Canadian Public Accountability Board
Conseil canadien sur la reddition de comptes

MARCH 2023

2022 ANNUAL REPORT

Committed to strengthening audit quality in Canada

CPAB-CCRC.CA

cpab ccrc

Canadian Public Accountability Board

Conseil canadien sur la reddition de comptes

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.

Our Core Values

Committed to serving the public
Team driven and inclusive
Innovative
Courageous

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A message from Benita M. Warmbold, Chair

When I reflect on 2022, I think of how different January was to December. We started the year in a pandemic lockdown in parts of Canada, and we ended with in-person board meetings. I appreciate the commitment of my director colleagues and CPAB management and staff as we all adapted throughout the year.

Areas of focus in 2022 included conducting important enforcement actions, expanding the information we disclose about the results of our inspections, reviewing the progress of the implementation of systems of quality management at audit firms, and examining firm culture and how it influences ethical behaviour.

In 2022, CPAB shared the outcome of a comprehensive review of how CPAB publicly discloses information. Management considered a number of factors, including stakeholder feedback and the approach taken by global audit regulators. The board reviewed and approved the recommendations that were published in October 2022 and believes the planned changes will benefit audit committees in their role overseeing auditors and Canada's capital markets overall.

Board succession and renewal are critical for any organization. Our goal is to ensure CPAB's board reflects the diversity of Canada and that it benefits from a variety of opinions and experiences. We were pleased to welcome Mary Lou Maher and Chika Onwuekwe as new directors in 2022. Mary Lou brings over 30 years of global and Canadian leadership experience gained at a global audit firm and has been recognized for her work on diversity and inclusion by numerous organizations. Chika, who brings legal expertise and over 20 years of executive leadership, is Chair of the BlackNorth Initiative's (BNI) Alberta chapter and active in BNI nationally. We said goodbye to Ian Bourne, who retired from the board as vice chair in 2022 after serving for almost a decade. We thank him for his invaluable contributions over the years, including his unwavering focus on the nature and extent of our communications with audit committees.

In 2023, the board's key priorities will include oversight of CPAB's three-year strategic plan, ongoing public disclosure changes, employee engagement and well-being, as well as continuing to strengthen board diversity. I want to thank the management team for their ongoing commitment to delivering on the organization's goals and my director colleagues for their engagement and support throughout the year. I look forward to our continued collaboration as we work to deliver on our vision to reinforce public confidence in Canada's capital markets.

Benita M. Warmbold, FCPA, FCA, ICD.D
Chair

A message from Carol A. Paradine, CEO

During 2022 CPAB advanced several large projects and undertook increased enforcement activity. We saw a notable decrease in significant inspection findings for annually inspected firms from 25 per cent to 19 per cent, although this is still in excess of CPAB's target of no more than 10 per cent significant inspection findings. Continued improvement at these firms is important, given that they audit over 91 per cent of Canadian reporting issuers (as measured by market capitalization). The inspection finding rate at many non-annually inspected firms remains high. Novel or emerging audit challenges continue to be areas of concern.

Our 2022-2024 strategic plan highlights the priority of advancing a quality-driven culture across auditors of Canada's public companies. High-profile ethical breaches in Canada and internationally underscore the importance of various activities underway with all firms to ensure that they have a culture that prioritizes and supports ethical behaviour and decision-making at all levels.

Based on stakeholder feedback and a review of practices in other jurisdictions, CPAB published our disclosure recommendations, which set out our proposed enhancements to the information we disclose, including enforcement actions brought against individual firms. Significant changes are already in place as of January 2023, such as, going forward, the plan to publish information on our website relating to firms that are subject to significant enforcement actions and firms that are not making timely improvements in response to deficiencies identified in our inspections.

We are monitoring proposed environmental, social and governance disclosure changes. Auditors will play an important role in validating progress against actionable, measurable commitments.

We published thematic reviews on going concern, fraud and crypto audit procedures in 2022. We expect these themes will remain topical in 2023 and are committed to communicating our research and perspectives with relevant standard setters. We continue to dedicate significant resources to the impact of information technology on the audit, including tools such as artificial intelligence.

Connecting our team with a common purpose and values is important to CPAB's ability to deliver its mandate. In 2022, we updated our core values in support of our culture, mission and vision. I am grateful that our employee survey results show that the CPAB team, guided by our public interest responsibility, remained highly engaged throughout 2022, and that we had strong staff retention.

I wish to thank CPAB's Board of directors for its ongoing support and guidance in 2022, along with the entire CPAB team for their efforts to improve audit quality in Canada. I look forward to working with all stakeholders to advance our shared goal to improve audit quality and strengthen confidence in Canada's public company audits and capital markets.

Carol Paradine

Carol A. Paradine, FCPA, FCA
Chief Executive Officer

Strategy

2022 was the first year of CPAB's 2022-2024 strategic plan. Below is an overview of our progress against each of our four strategic commitments.

Strategic commitment one:

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

Highlights:

- Published recommendations for changes to CPAB's processes for disclosing information and what information is to be disclosed, including our inspection and enforcement activities. Effective January 2023, CPAB may disclose significant enforcement actions and recommendations not implemented on a timely basis.
- Started the rule change process to introduce mandatory disclosure of reporting issuer-specific significant inspection findings to the reporting issuer's audit committee and to enable the publishing of individual firm inspection reports for each audit firm inspected by CPAB.
- Met with other regulators, both in Canada and other countries, who have performed assessments of governance, culture and ethics to understand their processes and commenced a project to incorporate this into CPAB's quality management systems assessment model in alignment with the International Standard on Quality Management.

Strategic commitment two:

Tackle emerging audit quality challenges head on.

Highlights:

- Ongoing engagement with audit committees and management in emerging industries throughout the year, including a focus on cannabis, fintech and crypto.
- Applied an escalation framework to evaluate appropriate enforcement actions on participating audit firms where we have recurring inspection findings and a potential risk to the investing public.
- Imposed new enforcement actions on four firms in 2022 and continued or modified enforcement actions on nine firms from prior years.
- Initiated three new investigations, which remain ongoing, and concluded one.
- Launched a new risk database to expedite data analysis and facilitate risk oversight.

Strategic commitment three:

Evolution of the audit.

Highlights:

- Shared findings and publications on the use of technology in auditing with other audit regulators and global audit firms.
- Published thematic reviews on fraud and going concern.
- Participated in International Forum of Independent Audit Regulators meetings with the goals of maintaining a strong voice internationally and influencing global audit standards.
- Engaged with standard-setters for environmental, social and governance reporting and completed a thematic review focused on assessing how auditors are considering climate-related factors in their audits.
- Evaluated the quality of work performed by auditors when reporting issuers use service organizations.

Strategic commitment four:

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

Highlights:

- Launched new core values in 2022: committed to serving the public, team driven and inclusive, innovative, courageous.
- Employee retention remains high at 94 per cent, as does our employees' understanding of our mission, vision and core values.
- Continued development of our team through training on artificial intelligence, auditing in a crypto and blockchain environment, and other auditing, project management and leadership skills.

CPAB's regulatory disclosures

As part of strategic commitment one, to advance a quality-driven culture across auditors of Canada's public companies, we will expand the information we disclose publicly.

In 2021, CPAB consulted stakeholders to gather input on potential changes to the information that we disclose about the results of our regulatory assessments. CPAB took this input into account, and in 2022 published intended changes to the information we will disclose about the results of our oversight of participating audit firms that audit Canadian reporting issuers.

Significant planned changes to the information disclosed will take place in a phased approach. As part of the first phase, effective January 2023, we began to disclose all significant enforcement actions arising from regulatory assessments—this is being implemented on a prospective basis. In the past, disclosures had been limited to instances where public sanctions were imposed. Stakeholders may also subscribe to receive updates on our enforcement activities.

In addition, effective January 1, 2023, we are making public details of CPAB recommendations where firms have not addressed concerns to our satisfaction. Under Rule 416, CPAB has the power to disclose weaknesses, deficiencies or recommendations which were included in a firm report but not addressed within 180 days of issuance of a final inspection report. As part of the consultation process, stakeholders indicated that this information would be relevant to the public to assess audit quality at firms, particularly for the most significant weaknesses, deficiencies or recommendations.

We are also working with provincial securities commissions and applicable government bodies to make changes to CPAB's Rules and legislation to permit a second phase of disclosure changes, which would include mandatory disclosures to audit committees and the publishing of individual firm inspection results. We expect these changes to take additional time to implement due to the requirements for public consultation and further engagement with provincial authorities who approve changes to our rules and legislation.

For more information, visit cpab-ccrc.ca/insights/disclosures.

Operational Report

CPAB's assessment landscape

at December 31, 2022:

ALL REGISTERED FIRMS

265
audit firms registered with CPAB
(2021: 267)

of these, 81 firms do not audit reporting issuers

the remaining
184
firms
(2021: 175)

audit approximately
8,800
reporting issuers

15
audit firms withdrew registration
(2021: nine)

13
new audit firms registered
(2021: 29)

0
registrations terminated for failing to comply with administrative requirements
(2021: one)

11 ANNUALLY INSPECTED FIRMS

audit approximately
7,070
reporting issuers or
91%
of all reporting issuers as measured by market capitalization

The four largest audit firms audit approximately…

5,370 reporting issuers or **90%** of reporting issuers as measured by market capitalization

The seven other annually inspected firms audit approximately…

1,700 reporting issuers or **1%** of reporting issuers as measured by market capitalization

173 NON-ANNUALLY INSPECTED FIRMS

audit approximately
1,730
reporting issuers or
9%
of all reporting issuers as measured by market capitalization

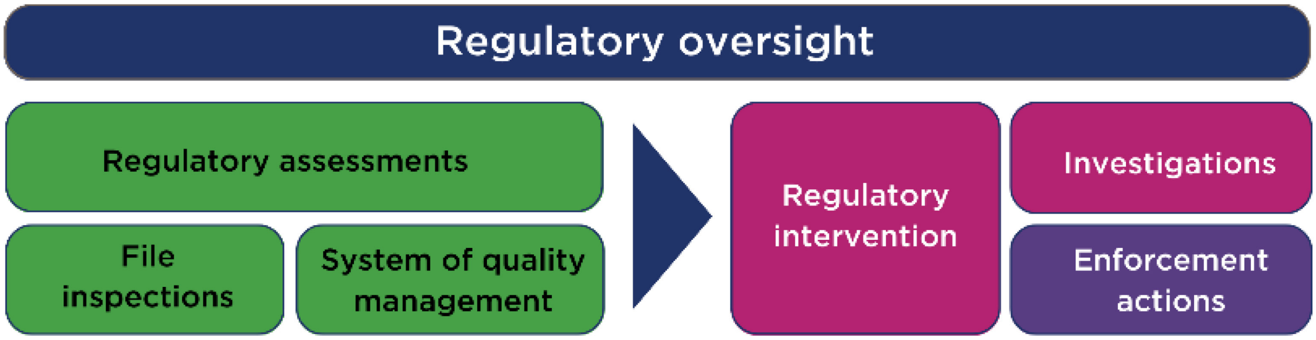
Foreign firms audit approximately…

370 reporting issuers or **8%** of reporting issuers as measured by market capitalization

Other Canadian audit firms audit approximately…

1,360 reporting issuers or **1%** of reporting issuers as measured by market capitalization

Regulatory Oversight



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

This year, we saw an improvement in inspection results at most annually inspected firms. However, the aggregate findings rate of 19 per cent is above the target of no more than 10 per cent of files inspected with significant findings. Conversely, there was a significant increase in the findings rate at non-annually inspected firms. The improvements realized at annually inspected firms are encouraging given the significance of the reporting issuers audited by these firms; they reinforce the importance of a strong system of quality management to support the consistent execution of quality audits.

