

## Media Backgrounder

TORONTO, July 17, 2002

### Canadian Public Accountability Board

#### Overview

The new independent public oversight system announced today by federal and provincial regulators and Canada's chartered accountants will be administered and enforced by a Canadian Public Accountability Board (CPAB). CPAB members will be appointed by a Council of Governors who will also periodically review the effectiveness of the new system.

The CPAB will ensure the independence and transparency of the new system. It will have the power to impose sanctions directly on auditors. These will include matters such as placing limits on range of practice, referral of disciplinary actions to the provincial accounting bodies, and communication to appropriate regulators in cases where significant deficiencies have not been remedied within reasonable time frames (*see Sanctions for Auditors backgrounder for further details*).

The CPAB requirements will apply to auditors of publicly listed companies (*see Requirements for CA Firms that Audit Public Companies backgrounder for further details*). Canada's major CA firms have voluntarily agreed to implement the new requirements when the CPAB is established in October 2002 and the CPAB will follow up on compliance with these requirements. The CPAB requirements will apply to all other firms auditing public companies within three years.

As part of these requirements, major CA firms auditing public companies will be subject to annual review by a new National Inspection Unit (NIU). The NIU will prepare a report on each review and forward it to the CPAB. The CPAB will issue an annual report to the public.

The national inspection program will be self-sustaining, with firms paying for the cost of inspections. It is estimated that the improved quality control system will cost at least \$6 million annually, double what is currently spent.

#### Council of Governors

- The five-member Council of Governors is made up of the:
  - Chair of the Canadian Securities Administrators (who is currently the Chair of the British Columbia Securities Commission)
  - Chairs of two provincial securities commissions (currently the Ontario Securities Commission and the Commission des valeurs mobilières du Québec)

- Superintendent of Financial Institutions of Canada
- President and CEO of the Canadian Institute of Chartered Accountants (CICA)
- The Council selects its own Chair from among the four non-CICA Governors. The current Chair is Ontario Securities Commission Chair David Brown. Each Governor is entitled to one vote and decisions shall be made by majority vote.
- The Council will appoint the Chair and members of the CPAB and it will have the power to remove a member of the CPAB. The Council will also periodically review the effectiveness of the new system and can take appropriate action, as necessary, to improve its effectiveness.

### **Canadian Public Accountability Board (CPAB)**

#### ***Mission***

- The mission of the CPAB is to contribute to public confidence in the integrity of financial reporting of Canadian public companies by promoting high quality, independent auditing. The CPAB will carry out this mission by:
  - establishing appropriate criteria for membership;
  - designing and implementing a rigorous program for the inspection of public company auditors;
  - imposing sanctions directly or, in appropriate circumstances, through the provincial CA Institute/Ordre, to ensure identified deficiencies are rectified in a timely manner. The CPAB may also refer matters to the appropriate regulator; and
  - recommending modifications to professional standards as appropriate.

#### ***Composition***

- The CPAB will have 11 voting members. Seven members — including the Chair — will be from outside the CA profession. Of the remaining four from inside the CA profession, three will be the CEOs of the provincial CA Institutes/Ordre in the three provinces with the largest number of public company audits.
- Appointees to the CPAB will:
  - possess several years of experience as a director of a large public company, a large public-sector organization or a large not-for-profit organization or charity, including, preferably, service as a member of the audit committee;
  - be well-informed about corporate governance and business issues;
  - be credible trustees of and advocates for the public;
  - have a breadth and diversity of professional experience, insight and judgment; and
  - have sufficient time to dedicate to the position.

Examples of individuals who would have relevant experience include a board chair, CEO or CFO from business or the public sector, a senior executive from the investment/banking industry, a former senior government official or head of a crown corporation, a successful entrepreneur, a university president, a leading academic or a distinguished member of another self-regulatory profession such as law, engineering or medicine.

- Members will be appointed for a three-year, renewable term. Should a vacancy arise, the Council of Governors will appoint a replacement.

### ***Mandate and Responsibilities***

- The CPAB will have contractual agreements with firms auditing public companies that will empower the CPAB to take actions necessary to carry out its responsibilities.
- The CPAB will have the following responsibilities:
  - to promote, publicly and proactively, high quality external audits of public companies;
  - to establish the terms of reference and approve the budget for a new National Inspection Unit (NIU), supervise its activities and evaluate its effectiveness in carrying out its mandate;
  - to hire the Chief Inspector of the NIU;
  - to obtain independent technical advice when needed and appropriate;
  - to establish and maintain the requirements of firms auditing public companies;
  - to receive and evaluate the reports and recommendations of the NIU and of the provincial CA Institutes/Ordre on inspection results of firms that audit public companies;
  - to refer matters to the provincial CA Institutes/Ordre for discipline purposes;
  - to impose sanctions directly;
  - to provide comments and recommendations on accounting standards, assurance standards and governance practices to the relevant standard setting boards;
  - to report publicly on the means taken to oversee the audit of publicly listed companies and the results achieved;
  - to direct the NIU and make recommendations to the provincial CA Institutes/Ordre with a view to harmonizing and strengthening the inspection and discipline processes applicable to members in public practice appointed as auditors of publicly listed companies; and
  - to provide recommendations to regulators.
- The CPAB will meet a minimum of three times a year and will report on its activities at least annually.

