

2022-24 Strategic Plan:

Enhancing confidence in Canada's public company audits

Enhancing confidence in public company audits

The Canadian Public Accountability Board (CPAB) is approaching 20 years of independent audit regulation in Canada. There is much to be proud of, much has been accomplished.

We have seen significant advances in audit quality and improvement in the quality control systems at the country's largest public company audit firms. Our stakeholders regard us as a respected regulator and view our work as vitally important. We have been a catalyst for important changes in advancing audit quality on the international front.

But there is more work to be done.

Audit attention must be on those matters most important to the investing public. As an important foundation to the integrity, reliability and investment appeal of Canadian capital markets, the quality of audits cannot be static – we must strive for continuous improvement.

CPAB cannot stand still either. As we counted down the final months of our 2019-21 three-year strategic plan, we consulted with key stakeholders including investors, audit committees, other regulators and our employees to develop the next steps in our drive for higher quality audits. We also studied the findings from root cause analyses of audit deficiencies which identified common themes related to sufficiency of resources, culture, client acceptance and continuance, industry expertise and the complexity of the organizations and systems being audited.

Looking ahead we see challenges to audit quality including rising debt levels combined with new opportunities and challenges in emerging industries. Strong audit firm quality management systems will be essential to respond to this current environment and drive consistent levels of audit quality.

Over 2022-24, our strategic focus will be on the impact of and improvements needed in the culture and governance of audit firms responsible for public company audits, addressing audit quality issues related to Canada's emerging industries, influencing changes to how the audit is performed, and supporting an outstanding team committed to serving the public interest.

In addition, we'll take a step back and perform an operational review to assess which activities and regulatory approaches have been most effective in advancing audit quality and identify opportunities to enhance our regulatory toolkit. Over the strategic planning period, we will also complete the review of our public disclosures which we consulted on in 2021, respond to the feedback received and make any required changes to what we disclose.

Our team is critical – we'll be counting on our people to get this important work done; helping them to achieve their professional goals and supporting their workplace needs will be key to meeting our strategic commitments. We'll also engage with other capital market regulators in Canada and around the world to drive quality improvements.

What will be different as a result of these efforts? Over the next three years we expect to see cultural changes at the audit firms that will reinforce their priority commitment to delivering high-quality audits. We will be agile and flexible in our focus on high-quality audits and financial reporting, adapting and getting ahead of challenges arising from emerging industries and novel issues.

2022-24 Strategic Commitments

In 2022-24, CPAB will drive higher quality audits and strengthen our regulatory effectiveness through the following four strategic commitments:

1

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

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

To evaluate and influence audit firm culture that contributes to consistent audit quality, CPAB will:

- Integrate audit firm governance and culture into our Quality Management System assessments in alignment with the new International Standard on Quality Management 1 (ISQM 1).
- Reinforce the importance of firm ethics (including independence and objectivity), evaluate how auditors are applying the ethical standards, and engage with auditing and ethics standard setters in Canada and internationally to influence high-quality standards for auditors.
- Building on our public consultation, enhance the nature and extent of disclosure of our inspection and enforcement activities. We will work closely with securities commissions, provincial CPA bodies and governments to effect the necessary legislative changes.

Areas of Focus

- 1) Global rollout of ISQM 1 across network firms.
- 2) Application of ISQM 1 by non-network/single office firms including how the quality risks and responses and audit firm culture may differ for firms of different sizes.

What does success look like?

- ☑ Updated framework for disclosure of our inspection and enforcement activities.
- ☑ Consistent execution of audit quality illustrated by a reduction in inspection findings.
- ☑ Well-developed and comprehensive firm quality management systems that address all significant risks to audit quality.

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

We will move quickly to identify and respond to new issues, opportunities and challenges including:

- Risk analysis to enable timely, cohesive responses among regulators, audit committees, management and auditors that address arising challenges and novel issues.
- Engage with emerging industry audit committees and management to improve the actions taken to support high-quality audits and financial reporting.
- Apply our escalation framework to take appropriate enforcement actions where we see recurring inspection findings and/or a significant risk to the investing public.
- Early intervention to share our perspectives and expectations.

What does success look like?

- ☑ Quick and effective response across all stakeholders to identify and take action to mitigate new auditing and financial reporting risks in emerging industries and novel issues.
- ☑ Inspection findings in emerging industries are similar to all other industries.

