurred by CPAB to conduct an investigation.

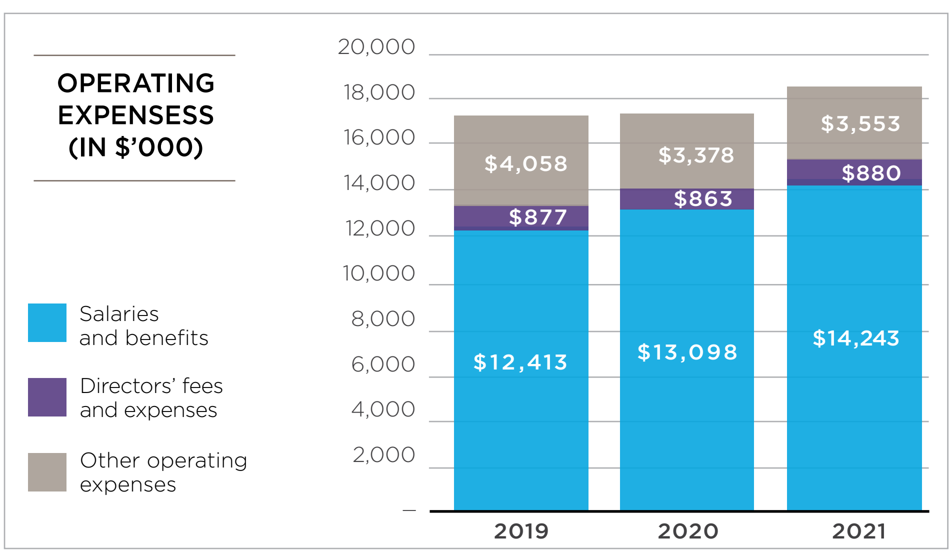


Each year, CPAB invoices participating audit firms who bill their reporting issuer clients. Annual participation fees increased by 2.8% from $18.0 million in 2020 to $18.5 million, mainly attributable to increased audit fees. In 2021, CPAB charged 1.22% (2020: 1.22%) of the total global audit fees billed to Canadian reporting issuers with a cap of $75,000 for foreign reporting issuer companies operating in some jurisdictions. The audit fees used to calculate CPAB's 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 audits and were fixed before the pandemic. We expect total 2022 revenue to be consistent with 2021.

CPAB incurs costs related to its assessment of a firm's compliance with the terms of enforcement actions, including follow-up inspections. These enforcement compliance costs are charged to certain participating firms to recover the costs to CPAB of enhanced regulatory intervention and monitoring of compliance with any requirements, restrictions or sanctions imposed. Costs incurred to conduct investigations are also recovered directly from the audit firm. The total enforcement compliance and investigation costs recovered in 2021 was $558K. In 2021, seven participating firms were assessed for their compliance with enforcement actions compared to two in 2020.

Operating expenses

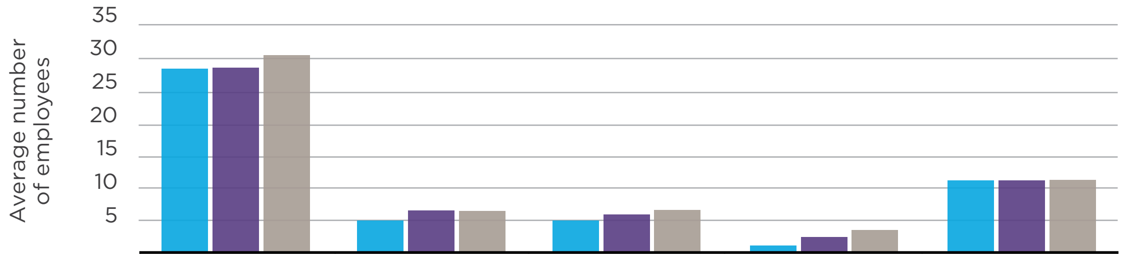
Operating expenses amounted to $18.7 million in 2021. Proportionally, salaries and benefits increased from 75.7% in 2020 to 76.3% of the total expenses in 2021, while the other operating expenses remained stable.