Of significant concern is the high number of restatements that arose from inspections conducted in 2021.

We continually evaluate the effectiveness of our regulatory oversight and refine our strategy and outreach activities to promote high-quality audits of Canadian reporting issuers. In addition to increased enforcement activity, we publish more detailed inspection findings through our Strengthening Audit Quality communication series and through thought leadership publications covering technology in the audit, existence of crypto assets, auditing in the cannabis sector and our fraud and going concern thematic reviews. Our outreach activities, which have expanded the conversation about audit quality matters with a broad range of stakeholders, are outlined on page 24.

How CPAB chooses files to inspect

CPAB's risk-based methodology for choosing files for inspection (and the specific areas of those files) 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 public companies or areas where the audit firm may have less expertise. 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 audit situations.

[1] The inspection of the system of quality management for all annually inspected audit 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 audit firms and one other annually inspected audit firm; and an evaluation of compliance with the Canadian standard on quality control (CSQC 1) for firms that perform audits of financial statements. Collectively referred to as the system of quality management.

2022 regulatory assessments

All public accounting firms that audit a Canadian reporting issuer must register with CPAB[2]. The graphic on page 6 shows the scope of our assessment landscape in 2022.

Each year, CPAB inspects all firms that audit 100 or more reporting issuers. There are currently 11 firms (2021: 11) in this group which audit approximately 7,070 reporting issuers. These firms audit approximately 91 per cent of all Canadian reporting issuers as measured by market capitalization.

Frequency of firm inspections

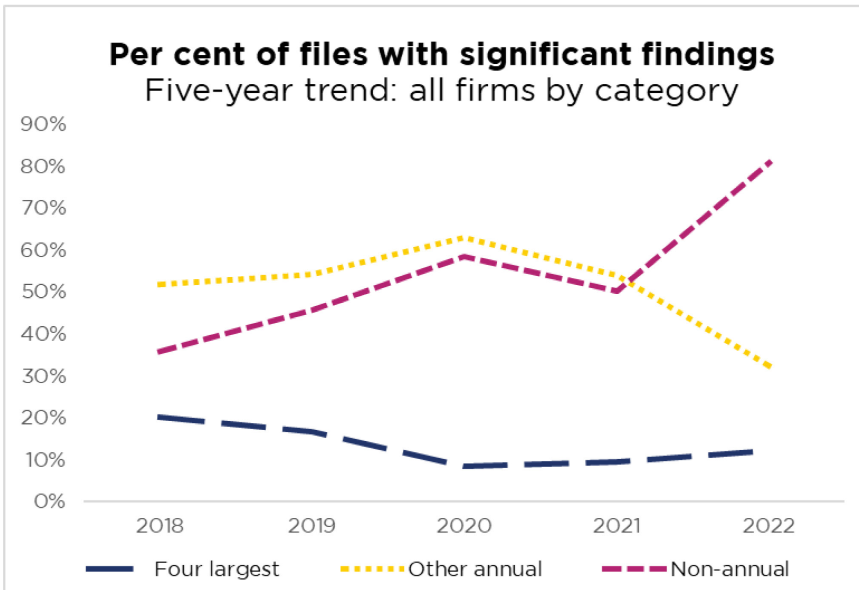
Each year, CPAB inspects all firms that audit 100 or more reporting issuers. These annually inspected firms include the four largest audit firms and, in 2022, seven additional firms.

We also inspect, at least every two years, firms which audit between 50 and 99 reporting issuers. The remaining firms are inspected periodically based on CPAB's risk analysis. These firms collectively are referred to as the non-annually inspected firms.

File inspections

In 2022, we inspected 132 files and identified significant findings[3] in 44 files. This 33 per cent finding rate compares to 28 per cent across 134 files in 2021. We inspected more files at non-annually inspected firms, which had a significantly higher finding rate. By comparison, the International Forum of Independent Audit Regulators reported in their 2022 survey of inspection findings a rate of 30 per cent for the six largest global audit firm networks.

Three of the four largest audit 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 2022 with significant findings of 29 per cent. The aggregate level of significant findings at other annually inspected audit firms has improved with a finding rate of 32 per cent (11 of 34 files), compared to 54 per cent (22 of 41 files) in the prior year.



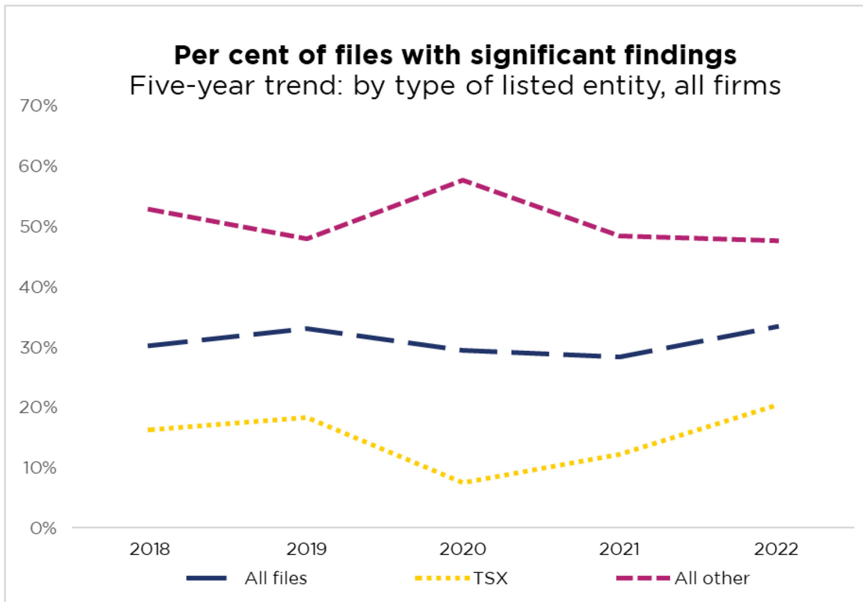
[2] Securities legislation defines what constitutes a reporting issuer. Each of the 13 Canadian securities commissions maintains a list of the reporting issuers in their respective jurisdictions.

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

The level of significant findings at non-annually inspected firms is concerning, with an increased finding rate of 81 per cent (25 of 31 files), compared to 50 per cent (9 of 18 files) in 2021. Please see the section entitled Non-annually inspected audit firms on page 19 of this report for more detail on this and other findings.

Our annual inspections in 2022 included 69 files of Toronto Stock Exchange (TSX) listed entities and 63 non-TSX listed entities (2021: 74 TSX; 60 other). In the past five years, the overall level of significant findings in non-TSX listed entities has remained unacceptably high. We have also seen an increase in the level of findings at TSX listed entities.

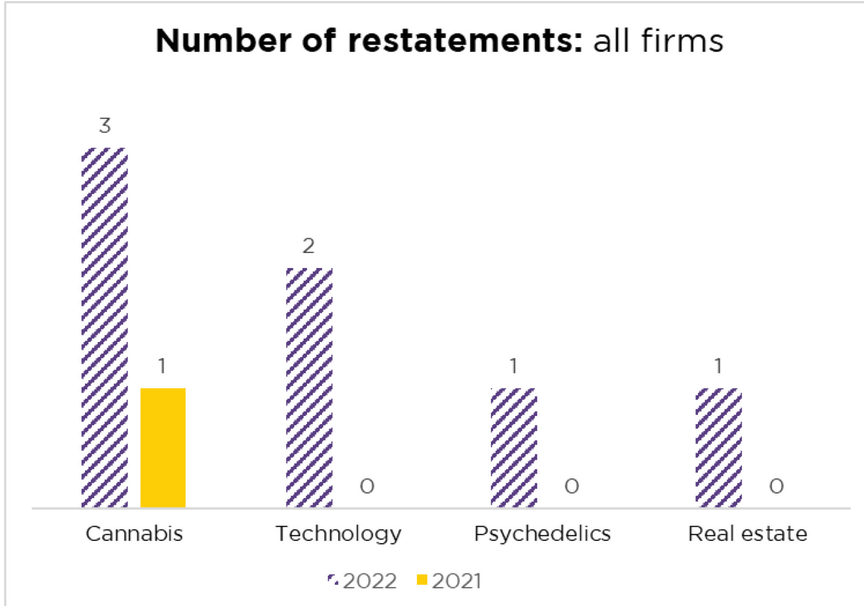
In 2022, we obtained access to and reviewed component auditor working papers located in foreign jurisdictions for seven files selected for inspections (2021: eight). There was one significant finding in the foreign component auditor working papers we reviewed (2021: two).



Seven restatements have been required since our 2021 annual report (one at one of the four largest audit firms, three at other annually inspected audit firms and three at non-annually inspected audit firms). Of the seven restatements, six resulted from inspections conducted in 2021 and one resulted from an inspection conducted in 2022. This compares to one restatement at a non-annually inspected firm reported in our 2021 annual report, resulting from an inspection conducted in 2021. 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.

The graph on the following page indicates the industries in which these reporting issuers operated for 2022 and 2021. These restatements were identified because of additional procedures performed by audit firms in response to significant findings identified during our inspections.

The following inspected audit areas resulted in several restatements: business combinations (mergers and acquisitions), revenue and long-lived assets.



Examples include:

- The reasonableness of deferred taxes not recorded by management in connection with business acquisitions was not evaluated.
- Insufficient understanding of the arrangements with customers to evaluate whether revenue should have been recognized.
- Insufficient evidence to support significant assumptions used in an asset impairment analysis.

Enforcement actions[4]

Poor quality audits and other misconduct in violation of professional standards can harm the investing public and threaten the trust in our capital markets. CPAB takes enforcement action when necessary to prevent and deter misconduct and restrict the practices of firms that have demonstrated deficiencies in audit quality.

Enforcement activity continued to increase in 2022 to address concerns related to audit quality and ethics-related issues. In 2022, 13 firms were operating under enforcement actions for substantially all of the year, which is an increase of four firms as compared to 2021. In 2022, enforcement actions were imposed on two of the four largest firms. Additionally, three new investigations were initiated and are ongoing.

Further details of our 2022 enforcement actions are outlined in the Enforcement Overview section on page 21 of this report.

System of quality management evaluations

Three of the four largest audit firms met the target assessment ratings of *acceptable* or *acceptable with opportunities for enhancement* in 2022 against CPAB's quality management systems (QMS) assessment model. The firm that did not meet the target set for QMS also did not meet the target of no more than 10 per cent of files inspected with significant findings.

[4] Enforcement actions include requirements, restrictions and sanctions.

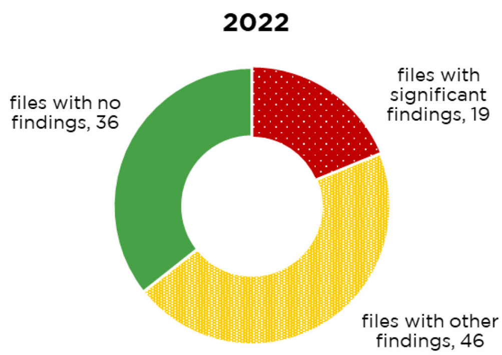
Common inspection findings and trends

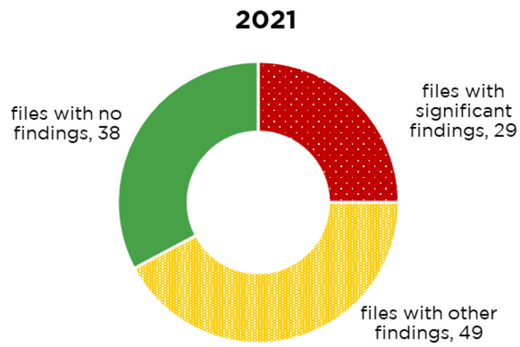
ANNUALLY INSPECTED FIRMS

ANNUALLY INSPECTED FIRMS

At the 11 annually inspected firms, CPAB inspected 101 audit files in 2022 (2021: 116) and identified significant findings in 19 files (2021: 29).

