

# STATEMENT OF ACCOUNTABILITY AND GOVERNANCE PRACTICES

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## Accountability

The Canadian Public Accountability Board (CPAB) is the national body responsible for the regulation of public accounting firms that audit Canadian reporting issuers<sup>1</sup>. CPAB was created as a federal not-for-profit corporation by Canada's provincial securities commissions, the federal Superintendent of Financial Institutions and the Canadian Institute of Chartered Accountants. CPAB is recognized formally by Canada's securities regulators through their National Instrument 52-108 Auditor Oversight. CPAB is also recognized under legislation in Alberta, British Columbia, Manitoba, New Brunswick, the Northwest Territories, Ontario, Quebec, Saskatchewan, and the Yukon. CPAB is an independent body, which is not part of the self-regulatory arrangements for the accounting industry.

Read our [Articles of Continuance](#). See our previous [Letters Patent](#).

## Independence, Transparency and Codes of Ethics

CPAB contributes to public confidence in the integrity of financial reporting by overseeing audits of Canadian reporting issuers performed by CPAB registered accounting firms. To achieve this objective, CPAB must act independently and transparently. CPAB's mandate includes a requirement for it to report publicly on its oversight of audits of Canadian reporting issuers and the results achieved. The results of CPAB's inspections are published in public reports issued annually and available on CPAB's website.

CPAB publishes an annual report on its activities including its financial statements, which is available on CPAB's website.

### Codes of Ethics

CPAB is committed to conducting business with integrity, in accordance with the highest ethical standards and in compliance with all applicable laws, rules and regulations. CPAB acts in accordance with:

- The *Canada Not-for-Profit Corporations Act*;
- CPAB Articles of Continuance and By-Law No. 1;
- The *Canadian Public Accountability Board Act (Ontario)* and the CPAB Rules;
- The charters of the CPAB Board of Directors and those of its committees; and
- The CPAB Code of Conduct.

Additionally, CPAB has a Code of Ethics for CPAB's Board of Directors and a Code of Ethics for Staff and Consultants. These codes provide guidance in areas such as independence, confidentiality, permitted investments and outside activities. Directors, staff and consultants are required annually to formally attest they have read their respective code and are in compliance with it. The codes of ethics are reviewed annually and updated as required.

CPAB has an Ethics Officer to whom directors, staff and consultants may turn regarding ethics or compliance questions. The Ethics Officer works with the Board Chair to resolve any conflict issues for directors.

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<sup>1</sup> Reporting issuer is a defined term in Canadian securities legislation.

## **Code of Ethics for CPAB's Board of Directors**

The purpose of the Code of Ethics for CPAB's Board of Directors is to maintain the highest standards of ethical conduct among members of the Board, and to provide the public with confidence in the integrity of CPAB's decisions by seeking to avoid both actual and perceived conflicts of interest among Board members. All CPAB directors sign an annual confirmation of compliance with the Code of Ethics for CPAB's Board of Directors.

The Code provides that each director must remain independent and objective with respect to their role with CPAB and, accordingly, do not have any financial interests or outside activities, which may affect, or reasonably create the appearance of affecting, their independence or objectivity, interfere with their responsibilities to CPAB, or otherwise hinder the interests or reputation of CPAB.

## **CPAB Code of Ethics for Staff and Consultants**

The purpose of the Code of Ethics for Staff and Consultants is to maintain the highest standards of ethical conduct among staff and consultants engaged by CPAB, and to provide the public with confidence in the objectivity of CPAB's decisions by seeking to avoid both actual and perceived conflicts of interest among staff and consultants. All CPAB staff and consultants sign an Annual Confirmation of Compliance with the Code of Ethics for Staff and Consultants.

Due to the nature of the work CPAB inspectors do, the code for staff and consultants outlines detailed obligations and restrictions regarding their relationships with CPAB's participating firms. There are also comprehensive disqualification requirements with respect to which firms or reporting issuers an inspector may inspect and when:

- No staff member or consultant may participate in an inspection of, or an investigation involving, a participating firm with which the individual was previously associated as an employee or partner at any time during the ten preceding years.
- No staff member or consultant may inspect audit working papers related to an engagement to audit the financial statements of a reporting issuer in which the individual has ownership of, or control or direction over, directly or indirectly, the securities of the reporting issuer.
- For a period of five years commencing on the date of employment or engagement as a consultant, no staff member or consultant may participate in the making of a decision that is reasonably likely to have a material effect, direct or indirect, on a public accounting firm with which the individual was previously associated as an employee or partner, or on any other former employer of the individual, when such prior partnership or employment terminated within five years from the date of employment or engagement as a consultant with CPAB.