Salaries and benefits

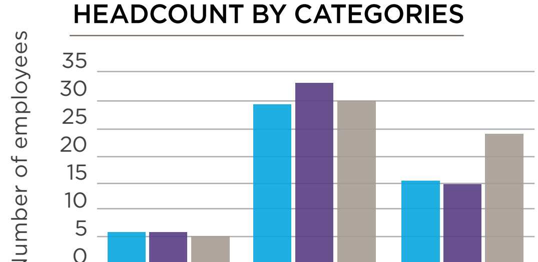
Salaries and benefits increased by 8.7% or $1.1 million, mainly due to increased headcount to reinforce our inspection and enforcement teams. In 2021, CPAB had an average of 59 employees (2020: 54).

HEADCOUNT ANALYSIS



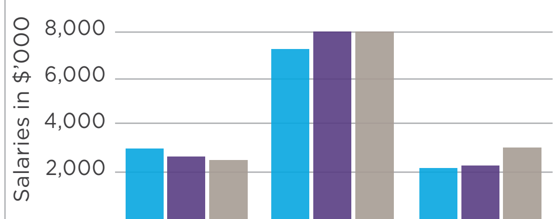
	Inspections	Outreach activities	Registration and risk	Legal, discipline and enforcement	Corporate
2019	28	5	5	1	12
2020	28	6	6	2	12
2021	31	6	7	3	12

HEADCOUNT BY CATEGORIES



	Executive team	Inspection team including risk	Other professional
2019	6	29	16
2020	6	33	15
2021	5	30	24

SALARIES BY CATEGORIES

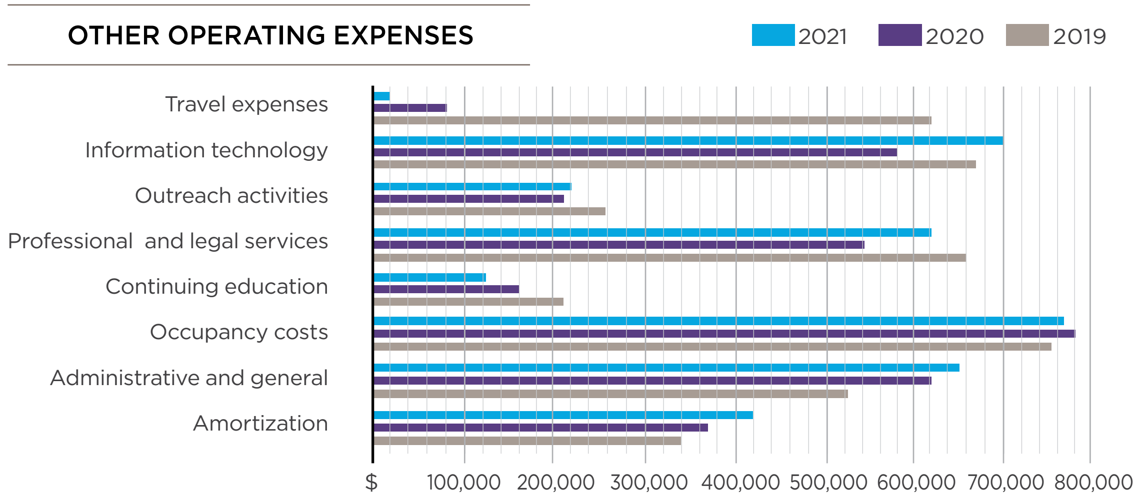


	Executive team	Inspection team including risk	Other professional
2019	2,914	7,317	2,182
2020	2,570	8,315	2,213
2021	2,526	8,770	2,947

Other operating expenses

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

OTHER OPERATING EXPENSES



As the pandemic continued in 2021, CPAB conducted its inspections remotely and held most meetings and training sessions virtually. As a result, travel expenses decreased from $75K in 2020 to $12K in 2021. Similarly, continuing education expenses decreased from $175K in 2020 to $137K in 2021.