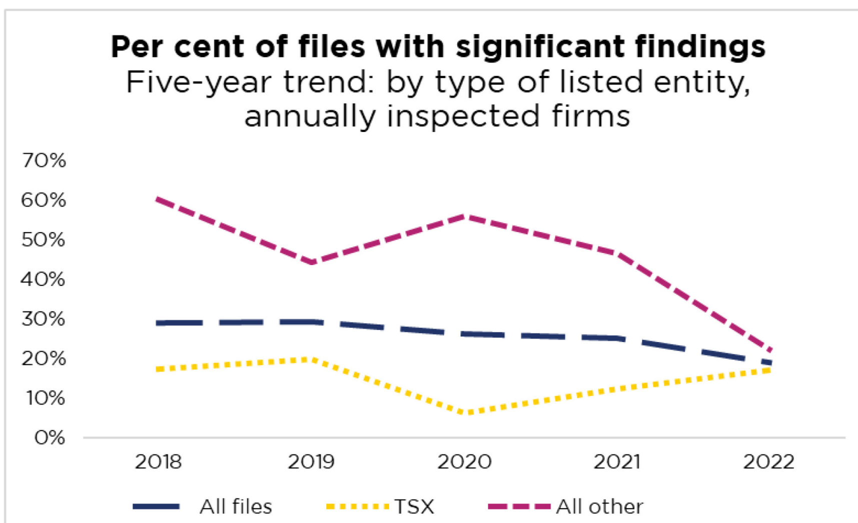
- Four largest audit firms: 67 files (2021: 75); eight (2021: seven) with significant findings.
- Seven other annually inspected audit firms: 34 files (2021: 41); 11 (2021: 22) with significant findings.





* 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.

Nineteen per cent of files inspected at these firms had significant findings (2021: 25 per cent). In 2022, our annual inspections included 65 files of TSX listed entities and 36 non-TSX listed entities (2021: 73 TSX; 43 other).



ANNUALLY INSPECTED FIRMS

The table below reflects the audit areas most frequently reviewed in 2022 and 2021 and the level of significant findings. These areas were selected because they were generally significant to the reporting issuer's financial statements or included complex issues or judgment.

	2022		2021	
Audit area	**Files inspected**	**Significant findings**	**Files inspected**	**Significant findings**
Revenue and related accounts	78	4	92	14
Long-lived assets[1]	54	7	64	4
Business combinations	46	3	28	6
Inventory	34	1	36	5
Financial instruments[2]	24	5	43	6

[1]Includes goodwill, intangible assets, investment properties and property plant and equipment.

[2]Includes investments, loans, allowance for credit losses, derivative assets/liabilities, claims liabilities and reinsurance assets.

The table below reflects the number of files inspected at the 11 annually inspected firms in industries that had an elevated findings rate in 2022 and 2021. Nine of the 19 files with significant findings identified were in reporting issuers operating in these industries (2021: 15 of 29).

	2022		2021	
Industry	**Files inspected**	**Significant findings**	**Files inspected**	**Significant findings**
Technology	17	3	15	4
Cannabis	6	2	11	7
Psychedelics	4	2	1	1
Crypto	3	2	6	3

Since our 2021 annual report, our inspections of annually inspected firms resulted in restatements by reporting issuers in the following industries: cannabis (one), technology (one), psychedelics (one) and real estate (one). There were no restatements at annually inspected firms reported in our 2021 annual report. The following inspected audit areas resulted in restatements since our 2021 annual report: revenue (two), long-lived assets (one) and business combinations (one).

Common inspection findings

ALL FIRMS

ALL FIRMS

Significant findings related to:

- The sufficiency and appropriateness of audit evidence.
- Understanding of the services provided by a service organization.
- Compliance with relevant ethical requirements, including independence.

Quality of audit evidence

Concern related to the quality and sufficiency of audit evidence, including the application of professional skepticism, is a recurring inspection theme. The findings, observations and examples outlined in the CPAB publications Audit Evidence: Strengthening audit quality (March 2022), Auditing accounting estimates: Strengthening audit quality (September 2021), Existence of crypto-assets held by third parties (August 2022), Auditing in the cannabis sector (February 2021) and Technology in the audit (August 2021) continue to be relevant.

In some instances, the auditors did not perform sufficient testing related to an account or a significant portion of an account, or to address an identified risk.

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 2022, 34 of the 44 files with significant findings were shared by the audit firm with the relevant audit committee under the Protocol (2021: 36 of 38).

Ten of the 11 annually inspected audit firms participate in the Protocol. A complete list is available at cpab-ccrc.ca. While CPAB pursues rule changes to make the reporting to audit committees mandatory, we strongly encourage all audit firms to share significant file-specific inspection findings with their reporting issuers' audit committees.

For more information, visit cpab-ccrc.ca/insights/disclosures.

Examples include:

- Insufficient testing of the design or operating effectiveness of relevant internal controls.
- Insufficient evidence to assess significant assumptions and judgments about future events or conditions when auditing accounting estimates, including the evaluation of the entity's ability to continue as a going concern.
- Lack of audit evidence to support that revenue was appropriately recognized, including:
  - insufficient evidence to support that material related party transactions were eliminated on consolidation, and
  - overreliance on cash as the primary source of audit evidence.
- Insufficient testing of the data inputs and outputs of automated tools used to evaluate revenue.
- No substantive evidence was obtained on material assets acquired and liabilities assumed in significant business combinations.
- Overreliance on management representations without corroboration with third party evidence.

Understanding the services provided by a service organization

We are seeing an increase in the range of business activities that are being outsourced by reporting issuers to service organizations. This is most prevalent in reporting issuers operating in the technology and crypto sectors. 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 controls is necessary to ensure risks of material misstatement are identified, assessed and appropriately addressed.

There was insufficient consideration of whether risks identified could be addressed by performing substantive procedures alone or by relying exclusively on controls in place at the reporting issuer. In these circumstances, some auditors either did not obtain the service organization audit report(s) or did not sufficiently evaluate and/or test the relevant oversight controls at the reporting issuer. In cases where a service organization report was not available, some auditors did not consider the need to evaluate the design and implementation of relevant controls at the service organization directly.

Ethical requirements, including independence

We continue to have significant findings related to the identification and evaluation of threats to independence caused by non-audit services provided by the auditors. Our independence findings are most prevalent for newly accepted audit engagements or where there is a change in the independence requirements because the entity becomes a reporting issuer during the engagement period through an initial public offering or other transaction.

The relevant independence and other ethical standards in Canada describe independence as comprising both independence of mind and independence in appearance. Independence requires the absence of any influence, interest or relationship which would impair the professional judgment or objectivity of the individual members of the engagement team or the firm in the view of a reasonable observer.

Examples of independence breaches identified in our inspections included:

- The preparation of tax calculations for the purpose of preparing accounting entries.
- Extensive testing of internal controls without an evaluation of whether the services were in substance the outsourcing of internal audit. In this case, the purpose of the testing was to support management's certification in accordance with National Instrument 52-109, *Certification of Disclosures in Issuers' Annual and Interim Filings*.

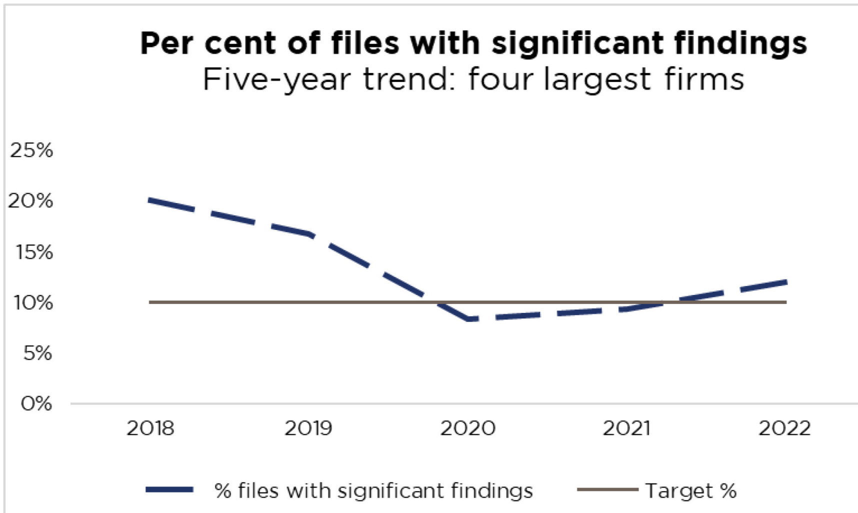
The assessment of auditor independence and other relevant ethical requirements should not be treated as a compliance exercise. It must include a critical evaluation of all relevant facts and circumstances to ensure the spirit and intent of the requirements are met.

Firm-specific assessments

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

FOUR LARGEST FIRMS

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



We inspected 67 files (2021: 75) and identified significant findings in eight of those files (2021: seven). One firm that met the target of no more than 10 per cent of files with significant findings in 2021 missed the target in the current year, with 29 per cent of files with significant findings.

The two firms that did not meet the target in 2021 did meet the target in the current year. As a result of sustained improvement observed in our 2021 and 2022 inspections, the remaining requirements placed on one of the four largest audit firms in 2021 were removed.

The firm that did not meet the target in 2022 was directed to develop a quality action plan. This action plan must include strategies to respond to our recommendations as well as 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 firm-wide controls and processes to support engagement teams, enhanced training and supervision, hiring more staff with greater expertise and in-flight quality reviews. We will continue to actively monitor the firm's progress in implementing its audit quality action plan and addressing concerns related to its system of quality management. If the firm fails to satisfactorily implement responses to our recommendations or if there is no meaningful improvement in subsequent inspection results, we will determine appropriate next steps.

The remediation of significant findings identified in 2022 has either been completed or is in progress. One restatement has been required since our 2021 annual report.

FOUR LARGEST FIRMS

Our evaluation against CPAB's QMS assessment model resulted in three of the four firms achieving ratings of *acceptable* or *acceptable with opportunities for enhancement* across all four criteria. No criteria for these firms were rated as *needs significant improvement*. Significant findings at one firm indicate that certain controls are not designed appropriately or operating effectively. This firm's leadership needs to embed a continuous improvement mindset into their system of quality management. All firms need to ensure partners and staff have enough time to dedicate to specific audits.

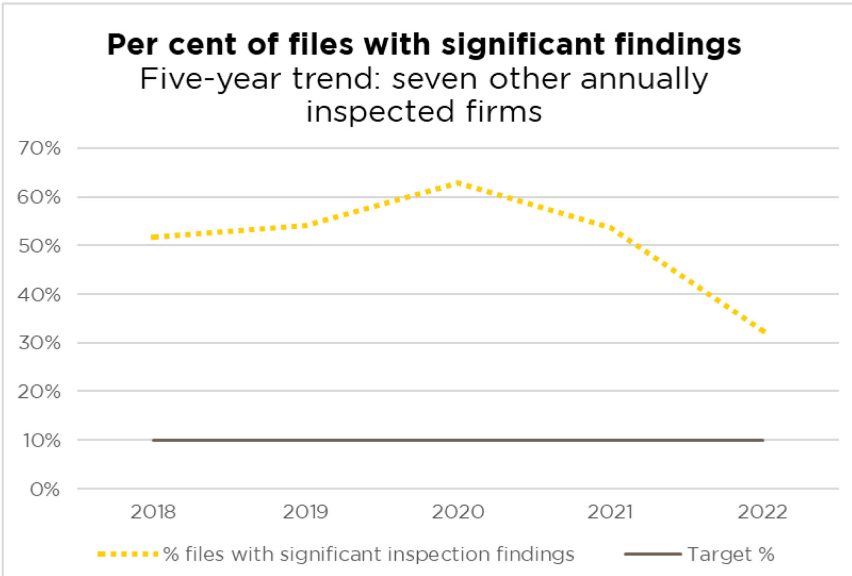
The table below indicates the number of firms in each rating by criteria for 2022 and 2021.