CPAB has a whistleblower hotline that is available through its website both internally to staff and its directors, and externally to the public. CPAB's Ethics Hotline Whistleblower Policy protects any staff or consultant who reports through the hotline from any retaliation whatsoever.

## **Governance Structure**

CPAB's By-Law No. 1 establishes two classes of members: the Council of Governors and the Provincial Audit Regulator Members.

### **Council of Governors**

The Council of Governors has primary oversight responsibility for CPAB and, in particular, appoints CPAB's directors as well as the Chair and Vice-Chair of CPAB's Board of Directors. The Council of Governors has the ability to remove any director it has appointed. It also appoints the review hearing officers who may preside over review proceedings and expedited hearings as contemplated by the CPAB Rules. In addition, the Council of Governors' approval must be secured for any proposed amendment of CPAB's By-Law No. 1.

The Council of Governors is composed of the Chair of the Canadian Securities Administrators (CSA), the Chair of the Ontario Securities Commission (OSC), the Chair of the *Autorité des marchés financiers* (AMF), the Superintendent of Financial Institutions of Canada, a fifth Governor selected by the CSA, and a person selected by the other five Governors who is a professional accountant and has audit oversight regulatory experience (the Accountant Council of Governors Member). The Council of Governors has a duty to consult with the Provincial Audit Regulator Members regarding the appointment of the Accountant Council of Governors Member.

The Council of Governors carries out an annual assessment of CPAB against its mandate pursuant to the provisions of the *Canadian Public Accountability Board Act (Ontario)*. This assessment is provided to the OSC and the results are shared with the securities commissions in Alberta, British Columbia, Manitoba, New Brunswick, the Northwest Territories, Quebec, Saskatchewan and the Yukon as part of the oversight process undertaken by those provinces.

### **Provincial Audit Regulator Members**

The Provincial Audit Regulator Members vote on any proposed amendments of CPAB's By-Law No.1, appoint CPAB's external auditor and receive CPAB's annual financial statements and the external auditor's report. Provincial Audit Regulator membership is available to provincial audit regulators who oversee audit firms whose aggregate Canadian audit fee revenue from reporting issuers in the respective province is at least \$7 million, and whose disciplinary process and code of ethics meet standards established by CPAB's Board of Directors. Provincial Audit Regulator Members include a representative from the pertinent organizations representing professional accountants from each province and territory.

### **The Board of Directors**

CPAB's Board of Directors has overall responsibility for overseeing the management of CPAB's activities and affairs.

The Board of Directors is composed of a range of nine to eleven members, all of whom are appointed by the Council of Governors. At least five must be non-accountants, and at least three must be professional accountants to ensure the Board has directors with accounting expertise, however, there shall always be more non-accountant than accountant directors. At least two directors must have audit oversight or regulatory experience. At least one of these two directors with regulatory experience must also be a

professional accountant and at least one of these two directors with regulatory experience must have audit oversight regulatory experience.

The Council of Governors seeks to meet these requirements and criteria and ensure that there is an optimal mix of expertise and industry experience as well as diversity to better reflect our communities. Board appointments are until the next annual meeting of the Council.

The Board believes its current size, range of skills and the diversity of its experience are appropriate and foster dialogue, substantive decision-making and effective oversight of CPAB's operations. CPAB's Board nominates new director candidates for consideration by the Council, which considers them and consults with the Provincial Audit Regulator Members before making appointments. The Chair of the Board also annually proposes to the Council of Governors individuals for reappointment to the Board every year. CPAB has adopted a policy that it will only nominate a person for membership on the Board for a maximum of nine years each, with the potential for reappointment beyond the maximum term of office for an additional one-year term if the Board believes it is in the best interests of CPAB. Appointments are staggered to ensure reasonable rotation. There is no mandatory retirement age.