Technological advancements, changing stakeholder expectations, evolving business models and many other factors are influencing the need for audits to keep up – especially in the way they are performed and the information that is audited. CPAB will advance high-quality audits in a number of ways including:

- Assess the impact of evolving technology in the audit and share our observations and expectations.
- Use the insights from our thematic reviews on fraud and going concern to advocate for improvement in the applicable auditing standards and adoption of good practices by auditors to enhance the protection of the public interest.
- Maintain a strong voice internationally with the global audit firms, standard setters and other regulators.
- Operate in lockstep with standard setters so that assurance implications are considered up front when developing standards for environmental, social and governance (ESG) reporting.
- Assess how auditors are evaluating the ESG impact in their audits, especially when auditing impairment estimates, asset retirement obligations and going concern evaluations.
- Evaluate the auditor’s use of the work of specialists outside the engagement team with a specific focus on the use of service organization audit reports as their reliance grows in certain industries such as crypto.

CPAB leads the International Forum of Independent Audit Regulators (IFIAR) Technology Task Force which is strengthening the international dialogue on technology.

What does success look like?

- ☑ Influence improvements to auditing standards that have the greatest impact on the investing public including fraud and going concern.
- ☑ Increased use of technologies that improve the efficiency and effectiveness of audits supported by appropriate controls to manage all substantive risks.
- ☑ Evaluation of risks and audit quality impacts related to emerging audit practices including the increasing use of service organizations.

Connecting our team with a common purpose and set of values is critical to CPAB's ability to deliver its mandate. To ensure our team is engaged and at their professional best, and to continue to be a desirable employment destination where talented people can contribute and grow, we will:

- Deepen diversity and inclusion – across our team, including among leadership and our board of directors.
- Engage employees in the evolution of our approach to work to ensure our workplace remains inclusive, fair and inspires innovation.
- Invest in development opportunities for our employees to build the leadership, technical and technological skills that are the bedrock of regulatory excellence.

What does success look like?

- ☑ Our team reflects the diversity of our communities and everyone feels included.
- ☑ Our employees are data savvy and comfortable with new and emerging technologies.

The pursuit of regulatory excellence: assessing CPAB’s effectiveness

Regulatory excellence is core to everything we do. How we regulate has changed, but much of our core mandate and legislative parameters has not.

As part of our strategic plan, CPAB will conduct a rigorous assessment of our regulatory effectiveness. This review will be structured as a self-assessment, complemented by external and peer resources. We’ll examine the most significant parts of our business and benchmark ourselves against other regulators in Canada and internationally. Core elements of our review will include how our mandate and governance enables our regulatory effectiveness and how we operate and are structured to meet our mandate, including our efficiency and cost effectiveness. We will also consider how we collaborate and share information with other regulators in Canada and internationally.

Measuring success

From now until the end of 2024, CPAB will assess the progress of participating audit firms in delivering high-quality audits and our effectiveness as a regulator in overseeing this effort. Annual operating plans, including goals, actions and performance targets, will drive our strategic commitments.

CPAB Key Performance Indicators

| Area | Performance measure | Target |
|----------------------------|---|--|
| Team | Retention/Engagement scores. | <ul style="list-style-type: none"> → Retention rates above industry average. → Engagement scores from employee survey above industry average. |
| Diversity | Targets for diversity on board and leadership. | <ul style="list-style-type: none"> → Representation on our board and leadership of women and underrepresented groups (BIPOC, LGBTQ2S+, persons with disabilities) reflective of our communities. |
| Performance of inspections | <p>Communication of significant findings.</p> <p>Timeliness of issuance of inspection reports.</p> | <ul style="list-style-type: none"> → Communication of draft significant findings within two weeks of completion of field work 90 per cent of the time. → Issuance of draft reports to firms within one month of completion of inspection field work. |
| Stakeholder feedback | Percentage of audit committee and investors that consider CPAB to be an effective, trusted regulator. | <ul style="list-style-type: none"> → Eighty-five per cent rate CPAB as an effective, trusted regulator based on results of a triennial survey. |

Participating Audit Firm Quality Targets

CPAB has established targets and expectations for participating audit firms.

| Performance measure | Target |
|--|---|
| <p>Consistent execution of audit quality – as measured by the rate of significant inspection findings.</p> | <p>→ At least 90 per cent of audit files reviewed by CPAB have no significant findings at each of the annually inspected participating audit firms.</p> |
| <p>Strength of firm quality management systems – as measured by the rate of findings from CPAB’s evaluation.</p> | <p>→ No findings or only minor areas for improvement from CPAB’s evaluation of each of the annually inspected participating audit firm’s quality management systems by the end of 2024.</p> |