QMS assessments by criteria: four largest firms

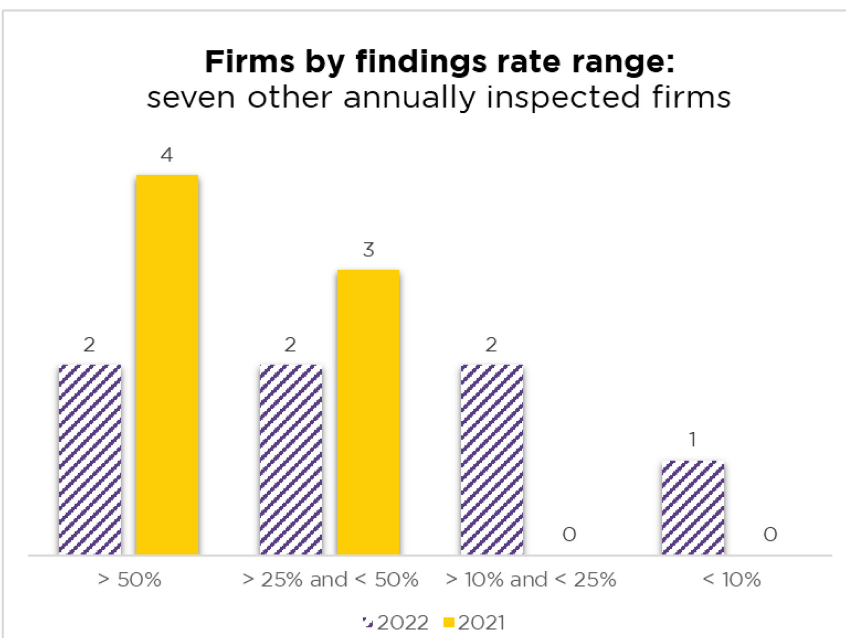
		Acceptable	Acceptable with opportunities for enhancement	Needs improvement	Requires significant improvement
Accountability for audit quality	2022	3		1	
	2021	3	1		
Risk management	2022	3		1	
	2021	4			
Talent and resource management	2022		3	1	
	2021		3	1	
Oversight	2022	3		1	
	2021		3	1	

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

We inspected 34 files (2021: 41) and identified significant findings in 11 of those files (2021: 22). The reduction in files inspected is aligned with our risk-based methodology, as overall these firms audited fewer high-risk reporting issuers.



The graph below represents the number of firms that fell into the findings rate ranges specified for 2022 and 2021.



Enforcement actions were in place for six firms with unacceptably high levels of significant findings over consecutive years. Four of the six firms under enforcement action had improved inspection results in each of 2022 and 2021. Decisions will be made in 2023 regarding the escalation of regulatory intervention and the modification and/or termination of certain existing enforcement actions.

Further details of our 2022 enforcement actions are outlined in the Enforcement Overview section on page 21 of this report.

The remediation of significant findings identified in 2022 has either been completed or is in progress. Three restatements have been required since our 2021 annual report. The following inspected audit areas each resulted in one restatement: revenue, business combinations and long-lived assets.

In addition to the four largest audit firms, one other annually inspected firm underwent evaluation against CPAB's QMS assessment model. This is the second year of their evaluation. The firm continued to make progress in documenting existing processes and implementing new controls and processes and linking them to our assessment criteria.

Furthermore, we requested certain firms not yet subject to CPAB's QMS assessments to provide an implementation plan for the new quality management standards. In October 2022, we published **System of quality management call to action: Strengthening audit quality**, a communication to all audit firms registered with CPAB. This document provided more detail on the importance of culture to a firm's system of quality management, preliminary observations on the implementation of the new quality management standards and an example to illustrate the iterative nature of a firm's system of quality management. As many controls and processes were implemented in 2022 or were still being developed, significant efforts are necessary by these firms to achieve a strong system of quality management that complies with the new quality management standards.

NON-ANNUALLY INSPECTED AUDIT FIRMS

We inspected 31 files (2021: 18) and identified significant findings in 25 (2021: nine) of these across 21 non-annually inspected audit firms (2021: 13). This 81 per cent findings rate compares to 50 per cent in 2021. Three of the files inspected were at foreign firms (2021: two), and we identified significant findings in all three of those files. Significant findings were also identified in both of the foreign firm files inspected in 2021. Reporting issuers in industries inspected that resulted in restatements since our 2021 annual report were cannabis (two) and technology (one). This compares to one restatement at a non-annually inspected firm reported in our 2021 annual report in the cannabis industry.

The year-over-year inspection results for the non-annually inspected firms are not comparable because the composition of this group of firms changes each year based on CPAB's risk-based methodology for choosing files for inspection. Our risk-based methodology targets files of more complex public companies or industries and audit areas where the audit firm may lack specialized expertise. Results should not be extrapolated across the entire audit population, but instead viewed as an indication of how firms address their most challenging audit situations.

The increase in the number of audit files inspected for non-annually inspected firms was due to a higher number of bi-annual firm inspections (firms that audit more than 50 reporting issuers), an increase in the number of crypto sector inspections due to growth in this sector and return visits to some audit firms where concerns had been identified in previous inspections. The nature of the findings at these firms are consistent with the common inspection findings and trends discussed on page 13. Lack of experience auditing in a particular industry or audit area and insufficient supervision and review were factors that contributed to the higher prevalence of significant findings at some of these firms.

The table below reflects the number of files inspected in the industries in 2022 and 2021 that had an elevated findings rate. Twenty of the 25 files with significant findings identified were in reporting issuers operating in these industries (2021: eight of 18).

	2022		2021	
Industry	**Files inspected**	**Significant findings**	**Files inspected**	**Significant findings**
Technology	9	5	5	1
Crypto	7	7	1	1
Cannabis	5	5	7	6
Psychedelics	3	3	-	-

The level of inspection findings at these firms is unacceptably high. In 2022, we imposed enforcement actions on one firm, and four other firms continued to operate under enforcement actions from previous years. Decisions will be made in 2023 regarding the escalation of regulatory intervention and the modification and/or termination of certain existing enforcement actions.

Further details of our 2022 enforcement actions are outlined in the Enforcement Overview section on page 21 of this report.

Looking forward

Firm culture

In the past two years, we completed and reported enforcement actions following two major investigations, one related to the involvement of audit staff in improper answer-sharing in connection with tests for mandatory internal training courses and the other related to backdating of work paper sign-offs. In both cases, the firms self-reported the actions to CPAB.

These situations underline the importance of firm leadership driving the right behaviours and fostering a culture that has investors and the integrity of Canada's capital markets at its core. CPAB's 2022-2024 strategic plan recognizes the importance of firm culture. Beginning in 2023, audit firm governance and culture will be integrated into our regulatory assessments in alignment with the new quality management standards.

Climate thematic review

The climate thematic review focused on understanding how auditors are evaluating the impact of climate-related risks in their financial statement audits. Our work in this area will help us understand the current state of how climate matters are captured within audit activity today to inform our future activities, including contributing to the development of sustainability reporting and assurance standards by international standard setters.

We made a number of observations. Firstly, each of Canada's four largest audit firms had specific guidance and training materials to support auditors in considering and addressing climate-related risks in their financial statement audits. Secondly, the quality of the resources provided to the audit practice varied across the firms. There was a range of guidance and training seen at the other annually inspected firms, with many firms at the early stage of developing their approach in this emerging area. Additionally, in most files inspected by CPAB to date, there was no change to the audit approach to respond to the climate-related audit risks. Finally, in instances where climate-related factors were considered by auditors as part of their risk assessment, the extent and quality of work performed varied significantly.

CPAB encourages audit firms to proactively prepare their teams to consider and address climate-related risks in their audits. Firms should also increase their monitoring of this area to ensure that audit teams, particularly those auditing reporting issuers in industries more likely to be impacted by climate-related risks, are using their existing guidance and resources.

Fraud and going concern

In 2022, we published our observations from our fraud and going concern thematic reviews and actively engaged with staff and board members of the International Auditing and Assurance Standards Board and Canada's Auditing and Assurance Standards Board on their current projects to revise the relevant auditing standards.

In 2023 we will continue to advocate for improving the work in these important areas including increased focus by auditors and enhancements to the auditing standards. During the year we will also increase our interactions with audit committees and other stakeholders in Canada and internationally on these important topics.

Enforcement Overview

Enforcement actions are an integral part of CPAB's regulatory intervention and have increasingly been imposed to improve audit quality with the goal of protecting the investing public. Our focus is on ensuring the implementation of adequate remedial measures to prevent recurrence of audit failures.

CPAB concluded a public consultation on how we could modify and expand the disclosure of our regulatory results, including enforcement actions. The feedback informed the implementation of a new approach which will result in the disclosure of more enforcement actions in 2023. Significant enforcement actions as a result of inspection findings will be published on CPAB's website when imposed and will remain for a period of four years after the enforcement actions are terminated. Significant enforcement actions include termination of one or more audit engagements, restricting a firm's practice, prohibiting assignment of specified professional(s) on audit engagements, terminating a firm's registration with CPAB and public censure. In addition to serving as a deterrent, the goal of these increased disclosures is to further reinforce public confidence in Canada's capital markets and provide information that supports audit committees and investors in their roles.

CPAB's objective is to have a uniform approach to disclosures across all the Canadian provinces and territories. However, differences in provincial legal frameworks may result in some differences in our approach across the country. We are working to resolve any potential regional conflicts.

Enforcement actions

The number of firms subject to enforcement actions has again increased when compared to previous years. The reduction in requirements in 2022 for two of the four largest firms is the result of CPAB's graduated regulatory intervention process, which includes the incremental reduction in enforcement actions when improvements have been made.

The chart below identifies the requirements, restrictions and sanctions imposed or in effect in 2022 compared to 2021. While a restriction on accepting new reporting issuer engagements 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. CPAB imposes these types of restrictions when we believe 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	
		Imposed or in effect in 2022*	Imposed and in effect in 2021	Imposed or in effect in 2022	Imposed and in effect in 2021	Imposed or in effect in 2022	Imposed or in effect in 2021
Restrictions	Restricted from taking on new high risk reporting issuers	-	-	3	3	1	-
Restrictions	Restricted from taking on new reporting issuers	-	-	2**	1	3	4
Requirements	Enhanced reporting to CPAB	2	1	6	4	-	1
Requirements	Additional training and/or coaching	-	2	6	4	4	1
Requirements	Enhanced engagement quality control review	-	-	1	1	3	3
Requirements	Mandated firm client portfolio review	-	-	6	4	-	-
Requirements	Mandated partner and manager portfolio review	-	-	6	4	-	-
Requirements	Appointment of an independent monitor	1	1	3	2	-	-
Requirements	Enhanced disclosure of CPAB inspection findings and recommendations to partners within the firm	1	1	2	2	-	-
Requirements	External professional to review the firm's system of quality control and/or completed audit engagements	-	-	3	2	2	1
Requirements	Cultural survey (perform or implement recommendations)	-	1	3	1	-	-
Requirements	Provide engagement findings reports to audit committees	-	-	-	1	2	1
Requirements	Implement a budgeting and resource management tool	-	-	3	-	-	-
Requirements	Prepare a budget and project plan to support the implementation of systems of quality management	-	-	3	-	-	-
Requirements	Other (including completing inflight reviews, revising policies)	2	6	9	2	4	1
Sanction	Public censure	1	1	-		-	-
		7	13	56	31	19	12
	Number of firms or discrete enforcement actions	2	2	6	4	5	4

*All restrictions and requirements were terminated by December 2022.
**The restriction on one firm was terminated by December 2022.