Information technology expenses increased by $123K from $583K in 2020 to $706K in 2021 mainly due to an extended third-party IT security assessment and a new web-based inspection software release.

Professional and legal services increased from $548K in 2020 to $620K in 2021, mainly attributable to the increase in regulatory intervention activities.

The increase noted in administration expenses ($39K or 6.3%) reflects the increase in insurance premiums due to market conditions.

Investment income

In 2020, CPAB acquired units in a bond index fund for $4 million. This fund's return was expected to exceed the inflation rate over a three to five-year period. While this investment performed as anticipated in 2020, its valuation decreased in Q1 of 2021 due to changing market expectations for inflation and higher interest rates. Management reassessed the potential risk of continued fluctuations in the value of this investment and decided to sell these units, realizing a loss of $143K in 2021, and acquired guaranteed interest certificates (GIC) from financial institutions that are members of the Canadian Deposit Insurance Corporation (CDIC).

Financial position

Condensed statement of financial position as of December 31.

(in $'000)	2021	2020	2019
Cash and investments	$ 9,161	$ 8,546	$ 8,342
Accounts receivable and prepaid expenses	540	499	553
Accounts payable and accrued liabilities	2,608	1,959	2,319
Net working capital	**$ 7,093**	**$ 7,086**	**$ 6,576**
Equipment, leasehold improvements and intangible assets	1,753	1,510	1,390
Deferred lease inducements	341	392	468
Net Assets	**$ 8,505**	**$ 8,204**	**$ 7,498**

At December 31, 2021, CPAB had a working capital position of $7.1 million (2020: $7.0 million). CPAB has established a guideline for a reserve of 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 fees.

The increase in accounts receivable and other receivables relates to time spent on enforcement compliance incurred in the last quarter and invoiced in January 2022. While Air Canada reimbursed all unused flight passes and other flight credits ($94K) in 2021, the prepaid expenses remained comparable to last year, mainly due to the timing of software licenses renewal.

Intangible assets increased from $319K as of December 31, 2020 to $570 as of December 31, 2021 due to the development of the new data management system. Initially budgeted at $510K this project is expected to be completed in early 2023.

The increase in accounts payable and accrued liabilities includes increased payroll accruals, trade payables for computer equipment acquired before year end ($174K) and amounts owing related to the data management project ($106K).

Outlook for 2022

CPAB is managing its finances efficiently to support the priorities outlined in our 2022-24 strategic plan. In this context, we will continue reinforcing our workforce where required and increase our investment in developing our people and in technology.

2022 CPAB operating budget (unaudited)

YEAR ENDED DECEMBER 31 (in $'000)	2021 ACTUAL	2021 BUDGET	2022 BUDGET
REVENUE	**$ 19,086**	**$ 19,020**	**$ 18,970**
EXPENSES			
Salaries and benefits	14,243	13,600	15,000
Directors' fees and expenses	880	911	948
Travel	12	140	140
Occupancy costs	777	805	788
Administration and general[1]	449	425	482
Information technology	706	830	776
Outreach activities	220	240	220
Continuing education	137	180	150
Insurance	208	202	220
Professional services[1]	292	195	157
Legal services	328	500	300
Amortization	424	425	463
EXPENSES	**18,676**	**18,453**	**19,644**
OPERATING EXCESS OF EXPENSES OVER REVENUE	**$ 410**	**$ 567**	**$ (674)**
INVESTMENT INCOME (LOSS)	(109)	–	30
EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE)	**$ 301**	**$ 567**	**$ (644)**

Commentary on 2021 variances from budget

The operating excess of revenue over expenses is slightly below our budget. The 4.7% overrun in salaries and benefits and 50% in professional fees partially offset the savings on travel, outreach activities, information technology and legal services.

Revenue remained aligned with the budget. The regulatory intervention revenue offset lower annual participation fees due to a decrease in the number of reporting issuers noted in Q4 2020 and a lower than anticipated audit fee increase.

The 2021 budget anticipated that travel would partially resume in fall 2021; this did not occur. All inspections were conducted remotely and most internal and external meetings remained virtual, reducing our travel expenses to $12K.