The Board or one of its committees may engage independent advice to assist in fulfilling their responsibilities.

## **Chair**

The Chair of the Board is responsible for the management, development and effective performance of the Board and its committees (Risk and Audit Committee and the Human Resources and Governance Committee – see below for more detail). The Chair is responsible for ensuring that the Board consists of highly qualified and competent members, and that it is cohesive and effective. The Chair will take all reasonable measures to ensure that the Board and its committees fully execute their mandate.

The main responsibilities of the Chair are as follows: managing the affairs of the Board, including ensuring that the Board and its committees are organized properly, function effectively and meet their obligations and responsibilities; facilitating the functioning of the Board independently of management, and maintaining and enhancing the quality of the Board's governance; liaising between the Board and management; regularly interfacing with the Chief Executive Officer (CEO) on performance and governance issues, including providing feedback from the Board, and representing CPAB before the Council of Governors or any other stakeholder conducting oversight of CPAB's activities.

The positions of Chair of the Board and CEO are separate. The CEO is not a member of CPAB's Board.

## **Orientation and Training**

All new directors participate in an orientation program. CPAB staff prepare a comprehensive package of material that covers CPAB's legislative and regulatory landscape, its governance structure and related information (By-Law No. 1, charters, code of ethics), Board meeting and responsibilities information (remuneration and expense policies, meeting dates and committee details), and strategic and operating plan information. Each new Board member attends a comprehensive orientation session with the CEO and other members of senior staff. They are also assigned a Board peer to ensure smooth onboarding and for regular touch points to identify additional onboarding needs that may be specific to the new Board member.

Each year CPAB delivers director education presentations. Experts are invited to speak to the Board about current and emerging issues related to audit quality.

### **Independence and Objectivity**

Board members are independent and cannot have current positions or material relationships with audit firms registered with CPAB. Retired members of a regulated audit firm are eligible for appointment to CPAB's Board one year after they have left their position with the firm. Participation in an audit firm's retirement arrangement, which is not linked to the performance of the firm, is not considered as compromising a person's independence. Persons who have positions as members of audit committees of reporting issuers are eligible for appointment to the CPAB's Board. To preserve their independence, Board members do not receive identifying information from CPAB's management regarding participating firms or any reporting issuers during its Board meetings, which is of particular importance for Board deliberations on the imposition of enforcement actions or the commencement of special inspections and investigations. However, Board members will become aware of the identity of the firm if the firm is publicly censured through a publication on CPAB's website, and once the firm's inspection results are published on CPAB's website on an annual basis. In light of these disclosures, CPAB has adopted an anonymization approach, which rotates the designations assigned to a firm each year to preserve the Board's independence. Reporting issuer information is never disclosed to the Board or to the public.

The Board Chair or Board Vice-Chair may occasionally be informed of the identity of a particular participating audit firm in order for the CEO to gain insight and guidance on recommended next steps when managing a difficult situation with a firm or firms. The Chair and/or Vice-Chair are also informed of the identity of a participating audit firm in the event the Board has resolved to commence an investigation respecting the firm. The Chair and/or Vice-Chair are typically tasked with executing the investigation order on behalf of the Board.

CPAB has a conflict management process to manage potential or perceived conflicts of interest concerns when identifying any firm to the Chair or Vice-Chair.

The Board of Directors Charter requires that CPAB annually evaluate the independence of each director from the accounting profession, in accordance with CPAB's By-Law No. 1. This is in part addressed by the self-reporting in the confirmation of compliance with the Code of Ethics for CPAB's Board of Directors process (a lack of independence from the profession would directly threaten a director's independence and objectivity with respect to their work for CPAB). In keeping with corporate governance best practices, CPAB conducts this review each year as well.

To accomplish this, management maintains a database of information provided by each director that includes their contact information, their biography, and a list of other involvements CPAB should be aware of (for example, a board or management position) that are not included in the biographies published on the CPAB website. We also update this database as each director provides us with new information throughout the year.

All directors provide updates to, and review and approve, their database information when they complete the annual confirmation of compliance process in June.