Investigations

In 2022, CPAB commenced three new investigations, the results of which will be published should each investigation identify a Violation Event that results in the imposition of enforcement actions.

As outlined in CPAB's 2021 annual report, an investigation initiated in 2021 and completed in 2022 into the conduct of personnel in relation to improper sharing of test answers for mandatory internal training courses was settled and resulted in the imposition of enforcement actions.[5]

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[5] Details of the order are available at www.cpab-ccrc.ca.

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, both the engagement team and 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. This can include enforcement actions or the commencement of an investigation.

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's 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

CPAB initiates the escalation of regulatory intervention following an inspection or investigation by proposing the imposition of enforcement actions including requirements, restrictions or sanctions. Informal enforcement actions such as undertakings may also be used in a measured effort to address less serious concerns and to attain timely corrective action from a firm. All regulatory intervention is designed to protect the investing public and encourage sustained improvements to audit quality.

Requirements typically involve CPAB mandating that the firm implement targeted actions or change certain practices to improve audit quality, such as conducting a culture assessment, providing additional training or retaining an independent monitor to oversee compliance with any imposed enforcement actions and other audit quality related firm initiatives.

Restrictions typically involve CPAB limiting the audit firm's practice. This could include 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 Panel, comprised of senior members of the CPAB Leadership Team. The panel reviews each matter and formulates a recommendation that is brought to CPAB's board for approval.

If the board decides to propose one or more enforcement action, formal notice is provided to the firm. The firm can challenge the proposed enforcement action(s) by petitioning for a review proceeding. If the firm does not petition for a review proceeding, the enforcement action(s) will come into effect and immediate compliance is required. In 2022, there were no such challenges to enforcement actions proposed and ultimately imposed by CPAB.

External Outreach – Expanding the conversation about audit quality matters

We continue to be active in our outreach to a broad range of stakeholders, including investors, corporate directors, reporting issuer management, standard setters and regulators, both in Canada and internationally. These interactions improve our mutual awareness of current and emerging issues and improve our effectiveness. We were pleased to be able to have more in-person meetings during the year, which enriched the quality of the discussions. Key topics covered in 2022 included environmental, social and governance reporting, managing through economic uncertainty, talent management, audit firm culture, auditor independence, technology and cybersecurity.

Connecting with audit committees

We continued to reach out to audit committee chairs of mid and small cap reporting issuers and those in emerging industries. In addition, we renewed existing relationships with larger cap reporting issuers.

We continued with our annual series of audit committee forums. In 2022, we held nine forums focused on the mining, energy, real estate, cannabis, crypto and financial services industries. A total of 151 participants attended these forums. We welcomed the return of in-person discussions with audit committee chairs as we experimented with a mix of hybrid, virtual and in-person meetings, including forums held online and in person in Vancouver, Calgary, Toronto and Montreal. During forums, in addition to roundtable discussions, we provided updates on our strategic priorities, raised topics relevant to audit quality and shared upcoming changes to CPAB's regulatory disclosures.

Over the course of 2022, we engaged with directors of more than 300 reporting issuers representing a market capitalization of $1.6 trillion. This included representatives of 61 small cap reporting issuers (market capitalization between $100 million and $500 million).

- Held nine audit committee forums (151 participants attended)
- Engaged with directors of more than 300 reporting issuers
- Engaged with reporting issuers representing a market capitalization of $1.6 trillion
- Engaged with representatives of 61 reporting issuers with market capitalization between $100 million and $500 million

Hearing from investors

During the year, we met with 16 investor organizations and continued our focus on Canada's largest institutional investors. Conversations between CPAB and investors lead to important information-sharing on issues that affect capital markets, including how economic uncertainty impacts valuations, liquidity management, going concern, fraud and environmental, social and governance reporting.

Broadening our reach

In 2022, we had the opportunity to discuss our perspectives and have a dialogue with a broad range of Canadian and international stakeholders through in-person and virtual conferences and meetings.

Examples include:

- Co-hosting the annual roundtable on audit quality with the Office of the Superintendent of Financial Institutions (OSFI), including senior representatives from financial regulators, standard-setters and audit firms.
- Presenting at conferences for audit committees, business valuators, fraud examiners and audit firms.
- Returning to in-person meetings with other regulators in Canada and internationally, including audit regulators, securities commissions and provincial regulators.
- Active involvement as members of the Auditing and Assurance Standards Oversight Council and the Independent Review Committee on Standard Setting in Canada.
- Discussing our perspectives and inspection findings with Canadian and international standard setters.
- Meeting with business and accounting students at Canadian universities.

The CPAB Team – living our shared values

Our people

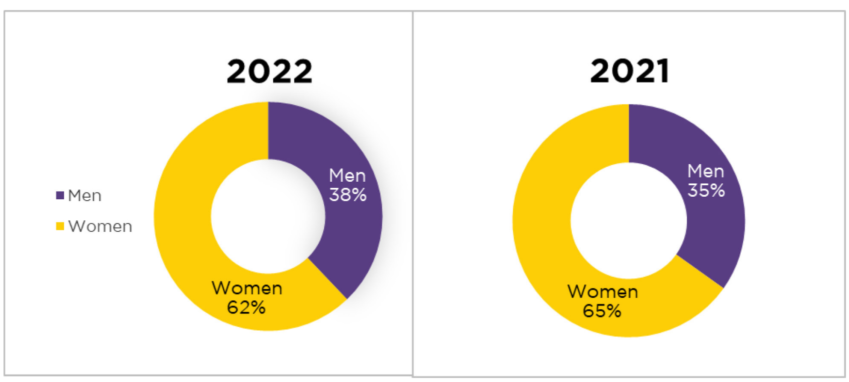
At CPAB, we pride ourselves on a culture rooted in protecting the public interest. Data from 2022 employee surveys indicated that we have an engaged work force. The results emphasized a positive and flexible working environment that provides the opportunities to work with colleagues on important and intellectually stimulating work.

Early in the year, we introduced a new set of core values. CPAB leaders engaged in discussions about how to live CPAB's core values, and employees participated in defining the traits and behaviours that are associated with each value, with a view to embedding them into our performance management and recognition program.

In 2022, leaders focused their attention on post-pandemic and return-to-office plans. We were excited to welcome our employees back for in-person learning. We also provided digital learning for technology, non-technical and leadership skills training sessions. In addition, we provided additional training in mental health awareness and CPAB's core values.

Our average headcount increased by six per cent in 2022 to address the additional volume of activity arising from enforcement and emerging industries. The retention rate was 94 per cent (2021: 93 per cent). We are projecting a headcount increase of 4.1 per cent in 2023.

Key demographics



Other employment facts

	2022	2021
Average number of employees	63	59
Employee retention rate	94%	93%
Women on leadership team	6 (60%)	7 (70%)
Underrepresented groups[6] organization wide	17 (26%)	15 (23%)
Underrepresented groups on leadership team	1 (10%)	1 (10%)

[6] BIPOC, LGBTQ2S+ and persons with disabilities

Community Matters

As part of our Community Matters program, CPAB fosters an inclusive and socially responsible environment. Our employees 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 of employee charitable donations.

In 2022, we continued our campaign to raise awareness of the importance of mental health and physical wellness through education sessions and by fostering a healthy and inclusive work environment. We volunteered and fundraised to support various charities, such as local food banks, that serve our communities.

Governance Report

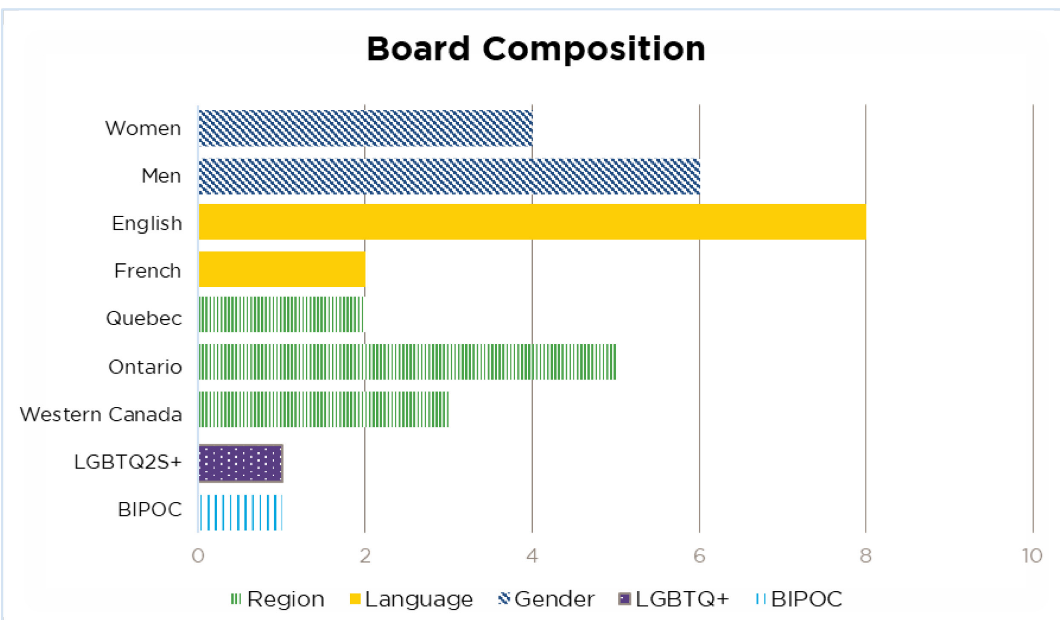
Responsible corporate governance

CPAB's operating practices and governance structure remained strong throughout 2022. Our Board of directors oversaw our delivery on our 2022 strategic commitments, with a particular focus on enhanced enforcement and information sharing. The board also continued to seek opportunities to engage with CPAB staff, including attending staff meetings and events virtually and in person and inviting CPAB staff subject matter experts to present at board meetings. The chair of the board was also active in presentations to and interactions with our Council of Governors and its members.

Board composition

During 2022, and as part of our board renewal process, we furthered our search for experienced board candidates. CPAB's By-Law No.1 requires our board to be comprised of individuals with certain prescribed skills, including accountants, non-accountants and those with audit regulatory experience. At the same time, we also engaged in expanding the diversity of our board to include further audit, risk leadership and legal skills and to better reflect our communities.

At the end of 2022, the board comprised 10 directors. Ian Bourne retired in June 2022. Mary Lou Maher and Chika Onwuekwe joined as our newest directors in April 2022. At the end of 2022, our board composition was as follows:



Focus areas for board committees

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

The Risk and Audit Committee assists the board in overseeing CPAB's enterprise risk management, financial planning and reporting, system of corporate controls and the external audit process. During 2022 the committee continued to focus on fiscal and operational risks, cybersecurity and pandemic-related risks as well as novel or emerging audit challenges, including in the crypto and cannabis sectors. The committee was also engaged in supporting CPAB's new Chief Financial Officer as he transitioned to this role.

The Human Resources and Governance Committee makes recommendations to the board on issues related to human resources, corporate governance and board composition, as well as board and senior leadership succession planning and effectiveness. Notable activities during 2022 were continued oversight of pandemic-related matters such as resourcing implications, recruitment of two directors, as well as the transition of CPAB's new Chief Financial Officer. The committee also continued its oversight over the board and committee charters and CPAB's codes of ethics for staff, consultants and the board. The charters and codes are available on our website.

Annual board meetings

Eight board meetings, four Risk and Audit Committee meetings and four Human Resources and Governance Committee meetings were held in 2022. While the board was scheduled to meet five times during the year, additional meetings were held to discuss matters including enforcement related to 2021 firm inspection results. The board also met to discuss CPAB's progress on our strategic plan. While the board continued to deliberate virtually early in the year, in June 2022 the meetings transitioned back to in-person.