[1] The 2021 budgeted professional fees included payroll processing costs of $55K. These costs have been reclassified to administrative and general expenses to conform with the current year's presentation.

Salaries and benefits were $643K or 4.7% higher than budget. The timing of recruitment activities, one additional resource to our inspection team and a higher bonus accrual contributed to the overrun. Higher recruitment fees and consulting fees for an actuary in support of the inspection team resulted in an excess in professional fees.

Lower information technology expenses and legal service fees were due to a lower use of third-party service providers than previously anticipated.

Commentary on the 2022 operating budget

With anticipated audit fees comparable to last year, the talent shortage in the market placing increased pressures on salaries and an inflation rate of approximately 4%, the 2022 budget foresees an excess of expenses over revenue of $644K. The surplus generated in previous years allows CPAB to maintain the participating fee rate at 1.22% and absorb the anticipated loss while maintaining its accumulated reserves at a level of between four to six months of operations.

Revenue

CPAB's 2022 revenues from participating audit firms are calculated based on the audit fees disclosed by reporting issuers on SEDAR/EDGAR as of November 30, 2021.

In anticipation of a slight decrease in regulatory intervention revenue ($450K vs $558K in 2021), the budgeted revenue anticipates a slight decline from $19.1 million for 2021 to $19.0 million in 2022.

Operating expenses

CPAB's operating expenses for 2022 are budgeted at $19.6 million, a 4.9% increase over 2021 actual operating expenses. The $0.9 million increase relates to salaries and benefits ($757K), travel expenses ($128K) and directors' fees and expenses ($68K).

In addition to a higher inflation rate, the budgeted salaries and benefits include additional resources to support the extension of our Quality Management System (QMS) assessments to the other annual firms starting in the fall 2022.

We are planning for the reopening of our offices in Q1 or Q2 of 2022 and the resumption of some travel and in-person meetings. However, our travel expenses will not return to pre-pandemic levels. We have based our 2022 travel budget on the assumption that we will conduct inspections partially remotely and partially in person and that international travel will remain limited.

The budgeted directors' fees and expenses anticipate that one additional director will join the board before June 2022.

CPAB anticipates approximately $0.5 million in capital expenditures, primarily for information technology infrastructure updates, data management upgrades and laptop renewals.

Beyond 2022, revenue is expected to increase due to the current upward pressures on audit fees. This should allow us to maintain the fee rate at the same level in the coming years and absorb the increase in resources needed to carry out our 2022-24 strategic plan, particularly in the areas of emerging industries, enforcement and technology.

Executive compensation

CPAB uses Mercer Canada's Professional Services Industry Compensation Survey and consultancy services to establish compensation ranges for its employees. 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 2021, 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 $2.5 million (2020: $2.6 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 2021 CPAB's enterprise risk management continued to focus on the continuing impacts of the pandemic on CPAB and the broader financial reporting ecosystem, and the impact of high levels of inspection findings.

2021 Critical Risks

Risk	Mitigation
Data Security — risk of security breaches related to private and confidential data.	• Ongoing updates to CPAB's hardware and software including firewalls, database design, management and security. • Internal phishing training for employees. • Annual third-party review of our data security controls and infrastructure.
Public confidence in audit — risk to CPAB and audit profession's credibility due to a significant audit failure of reporting issuer leading to a lack of public confidence in the audit.	• Conducted fraud and going concern thematic reviews to identify areas for improvement. • Coordinated response among the regulatory sector on ways to contribute to continued public confidence in external audit quality in Canada.
Audit Transformation — risk of CPAB's inability to quickly respond to changes to the audit (e.g., analytics, blockchain, AI).	• Continuing to build our digital skillsets through professional development, practical experience and targeted recruiting. • Leading discussions with the global audit firms and other audit regulators on the development and use of automated tools and techniques in the audit through CPAB's leadership of the International Forum of Independent Audit Regulators (IFIAR)'s Technology Task Force.
Inspections — risk that inspections are unable to influence change resulting in continued audit execution inconsistency.	• Quality management system assessments at the four largest firms to improve the consistency of audit quality across the firm. • Implementation plans developed by all other annually inspected firms for the new quality management standards. • Imposition of requirements, restrictions or sanctions on seven firms with specific audit quality concerns.
CPAB disclosures — risk of significant delays in making changes to our disclosures that meet the needs of our stakeholders.	• Work closely with securities commissions, provincial CPA bodies and governments to effect any necessary changes, including changes to our rules and legislation.