### **National Inspection Unit (NIU)**

#### ***Mission***

- The National Inspection Unit (NIU) will inspect firms that audit public companies to determine whether the firms are complying with professional standards, Rules of Professional Conduct, relevant regulatory requirements and the contractual requirements of the CPAB.

#### ***Annual Questionnaire***

- Each year, firms that audit public companies will complete an NIU questionnaire. Questionnaire information will be used to determine which firms will be inspected by NIU personnel and which will be inspected by CA Institute/Ordre staff. While the majority of the largest firms that audit public companies will be inspected by NIU staff, firms that audit a small number of public companies will be inspected by staff of provincial CA Institutes/Ordre in order to maximize efficiency and minimize duplication.

### ***Responsibilities***

- The NIU Inspection Unit will be led by a Chief Inspector, selected by the CPAB.
- The functions of the NIU are:
  - to conduct practice inspections of the public company audit practice of firms;
  - to establish one national inspection program for auditors of public companies and to work with provincial CA Institutes/Ordre to minimize duplication of effort and maximize efficiency;
  - to develop a report format and content for reporting from the NIU to the CPAB;
  - to develop and maintain a register of firms conducting public company audit engagements;
  - to identify criteria for the selection of public company files to be reviewed as part of the inspection process;
  - to provide a copy of its report to each firm;
  - to train NIU and provincial CA Institute/Ordre inspection personnel to fulfil the expanded requirements of this program; and
  - to monitor the status of matters referred to the provincial CA Institutes/Ordre for discipline.

### ***Reports***

- The NIU will prepare a report on each inspected firm that includes the following:
  - an opinion on the firm's quality control policies and procedures;
  - comments on the firm's system of quality control for the public company audit practice;
  - comments on compliance with the system of quality control for the public company audit practice and with the requirements of the CPAB; and
  - deficiencies relating to the application of generally accepted auditing standards (GAAS).
- The report will be given to the firm and to the CPAB. The NIU will also submit to the CPAB a report that includes the response commentary from the firm and a plan of action prepared by the firm to address any deficiencies noted in the report, including the time by which the deficiencies must be remedied.
- The NIU will also report to the CPAB on any actions taken by the respective provincial CA Institutes/Ordre regarding the firm's adherence to professional standards for public company audits.
- Firm names will be identified in the NIU report to the CPAB. The identity of the client files inspected will not be revealed.
- The CPAB will utilize the NIU reports as a basis for preparing its report to the public. The report will include:
  - a summary of NIU recommendations to audit firms;
  - statistical information including (eventually disclosed on a comparative basis):
    - hours consumed and cost of the program;
    - number of firms auditing public companies;
    - percentage of firm's inspected in year;

- number of firms in good standing;
- number of referrals to provincial CA Institute/Ordre discipline processes;
- the next year's focus;
- suggestions for changes in CPAB requirements; and
- comment on potential areas for improvement in existing generally accepted accounting principles (GAAP), GAAS and Rules of Professional Conduct.

***Annual Review for all Major CA Firms Auditing Public Companies***

- Each major firm auditing public companies will be subject to an annual review. The extent of this review should be determined and agreed with the CPAB but will include at least:
  - a review of the results of the firm's internal inspection program;
  - follow-up of any matters reported in the previous NIU inspection;
  - a review of the implementation of any new CPAB requirements; and
  - a review of any significant changes in the firm's policies such as changes in the firm's audit methodology.
- At least once every three years the NIU will express an opinion on the quality control policies and procedures of a firm.
- From time to time it may be necessary for the NIU to perform a limited review focused on a specific area for all firms; for example the CPAB may request the NIU to perform a focused review of compliance with independence policies.

***Funding***

- The national inspection program will be self-sustaining, with firms paying for the cost of inspections. It is estimated that the improved quality control system will cost at least \$6 million annually, double what is currently spent on practice inspection by the CA profession through provincial CA Institutes/Ordre.

For more information, or to arrange an interview with:

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