	Board of Directors Meetings	Risk and Audit Committee Meetings	Human Resources and Governance Committee Meetings
Benita Warmbold	8/8	4/4	4/4
Ian Bourne*	5/5	2/2	2/2
Renaud Caron	8/8	N/A	4/4
Don Chynoweth	7~/8	N/A	4/4
Julie Dickson	8/8	4/4	N/A
Bruce C. Jenkins	8/8	4/4	2/2
Kevin Kelly	7~/8	4/4	N/A
Alice Laberge	8/8	N/A	4/4
Mary Lou Maher**	6/6	N/A	3/3
Chika Onwuekwe**	5/5	3/3	N/A
Richard Payette	8/8	4/4	N/A

* Retired from board in June 2022.

**Joined board in April 2022.

~Meeting not attended was a short-notice, ad hoc meeting to address an enforcement matter.

Director compensation

The Human Resources and Governance Committee reviews director compensation annually 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. In 2022, and following CPAB's internal assessment, director compensation was increased compared to 2021 as a result of greater level of effort required of CPAB directors primarily due to the increased number of enforcement matters. The next external director compensation assessment is planned for 2023.

Director retainers

Retainer	2022	2021
Board chair retainer	$178,000	$175,000
Vice chair retainer	$59,500	$57,500
Committee chair retainer	$62,000	$60,000
Director retainer	$52,000	$50,000

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 (COG) and the Provincial Audit Regulator Members (PARMs). The COG appoints CPAB's directors and review hearing officers. The director candidates are tabled with the COG for appointment on the recommendation of the board of directors. The review hearing officer candidates are recommended by the review hearing officer roster chair and the independent legal counsel. During 2022, the COG appointed two new board directors and a new hearing officer to CPAB's roster of hearing officers who may preside over review proceedings. All hearing officers received training on the administrative hearing process, which was delivered by the roster's independent legal counsel. The COG also performs an annual assessment of CPAB's governance practices and performance against our mandate.

The PARMs annually appoint CPAB's external auditor following a recommendation by CPAB's board. 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 2022 have either been resolved or are under review.

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 promotes audit quality through proactive regulation, robust regulatory oversight, dialogue with domestic and international stakeholders, and practicable insights that inform capital market participants and contribute to public confidence in the integrity of financial reporting. 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 regulatory oversight includes assessments of firm quality management systems, risk-based audit file inspections and investigations as well as enforcement actions 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 2, 2023, is an analysis of CPAB's operating results for the year ended December 31, 2022. It should be read in conjunction with the audited financial statements for the year ended December 31, 2022, and related notes, which have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. It also includes the outlook for 2023, 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, nature and severity of Violation Events, and the timing, extent and cost of the 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 selected financial data for the last three years.

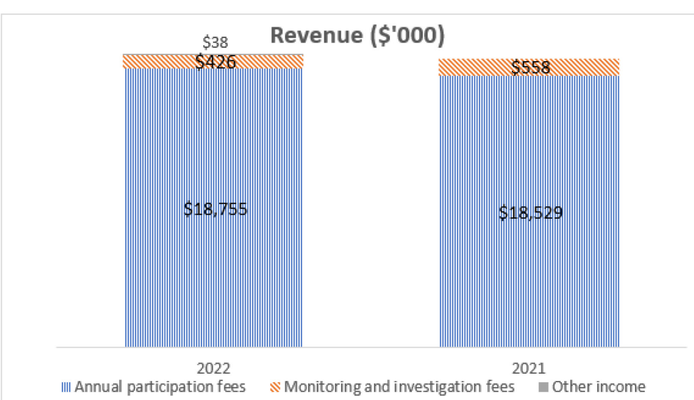
(In $'000)	2022 Actual	2021 Actual	2020 Actual
TOTAL REVENUE [1]	**$ 19,219**	**$ 19,086**	**$ 17,973**
Salaries and benefits	15,025	14,243	13,098
Other operating expenses	4,704	4,433	4,240
TOTAL EXPENSES	**19,729**	**18,676**	**17,338**
Investment income (loss) [1]	198	(109)	71
EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE)	**$ (312)**	**$ 301**	**$ 706**
TOTAL ASSETS	10,910	11,454	10,556
TOTAL LIABILITIES	2,717	2,949	2,352
NET ASSETS	**$ 8,193**	**$ 8,505**	**$ 8,204**

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

Revenue increased by $133 thousand or 0.7% to $19.2 million in 2022 primarily due to audit fee increases reported by participating audit firms. Total expenses increased by $1.1 million or 5.6% to $19.7 million. Higher expenses were due to increased headcount, higher director fees and expenses and the partial resumption of travel and in-person meetings at higher costs.

Operating results

Revenue



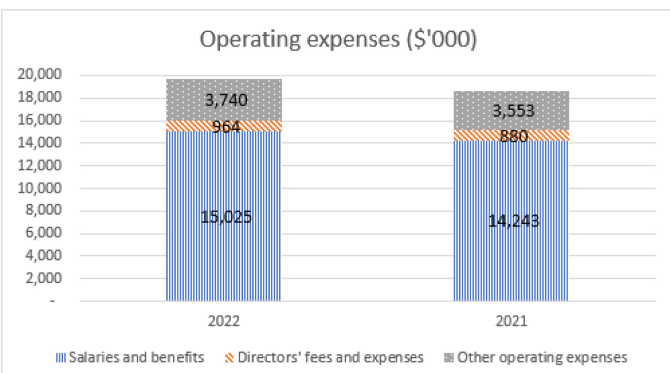
CPAB derives the majority of its revenue from Canadian reporting issuers. Other revenue includes billing to audit firms to recover costs incurred as a result of regulatory intervention. This includes the recoveries for enforcement compliance and the recovery of costs incurred by CPAB to conduct an investigation.

Each year, CPAB invoices participating audit firms who bill their reporting issuer clients. Annual participation fees increased by 1.2% from $18.5 million in 2021 to $18.8 million in the current year, mainly attributable to increased audit fees. In 2022, CPAB charged 1.22% (2021: 1.22%) of the total global audit fees billed to Canadian reporting issuers with a cap of $75 thousand 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 the System for Electronic Documentation Analysis and Retrieval (SEDAR) and the Electronic Data Gathering, Analysis and Retrieval (EDGAR) (public company reporting systems used by securities regulators in Canada and the US, respectively) as of November 30, 2021. These fees relate to fiscal 2020 and 2021 financial statements audits.

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, generally upon conclusion of the investigation.

The total regulatory intervention costs recovered in 2022 were $426 thousand (2021: $558 thousand). While the number of firms subject to enhanced regulatory intervention and monitoring of enforcement actions increased from seven in 2021 to nine in 2022, recoveries of enforcement compliance costs has decreased by $232 thousand primary due to the easing of enforcement actions on one large firm. Investigation cost recoveries increased by $100 thousand in 2022 due to the settlement of one matter.

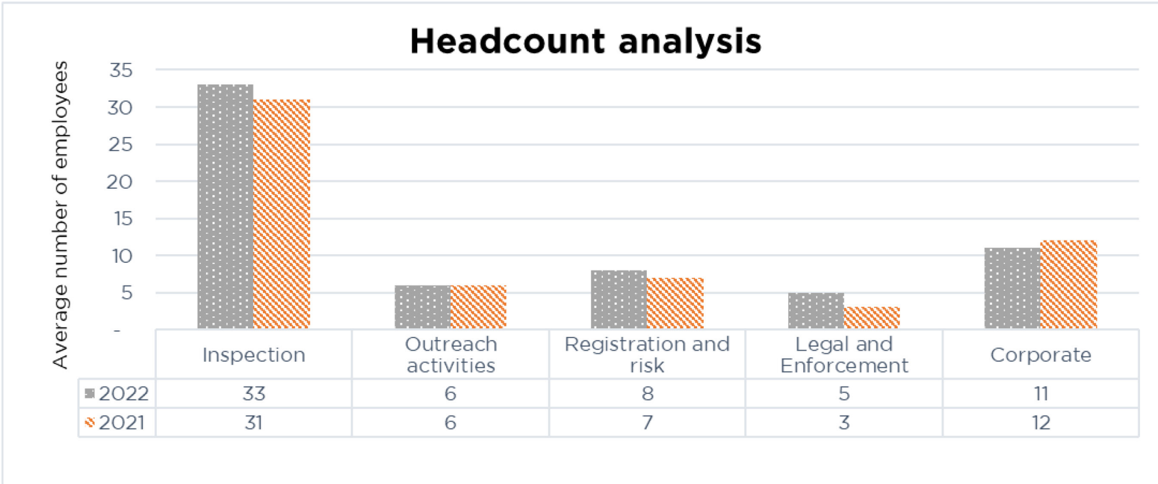
Operating expenses

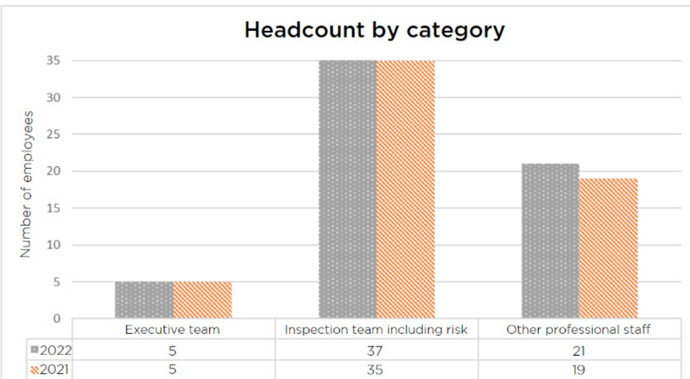


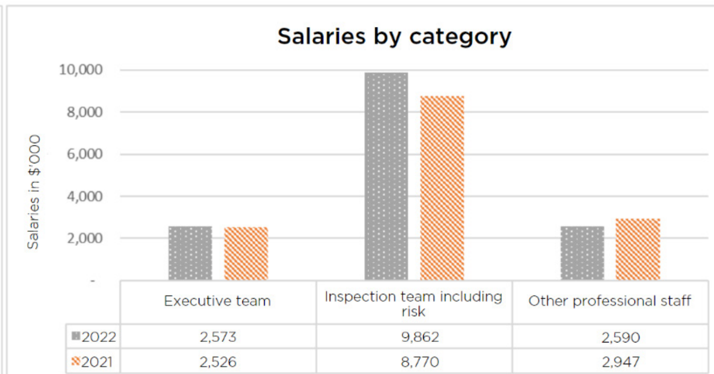
Operating expenses amounted to $19.7 million (2021: $18.7 million) in 2022. Proportionally, salaries and benefits continue to be the most significant operating expense representing 76.2% (2021: 76.3%) of total expenses.

Salaries and benefits

Salaries and benefits increased by 5.5% or $782 thousand, mainly due to increased headcount to reinforce our inspection and enforcement teams. In 2022, CPAB had an average of 63 employees (2021: 59).