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. Note 2 to the financial statements describes the significant accounting policies. The 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 s financial reporting and internal control responsibilities. 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

Carol Paradine, FCPA, FCA
Chief Executive Officer

Philippe Thieren

Philippe Thieren, CPA, CA
Chief Financial Officer

Independent Auditor's Report

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

Opinion
We have audited the financial statements of **Canada Public Accountability Board/Conseil canadien sur la reddition de comptes**, which comprise the statement of financial position as at December 31, 2021, 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, 2021, 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.
- 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 1, 2022

Financial Statements

STATEMENTS OF FINANCIAL POSITION
As at December 31

	2021	2020
ASSETS		
Current assets		
Cash	$ 343,801	$ 326,596
Investments (note 4)	8,817,588	8,219,379
Accounts receivable (note 5)	134,465	90,717
Prepaid expenses	405,432	408,670
	9,701,286	9,045,362
Equipment and leasehold improvements (note 6)	1,182,311	1,191,031
Intangible assets (note 7)	570,454	319,188
	$ 11,454,051	**$ 10,555,581**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	$ 2,608,458	$ 1,959,332
Deferred lease inducements	340,728	392,269
	2,949,186	2,351,601
NET ASSETS		
Invested in equipment, leasehold improvements, and intangible assets	1,752,765	1,510,219
Unrestricted	6,752,100	6,693,761
	8,504,865	8,203,980
	$ 11,454,051	**$ 10,555,581**

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

			2021	2020
	Invested in equipment, leasehold improvements and intangible assets	*Unrestricted*	*Total*	*Total*
Net assets, beginning of year	$ 1,510,219	$ 6,693,761	$ 8,203,980	$ 7,498,134
Excess of revenue over expenses for the year	-	300,885	300,885	705,846
Purchase of equipment and leasehold improvements	365,024	(365,024)	-	-
Purchase of intangible assets	301,380	(301,380)	-	-
Amortization of equipment, leasehold improvements and intangible assets	(423,858)	423,858	-	-
Net assets, end of year	**$ 1,752,765**	**$ 6,752,100**	**$ 8,504,865**	**$ 8,203,980**

See accompanying notes.

STATEMENT OF OPERATIONS
For the years ended December 31

	2021	2020
REVENUE (note 9)	**$ 19,086,652**	**$ 17,972,795**
EXPENSES		
Salaries and benefits	14,243,304	13,097,798
Directors' fees and expenses	879,741	862,530
Occupancy costs	777,049	789,720
Information technology	705,719	582,805
Administrative and general	448,786	441,633
Legal services	327,689	271,310
Professional services	292,403	276,448
Outreach activities	220,427	215,218
Insurance	207,631	176,146
Continuing education	137,475	174,509
Travel	12,384	75,494
Amortization of equipment and leasehold improvements	373,744	328,761
Amortization of intangible assets	50,114	45,507
	18,676,466	**17,337,879**
OPERATING EXCESS OF REVENUE OVER EXPENSES	**410,186**	**634,916**
Investment income (loss) (note 10)	(109,301)	70,930
EXCESS OF REVENUE OVER EXPENSES	**$ 300,885**	**$ 705,846**

See accompanying notes.