## **Board Performance**

Each year the Board, with the assistance of the Human Resources and Governance Committee, evaluates its performance and that of its committees and Chair by conducting comprehensive effectiveness surveys of the Board, its committees and the Board Chair. As part of the annual Board effectiveness survey the Board Chair interviews each director. Results are confidentially tabulated by the Corporate Secretary and are presented and discussed by the Board, and an action plan is developed in response.

## **Compensation**

Directors are compensated by a payment of an annual retainer of \$54,500, 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. The Chair of each committee receives an annual retainer of \$64,500. The Board Vice-Chair's annual retainer is \$62,000. The Board Chair's annual retainer is \$180,500; the Board Chair does not receive per meeting attendance fees.

Director compensation is reviewed annually by the Board with the assistance of the Human Resources and Governance Committee. External experts may be engaged to perform a Board compensation assessment every four years, when appropriate. Typically, the external assessments include a review of director compensation on boards with comparable mandates and similar skill and expertise requirements.

## **Responsibilities**

The Board Charter sets out the respective responsibilities of management and the Board. The Board approves all significant decisions including:

- Delegating signing authorities and other powers for day-to-day business.
- Approving CPAB's annual budget and annual audited financial statements. Approving proposed amendments to CPAB's Rules.
- Imposing enforcement actions on participating firms.
- Approving CPAB's Strategic Plan every three years and annually approving CPAB's operating plan.

The Board also has procedures for:

- Overseeing the processes for identifying the principal risks faced by CPAB and the implementation of appropriate systems to manage those risks.
- Overseeing the processes to ensure the integrity of CPAB's internal controls and management information systems.
- Reviewing succession planning for senior management.
- Setting CPAB's strategic objectives and reviewing the progress of those objectives.
- Reviewing management's performance and compensation. The CEO's compensation is determined by the Board, based on a recommendation of the Human Resources and Governance Committee, that Committee having considered the CEO's performance.

## **Meetings**

To discharge its oversight responsibilities, CPAB's Board holds one virtual and at least four in person meetings per year, with additional meetings scheduled as required. In addition, one strategic planning meeting is held annually. The Board may meet more often should emerging issues or enforcement matters require its immediate attention.

## **Committees**

The Board has established two standing committees of the Board, a Risk and Audit Committee and a Human Resources and Governance Committee. These committees report to the Board on material matters after each of their meetings.

### **Risk and Audit Committee**

The Risk and Audit Committee's role is set out in its Charter. The Risk and Audit Committee assists the Board of Directors in fulfilling its obligations and oversight responsibilities related to financial budgeting and reporting, the system of internal controls and the external audit. It also provides guidance and oversees CPAB's activities and affairs related to risk management, including the identification and monitoring of key risks and the development of appropriate risk mitigation strategies.

As part of its oversight of risk management, the Risk and Audit Committee regularly reviews the controls surrounding information technology and the procedures CPAB has developed to protect private information.

### **Chair**

The Chair of the Risk and Audit Committee is responsible for the management, development and effective performance of the Risk and Audit Committee and ensuring its cohesion. The Chair will take all reasonable measures to ensure that the Risk and Audit Committee fully executes its mandate.

### **Human Resources and Governance Committee**

The role of CPAB's Human Resources and Governance Committee is set out in its Charter. The Human Resources and Governance Committee reviews and makes recommendations to the Board of Directors on matters of human resources, corporate governance, Board composition and succession, the formation and membership of committees, the objectives, performance and compensation of CPAB's CEO and other officers, and the content and application of CPAB's Codes of Ethics. It oversees the annual performance review of the Board of Directors, the Chair, and of any committees. It also provides guidance and oversight of CPAB's talent management strategies.

### **Chair**

The Chair of the Human Resources and Governance Committee is responsible for the management, development and effective performance of the Human Resources and Governance Committee and ensuring its cohesion. The Chair will take all reasonable measures to ensure that the Human Resources and Governance Committee fully executes its mandate.

## **Consultative Committees**

Under its By-Law No. 1, CPAB had historically established two Consultative Committees, one with CA Provincial Audit Regulator Members and the other with CGA Provincial Audit Regulators. As a result of the mergers in the profession, there is now one CPA Consultative Committee representing all provincial professional audit regulators. The purpose of the Consultative Committee is to foster cooperation and collaboration between CPAB and the professional accounting designations. The Consultative Committee meets once a year to discuss matters of common interest.