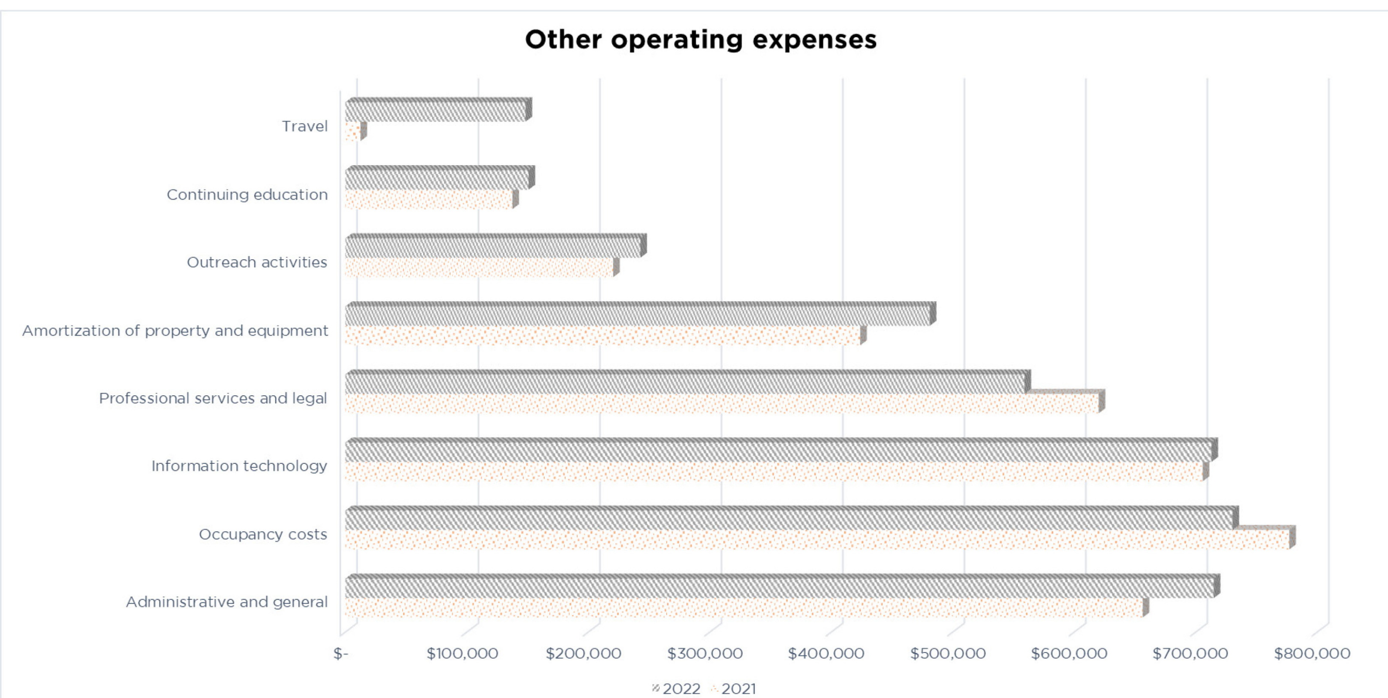






Other operating expenses

The following table shows other operating expenses compared to the prior year, excluding salaries and directors' fees.



With the exception of travel expenses, other operating expenses for 2022 have not varied materially compared to the prior year. Travel expenses increased from $12 thousand in 2021 to $148 thousand in 2022 due to the partial resumption of travel and in-person meetings, particularly in the second half of the year.

Directors' fees and expenses

Directors' fees and expenses for 2022 were $964 thousand and increased by $84 thousand or 9.5% compared to 2021. This increase is primarily due to the timing of retirement and recruitment of new directors during the year and increased travel costs as the board, risk and audit committee and human resource and governance committee transitioned back to in-person meetings in June 2022.

Investment income

The return on investments increased from a loss of $109 thousand in 2021 to income of $198 thousand in 2022. In 2021, management reassessed the potential risk of continued fluctuations in the value of its investment in a bond index fund and decided to sell these units, realizing a loss of $143 thousand. In 2022, cash reserves were invested in high yield savings accounts and guaranteed interest certificates from financial institutions that are members of the Canada Deposit Insurance Corporation. The return on these investments benefited from regular increases in the Canadian prime rate throughout the year.

Financial position

Condensed statements of financial position as of December 31:

In $'000	2022	2021	2020
Cash and investments	$ 6,141	$ 9,161	$ 8,546
Accounts receivable and prepaid expenses	558	540	499
Accounts payable and accrued liabilities	2,464	2,608	1,959
Net working capital	**$ 4,235**	**$ 7,093**	**$ 7,086**
Investments	2,800	-	-
Equipment, leasehold improvements and intangible assets	1,411	1,753	1,510
Deferred lease inducements	254	341	392
Net Assets	**$ 10,910**	**$ 8,505**	**$ 8,204**

At December 31, 2022, CPAB had a working capital position of $4.2 million compared to $7.1 million in 2021. This decrease is due to the purchase of $2.8 million in GICs with maturities in January 2024 and 2025. Our combined cash and investments (current and non-current) aggregate to $9.0 million compared to $9.2 million in 2021. CPAB has established a guideline for a reserve of four to six months of operating costs to ensure business continuity should there be fluctuations in revenue.

Equipment, leasehold improvements and intangible assets have decreased by $342 thousand compared to the prior year primarily due to amortization.

In 2022, CPAB renewed its operating lease for its Toronto office facilities for a 10 year period commencing in 2024. Under the terms of the agreement, base rent will be approximately $120 thousand higher per year than the existing agreement.

Outlook for 2023

CPAB manages its finances efficiently to support the priorities outlined in our 2022-2024 strategic plan. In this context, we are continuing to reinforce our workforce and increase our investment in developing our people and in technology.

2023 CPAB operating budget (unaudited)

YEAR ENDED DECEMBER 31 (in $'000)	**2022 ACTUAL**	**2022 BUDGET**	**2023 BUDGET**
Revenue	**$ 19,219**	**$ 18,970**	**$ 19,872**
Expenses			
Salaries and benefits	15,025	15,000	16,015
Directors' fees and expenses	964	948	974
Travel	148	140	401
Occupancy costs	730	788	779
Administrative and general	498	482	515
Information technology	713	776	843
Outreach activities	243	220	233
Continuing education	151	150	210
Insurance	258	220	297
Professional services	217	157	175
Legal services	301	300	223
Amortization	481	463	492
Expenses	**19,729**	**19,644**	**21,157**
Operating excess of expenses over revenue	**$ (510)**	**$ (674)**	**$ (1,285)**
Investment income	198	30	300
Excess of expenses over revenue	**$ (312)**	**$ (644)**	**$ (985)**

Commentary on 2022 variances from budget

The operating excess of expenses over revenue for 2022 is below budget.

Revenue is $249 thousand or 1.3% higher than budget primarily due to higher than anticipated audit fees reported by participating audit firms.

Expenses are substantially aligned with budget.

Investment income is $198 thousand or $168 thousand higher than budget due to several unanticipated increases in the Canadian prime lending rate throughout 2022.

Commentary on the 2023 operating budget

Several factors are converging to result in a projected deficit for the upcoming year. While we anticipate revenue to increase by approximately 3.4%, our expenses include several components that are increasing more rapidly, such as salaries and benefit costs, travel costs and information technology costs.

Revenue

CPAB's 2023 annual participating fees revenue is based on audit fees disclosed by reporting issuers on SEDAR/EDGAR as of November 30, 2022, and generally relate to fiscal 2021 year-end audits. CPAB's revenues are anticipated to increase as participating audit firms strive to recover increased operating and compensation costs.

Regulatory intervention revenue is comprised of recoveries for enforcement compliance and investigations and varies from year to year based on the number of firms under enforcement and the severity of the violation events. Based on our 2022 inspection activity, enforcement actions on certain larger firms are being modified or removed. As a result, budgeted regulatory intervention revenue is expected to decline by $50 thousand in 2023.

Investigation costs may be charged to participating audit firms to recover the costs incurred to conduct an investigation. The amount of costs to be recovered from an investigation depends on several factors including the number, nature, complexity and duration of active investigations. Accordingly, actual forecasted investigation costs and recoveries may vary significantly from forecasted amounts.

Operating expenses

CPAB's operating expenses for 2023 are budgeted to be $21.2 million, a 7.2% increase over 2022 actual operating expenses. This $1.4 million increase relates to salaries and benefits of $1.0 million, travel expenses of $253 thousand, and information technology of $130 thousand.

The demand for professional resources continues to place pressure on salary and compensation costs. Budgeted salaries and benefits also include additional resources in our inspection team due to the increased use of audit technology and the implementation of the new standards on quality management.

In 2022, we reopened our offices and resumed travel and in-person meetings. While we anticipate this trend to continue, we do not expect travel expenses will return to pre-pandemic levels. We have based our 2023 travel budget on the assumption that we will continue to conduct inspections partially remotely and partially in person, with travel reserved for the more complex file inspections. In addition, some international travel will resume.

Information technology costs for ongoing infrastructure, maintenance and licensing continue to outpace inflation.

CPAB anticipates approximately $258 thousand in capital expenditures, primarily for information technology infrastructure updates, data management and office upgrades.

Beyond 2023, revenue is expected to continue 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 2022-2024 strategic plan.

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 compensation benchmarking information. Taken together, these practices support our efforts to provide compensation that is comparable and competitive.

Executive compensation in 2022, including all amounts paid to the CEO, Chief Risk Officer and Vice President, External Outreach, Regional Vice President Eastern Canada, Vice President, Inspections and Regional Vice President Western Canada totaled $2.6 million (2021: $2.5 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 our progress on risk mitigation at least quarterly and performs a complete review of our risk register at least annually.

2022 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. • Third-party review of our data security controls and infrastructure. • Testing and refinement of CPAB's cyber breach response plan.
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 our second fraud and going concern thematic reviews to identify areas for improvement including where auditing standards can be improved. • Coordinated response among the regulatory sector on ways to contribute to continued public confidence in external audit quality in Canada.

Risk	Mitigation
Audit Transformation — risk of CPAB's inability to quickly respond to changes to the audit (e.g., analytics, blockchain, AI)	• Developing our skillsets and capabilities through professional development and hands on experience including artificial intelligence, automated tools and techniques, and auditing in a crypto and blockchain environment. • 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 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 and one other annually inspected firm to improve the consistency of audit quality across the firm. • Implementation of the new quality management standards to improve the controls and processes needed to support consistently high levels of audit quality. • Imposition of requirements, restrictions or sanctions focused on enhancements to systems of quality management and other remedial measures to improve audit quality, prevent the recurrence of audit failures and protect the investing public.
CPAB disclosures – risk of significant delays in making changes to our disclosures that meet the needs of our stakeholders.	• Implementation of changes to CPAB's rules to support the planned changes to the disclosure of the results of our regulatory oversight.

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 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 A. Paradine, FCPA, FCA

Chief Executive Officer

DBromley

David Bromley, CPA, CA

Chief Financial Officer

Fuller Landau LLP
151 Bloor Street West, 12th floor
Toronto, Ontario M5S 1S4
T 416-645-6500

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 the **Canadian Public Accountability Board/Conseil canadien sur la reddition de comptes**, which comprise the statement of financial position as at December 31, 2022, 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, 2022, and the results of its operations and its cash flows for the year then ended in accordance with Canadian Accounting Standards for Not For Profit Organizations.

Basis for opinion

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

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Fuller Landau LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
February 2, 2023

Fuller
Landau

Financial Statements

STATEMENTS OF FINANCIAL POSITION

As at December 31

	2022	2021
ASSETS		
Current assets		
Cash	$ 3,594,489	$ 343,801
Investments (note 4)	2,546,085	8,817,588
Accounts receivable	142,289	134,465
Prepaid expenses	416,237	405,432
	6,699,100	9,701,286
Investments (note 4)	2,800,000	-
Equipment and leasehold improvements (note 5)	888,159	1,182,311
Intangible assets (note 6)	523,168	570,454
	$ 10,910,427	**$ 11,454,051**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	$ 2,463,549	$ 2,608,458
Deferred lease inducements	253,575	340,728
	2,717,124	2,949,186
NET ASSETS		
Invested in equipment, leasehold improvements and intangible assets	1,411,327	1,752,765
Unrestricted	6,781,976	6,752,100
	8,193,303	8,504,865
	$ 10,910,427	**$ 11,454,051**

See accompanying notes to the financial statements.