STATEMENTS OF CASH FLOWS
For the years ended December 31

	2021	2020
OPERATING ACTIVITIES		
Excess of revenue over expenses	$ 300,885	$ 705,846
Add back (deduct) non-cash items		
Loss (gain) on investments	142,934	(15,127)
Gain on sale of property and equipment	(1,650)	–
Amortization of equipment, leasehold improvements, and intangible assets	423,858	374,268
Amortization of deferred lease inducements	(51,541)	(75,646)
Net change in non-cash working capital items (note 11)(1)	314,860	(275,437)
Cash generated from operations	**$ 1,129,346**	**$ 713,904**
INVESTING ACTIVITIES		
Purchase of investments	(15,000,000)	(16,700,000)
Redemption of investments	14,272,193	14,100,000
Proceeds on sale of property and equipment	1,650	–
Purchase of equipment and leasehold improvements(7)	(190,682)	(290,039)
Purchase of intangible assets	(195,302)	(204,000)
Cash used in investing activities	**$ (1,112,141)**	**$ (3,094,039)**
Cash generated during the year	**17,205**	**(2,380,135)**
Cash and cash equivalents, beginning of year	326,596	2,706,731
Cash, end of year	**$ 343,801**	**$ 326,596**
Additional information		
Interest received	20,297	82,750

See accompanying notes.

(1) Non-cash transactions – see note 11.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020

1. THE ORGANIZATION

The Canadian Public Accountability Board/Conseil canadien sur la reddition de comptes (CPAB or organization) 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 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 1, 2022.

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 generates four types of revenue: an intent to participate fee, an annual participation fee, enforcement compliance revenue and investigation revenue.

The intent to participate fee is collected from audit firms on their initial application to become participating audit firms. This fee is a flat fee based on the number of reporting issuers of the applicant firm at the registration date. 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.

Enforcement compliance costs are charged, in certain circumstances, to certain participating audit firms to recover the costs to CPAB of enhanced regulatory intervention and monitoring of compliance with any requirements, restrictions or sanctions imposed. This cost recovery is recognized as revenue in the period in which the work is performed.

Investigation costs may be charged to participating audit firms to recover the costs incurred to conduct an investigation. Investigation costs are recognized upon conclusion of the investigation when the amounts are known and collectible.

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 readily convertible to cash and subject to an insignificant risk of changes in value. As at December 31, 2021, the organization did not have cash equivalents.

Investments
Investments are composed of Guaranteed Investments Certificates (GICs) with maturities from one to three years and bond pooled fund units.

Initially, investments are recognized at fair value and subsequently measured at amortized cost except for bond pooled fund units 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 – 7 years
Website	5 years

Leases
The organization may have both capital and operating leases. Under the operating leases, the rental payments are recognized in the statement of operations on a straight-line basis over the terms of the leases. Lease inducements are accounted for as reductions of the lease expense over the term of the lease.

Leases in which the organization obtains substantially all the risks and rewards of ownership are classified as capital leases. The organization records its capital leases as an acquisition of an asset and an assumption of an obligation. The asset value and the amount of the obligation, recorded at the inception of the lease, are the present value of the minimum lease payments. Each lease payment is allocated between the liability and interest expense to achieve a constant interest rate on the recorded capital lease obligations. Equipment acquired under a capital lease is amortized 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, 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 the statement of operations 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. 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 of December 31, 2021, its maximum exposure is the balances on the statement of financial position.

As of December 31, 2021, the organization did not have any overdue accounts receivable.

The organization holds investments to ensure the availability of cash flow and to protect its capital. Investments are limited to GICs with financial institution members of the Canada Deposit Insurance Corporation (CDIC) and Canadian government or provincial bonds with a minimum credit rating of A. GICs with unquoted financial institutions or financial institutions below a credit rating of A are limited to the insured amount. 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 of December 31, 2021, the organization has cash and short-term investments of $9.16 million (2020: $8.55 million) to settle current liabilities of $2.58 million (2020: $1.96 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 comprises 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

In 2020, CPAB's exposure to interest rate risk was mainly limited to its investment in a Canadian government bond index fund sold in March 2021. The organization is no longer exposed to significant interest rate risk.

GICs and short-term investments have interest rates ranging from 0.2% to 0.45% (2020: 0.20% to 1.95%). The average interest rate earned on bank balances during the year was 0.5% (2020: 0.83%).