Approved on behalf of the Board:

B. Warmbold

______________________, Director

Benita M. Warmbold, FCPA, FCA, ICD.D, Chair

Kevin Kelly

______________________, Director

Kevin Kelly

STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31

			2022	**2021**
	Invested in equipment, leasehold improvements and intangible assets	*Unrestricted*	*Total*	*Total*
Net assets, beginning of year	$ 1,752,765	$ 6,752,100	$ 8,504,865	$ 8,203,980
Excess of revenue over expenses (expenses over revenue) for the year	-	(311,562)	(311,562)	300,885
Purchase of equipment and leasehold improvements	95,496	(95,496)	-	-
Purchase of intangible assets	44,142	(44,142)	-	-
Amortization of equipment, leasehold improvements and intangible assets	(481,076)	481,076	-	-
Net assets, end of year	**$ 1,411,327**	**$ 6,781,976**	**$ 8,193,303**	**$ 8,504,865**

See accompanying notes to the financial statements.

STATEMENTS OF OPERATIONS
For the years ended December 31

	2022	2021
REVENUE (note 8)	**$ 19,218,669**	**$ 19,086,652**
EXPENSES		
Salaries and benefits	15,024,607	14,243,304
Directors' fees and expenses	963,910	879,741
Occupancy costs	730,276	777,049
Information technology	712,944	705,719
Administrative and general	497,885	448,786
Legal services	300,492	327,689
Professional services	258,561	292,403
Outreach activities	242,822	220,427
Insurance	216,989	207,631
Continuing education	150,780	137,475
Travel	148,319	12,384
Amortization of equipment and leasehold improvements	389,648	373,744
Amortization of intangible assets	91,428	50,144
	19,728,661	**18,676,466**
OPERATING EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE)	**(509,992)**	**410,186**
Investment income (loss) (note 9)	198,430	(109,301)
EXCESS OF REVENUE OVER EXPENSES (EXPENSES OVER REVENUE)	**$ (311,562)**	**$ 300,885**

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

For the years ended December 31

	2022	2021
OPERATING ACTIVITIES		
Excess of revenue over expenses (expenses over revenue)	$ (311,562)	$ 300,885
Add back (deduct) non-cash items		
Realized loss on investments	-	142,934
Accrued interest income on investments	(76,555)	(13,336)
Gain on sale of equipment	(10,590)	(1,650)
Amortization of equipment, leasehold improvements and intangible assets	481,076	423,858
Amortization of deferred lease inducements	(87,153)	(51,541)
Net change in non-cash working capital items (note 10) [1]	(115,480)	328,196
Cash (used in) generated from operations	**(120,264)**	**1,129,346**
INVESTING ACTIVITIES		
Purchase of investments	(13,000,000)	(15,000,000)
Redemption of investments	16,500,000	14,272,193
Proceeds on sale of equipment	10,590	1,650
Purchase of equipment and leasehold improvements [7]	(95,496)	(190,682)
Purchase of intangible assets [1]	(44,142)	(195,302)
Cash generated from (used in) investing activities	**3,370,952**	**(1,112,141)**
Cash generated during the year	**3,250,688**	**17,205**
Cash, beginning of year	343,801	326,596
Cash, end of year	**$ 3,594,489**	**$ 343,801**
Additional information		
Interest received	$ 121,875	$ 20,297

See accompanying notes to the financial statements.

[1] Non-cash transactions – see note 10.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 and 2021

1. THE ORGANIZATION

The Canadian Public Accountability Board/Conseil canadien sur la reddition de comptes (CPAB or the 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. CPAB promotes audit quality through proactive regulation, robust regulatory assessments, dialogue with domestic and international stakeholders, and practicable insights that inform capital market participants and contribute to public confidence in the integrity of financial reporting.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of presentation

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

These financial statements were approved and authorized for issue by the Board of Directors on February 2, 2023.

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 year-end 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 equipment, leasehold improvements and intangible assets, accrued liabilities and commitments. Actual results could differ from these estimates.

Revenue recognition

The organization generates four types of revenue: intent to participate fees, annual participation fees, and recoveries for enforcement compliance and investigations.

Intent to participate fees are collected from an audit firm on its initial application to become a participating audit firm. This fee is a flat fee based on the number of reporting issuers of the applicant firm on the registration date. Intent to participate fees are recorded in the accounting period in which the firm is registered and fees are received.

Annual participation fees are 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 and collectability is reasonably assured.

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 and collectability is reasonably assured.

Investigation costs may be charged to participating audit firms to recover the costs incurred to conduct an investigation. Investigation cost recoveries are recognized as revenue, generally upon conclusion of the investigation when the amounts are known and collectable.

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

Investments

Investments are composed of Guaranteed Investments Certificates (GICs) with maturities from one to three years.

Investments are initially recognized at fair value and subsequently measured at amortized cost. Interest is 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

For assets classified as operating leases, 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.

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 of the long-lived asset exceeds its fair value.

3. FINANCIAL INSTRUMENTS AND RISKS

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

Transaction costs are expensed as incurred unless they relate to financial instruments measured at amortized cost, in which case they are recognized in the statement of 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.

Cash is held on deposit with its financial institution and is subject to an insignificant risk of change in value. The cost of short-term investments, plus accrued interest income, approximates their fair value due to their short-term nature. The carrying value of accounts receivable and accounts payable and accrued liabilities approximates their fair value due to their short-term nature. See note 4 for fair value disclosures of long-term investments.

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

Credit risk

The organization is exposed to credit risk with respect to cash, accounts receivable and investments. As of December 31, 2022, its maximum exposure is the balances on the statement of financial position.

As of December 31, 2022, 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. 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, 2022, the organization has cash and short-term investments of $6.1 million (2021: $9.2 million) to settle current liabilities of $2.5 million (2021: $2.6 million).

In addition, the organization has access to a credit facility up to $2.0 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

The organization is subject to interest rate risk on cash and investments. Cash is held in a deposit account with its financial institution to which a floating interest rate applies. The average interest rate earned on bank balances during the year was 2.79% (2021: 0.5%). Investments have interest rates ranging from 0.45% to 4.45% (2021: 0.20% to 0.45%).

4. INVESTMENTS

Investments consist of:	2022	2021
GICs	$ 2,500,000	$ 8,800,000
Accrued interest	46,085	17,588
Total short-term investments	**$ 2,546,085**	**$ 8,817,588**
GICs	2,800,000	-
Total long-term investments	**$ 2,800,000**	**$ -**
Total investments	**$ 5,346,085**	**$ 8,817,588**

Investments in GICs with maturity dates beyond one year from the year-end date are classified as long-term. Accrued interest on long-term investments of $48,058 is paid annually and is included in accounts receivable. The fair value of long-term investments is $2.9 million.

5. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	Cost	Accumulated amortization	2022 Net	2021 Net
Office equipment and furniture	$ 889,889	$ (766,191)	$ 123,698	$ 159,689
IT infrastructure and networks	812,901	(587,316)	225,585	280,538
Computing equipment	267,463	(116,843)	150,620	214,115
	1,970,253	(1,470,350)	499,903	654,342
Leasehold improvements	2,096,964	(1,708,708)	388,256	527,969
Equipment and leasehold improvements	**$ 4,067,217**	**$ (3,179,058)**	**$ 888,159**	**$ 1,182,311**

6. INTANGIBLE ASSETS

	Cost	Accumulated amortization	2022 Net	2021 Net
Computer software	$ 614,303	$ (142,033)	$ 472,270	$ 494,107
Website	127,245	(76,347)	50,898	76,347
Intangible assets	**$ 741,548**	**$ (218,380)**	**$ 523,168**	**$ 570,454**

As of December 31, 2022, computer software includes unamortized software under development of $90,480 (2021: $393,630).

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2022	2021
Trade accounts payable	$ 172,249	$ 376,681
Salaries, vacation and bonuses	2,203,146	1,920,502
Other accrued liabilities	88,154	311,275
	$ 2,463,549	**$ 2,608,458**

8. REVENUE

	2022	2021
Annual participation fees	$ 18,741,811	$ 18,498,962
Enforcement compliance	226,003	458,040
Investigation	200,000	100,000
Intent to participate fees	13,000	28,000
Other	37,855	1,650
	$ 19,218,669	**$ 19,086,652**

9. INVESTMENT INCOME (LOSS)

	2022	2021
Interest income	$ 198,430	$ 33,633
Realized loss on investments	-	(142,934)
	$ 198,430	**$ (109,301)**

10. CASH FLOWS

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

	2022	2021
Accounts receivable	$ 40,234	$ (43,748)
Prepaid expenses	(10,805)	3,238
Accounts payable and accrued liabilities	(144,909)	368,706
	$ (115,480)	**$ 328,196**

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.

11. BANK CREDIT FACILITY

The organization has access to a bank credit facility of $2.0 million 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. No amounts were drawn on this facility during the year (2021: nil).

12. COMMITMENTS

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

The estimated minimum lease payments are as follows:

	Montreal	Toronto	Vancouver	Total
Expiry	**2029**	**2034**	**2027**	
2023	$ 119,327	$ 645,042	$ 114,509	$ 878,878
2024	124,766	691,674	116,207	932,647
2025	133,843	753,304	117,957	1,005,104
2026	136,482	760,035	119,762	1,016,279
2027	139,214	768,643	40,541	948,398
Thereafter	262,846	5,755,758	-	6,018,604
	$ 916,478	$ 9,374,456	$ 508,976	$ 10,799,910

13. COMPARATIVE FIGURES

Accrued interest of $13,336 has been reclassified from net change in non-cash working capital items to accrued interest income on investments in the statement of cash flows to conform with the current presentation.

Leadership Team

Carol A. Paradine, FCPA, FCA
Chief Executive Officer

David Bromley, CPA, CA
Chief Financial Officer and Senior Director, Enforcement

Jennifer Cooper, LL.B
Head of Enforcement

Malcolm Gilmour, CPA, CA
Vice President, Inspections

Kristina Heese, LL.B, B.C.L.
General Counsel

Jeremy Justin, CPA, CA
Chief Risk Officer & Vice President, External Outreach

Margo Longwell, CPA, CA
Senior Director, Quality, Firm Risk and Registration

Susan Schutta, MA, MBA
Chief Corporate Affairs Officer

Heidi Scorgie, CPA, CA
Regional Vice President, Western Canada

M. Philippe Thieren, CPA
Regional Vice President, Eastern Canada

Lily Watson, CHRL
Director, Talent

Board of Directors

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Chair of the Board
Toronto, Ontario

Bruce C. Jenkins, FCPA, FCA[1, 2]
Vice chair of the Board
Toronto, Ontario

Renaud Caron, Fellow Adm.A[2]
Montreal, Quebec

Don G. Chynoweth, ICD.D[2]
Calgary, Alberta

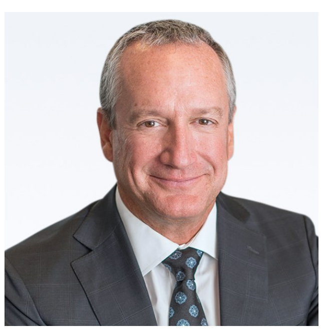
Julie Dickson, O.C.[1]
Ottawa, Ontario

Kevin Kelly[1]
Chair of the Risk and Audit Committee
Toronto, Ontario

Alice Laberge, F.ICD[2]
Chair of the Human Resources and Governance Committee
Vancouver, British Columbia

Mary Lou Maher, FCPA, FCA[2]
Toronto, Ontario

Dr. Chika Onwuekwe, Q.C.[1]
Calgary, Alberta



Richard Payette, FCPA, GCB.D[1]
Montreal, Quebec

[1] Member of the Risk and Audit Committee

[2] Member of the Human Resources and Governance Committee

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