4. INVESTMENTS

Investments consist of:	**2021**	**2020**
GICs	$ 8,800,000	$ 4,200,000
Accrued interest	17,588	4,252
	8,817,588	4,204,252
RBC Canadian government bond index fund	–	4,015,127
	$ 8,817,588	**$ 8,219,379**

5. ACCOUNTS RECEIVABLE

	2021	2020
Accounts receivable	$ 94,168	–
Sales taxes recoverable	40,297	90,717
	$ 134,465	**$ 90,717**

6. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	Cost	Accumulated amortization	2021 Net	2020 Net
Office equipment and furniture	$ 930,184	$ (770,495)	$ 159,689	$ 190,458
IT infrastructure and networks	1,253,379	(972,841)	280,538	324,732
Computing equipment	432,763	(218,648)	214,115	81,018
	2,616,326	(1,961,984)	654,342	596,208
Leasehold improvements	2,096,964	(1,568,995)	527,969	594,823
Equipment and leasehold improvements	**$ 4,713,290**	**$ (3,530,979)**	**$ 1,182,311**	**$ 1,191,031**

7. INTANGIBLE ASSETS

	Cost	Accumulated amortization	2021 Net	2020 Net
Computer software	$ 816,566	$ (322,459)	$ 494,107	$ 217,392
Website	127,245	(50,898)	76,347	101,796
Intangible assets	**$ 943,811**	**$ (373,357)**	**$ 570,454**	**$ 319,188**

As of December 31, 2021, computer software includes unamortized software under development of $393,630 (2020: $204,000).

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2021	2020
Trade accounts payable	$ 376,681	$ 29,919
Salaries, vacation and bonuses	1,920,502	1,845,309
Other accrued liabilities	311,275	84,104
	$ 2,608,458	**$ 1,959,332**

9. REVENUE

	2021	2020
Annual participation fees	$ 18,498,962	$ 17,928,595
Enforcement compliance	458,040	26,200
Investigation	100,000	-
Intent to participate fees	28,000	18,000
Other	1,650	-
	$ 19,086,652	**$ 17,972,795**

10. INVESTMENT INCOME (LOSS)

	2021	2020
Interest income	$ 33,633	$ 55,803
Gain (loss) on investment	(142,934)	15,127
	$ (109,301)	**$ 70,930**

11. CASH FLOWS

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

	2021	2020
Accounts receivable	$ (94,168)	$ 45,950
Accrued interest	(13,336)	31,383
Sales tax recoverable	50,420	(29,166)
Prepaid expenses	3,238	(87,718)
Accounts payable and accrued liabilities	368,706	(235,886)
	$ 314,860	**$ (275,437)**

Non-cash transactions:
In 2021, the organization acquired equipment and intangible assets of which, $174,342 and $106,078 respectively remained unpaid as of December 31, 2021.

12. 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. On December 31, 2021 and 2020, the amount owing under the credit facility was nil.

13. 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 $16,470.

CPAB's estimated minimum lease payments are as follows:

	Montreal	Toronto	Vancouver	Total
Period	**2019–2029**	**2013–2024**	**2017–2027**	
2022	$ 114,545	$ 632,973	$ 112,074	$ 859,592
2023	116,071	640,722	114,167	870,960
2024	118,465	377,783	115,528	611,776
2025	124,215	-	116,922	241,137
2026	125,859	-	118,352	244,211
Thereafter	366,018	-	39,939	405,957
	$ 965,173	$ 1,651,478	$ 616,982	**$ 3,233,633**

CPAB Leadership Team

Carol Paradine
Chief Executive Officer

Jennifer Cooper
Senior Director, Enforcement

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

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]
Vice-Chair,
Calgary, Alberta

Renaud Caron[2]
Montreal, Quebec

Don G. Chynoweth[1]
Calgary, Alberta

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

Bruce C. Jenkins[1]
Toronto, Ontario

Richard Payette
Montreal, Quebec

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

Corporate Information

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Corporate Counsel

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