

**The Public Accountants Council for the Province of Ontario**  
**Business Plan**  
**For the Years Ending October 31, 2015, 2016 and 2017**

## **Introduction**

The Council has been preparing a rolling three year business plan since 2011 as a consequence of its discussions to have enhanced communication with Queen's Park about its operations. Although the Council's role is set by the *Public Accounting Act, 2004* ("Act"), this plan is prepared to summarize the Council's organizational, operating and financial policies.

On June 23, the Chartered Professional Accountants of Ontario and the Certified General Accountants of Ontario signed the Second Unification Agreement in support of unification of the accounting profession in Ontario. The two Unification Agreements (CPA Ontario and CMA Ontario signed the First Unification Agreement in April 2014) outline the process to unify the functions and operations of the three bodies while respecting the prevailing statutory duties of each<sup>1</sup>. These historic game-changing unifications will be hereafter referred to as Unification.

Unification introduces a significantly changed environment in which the Council operates. The extent to which these changes impact the Council and its future role will not fully be known, likely until sometime in 2015. Among the issues to be resolved are:

1. What role should the Council play in the oversight of public accounting in Ontario now that there is one only one Authorized Designated Body ("ADB") to oversee<sup>2</sup>;
2. If there is a role for the Council to play, how might it be reorganized to fulfill its responsibilities laid down under the Act, pending legislative changes?
3. How should the Council effectively deal with policies for public accounting that are introduced by CPA Canada for adoption by the provincial CPA organizations when these policies differ from those set out in the Act or differ from the Council Standards; and
4. The January 2012 ruling of the *Agreement on Internal Trade* (AIT) Labour Mobility Panel disallowed Ontario's exception for public accounting. This means that the Council can no longer provide assurance that all public accounting practitioners entitled to be licensed in Ontario would measure up to The Council Standards. This outcome could be exacerbated with the consequences of new policies or standards resulting from the situation described in 2 above.

This planning document, and the other business and budget documents that accompany it, have been prepared on the basis that there will be a continuing role for the Council in overseeing one ADB in Ontario, albeit with a likely reduction in the size of the Council occurring sometime later in 2015. For the balance of the Council's operations, the planning documents reflect the current staffing complement and other related operating costs of the as well as the reduced office lease expenses and the anticipated reduced Council size.

## ***Mandate of the Council***

The role and authorities of the Council are established by the Act. Its mandate is to ensure that public accounting in Ontario is practised in accordance with internationally respected public accounting standards that reflect the public interest in the delivery of superior quality public accounting services.

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<sup>1</sup> Notwithstanding the unification of the three Designated Bodies, each of them remains governed by their respective legislation enacted in 2010.

<sup>2</sup> On April 1 and on July 2, 2014 the CMAO and the CGAO resigned from their ADB status, respectively.

## ***I. About the Council***

Public accounting is the business of providing independent assurance and certain other services in respect of financial statements and other financial information of enterprises, where it can reasonably be expected that the services will be relied upon by a third party.

The Act requires a designated body that seeks to be authorized to license and govern the activities of its members as public accountants to meet certain minimum standards relating to its:

- education, examination and practical experience requirements;
- rules of professional conduct, mandatory practice inspections of public accountants, the use of generally accepted accounting principles and generally accepted assurance standards, discipline procedures, the issuing of new licences to former licensees, the issuing of licences to persons who are permitted to practise in other jurisdictions, and mandatory professional liability insurance; and
- governance standards respecting the licensing and governing of the activities of its members as public accountants.

The designated bodies defined in the Act, all of which were previously authorized, are the:

- Certified General Accountants of Ontario (CGAO)
- Certified Management Accountants of Ontario (CMAO)
- Institute of Chartered Accountants of Ontario (ICAO), now operating as Chartered Professional Accountants of Ontario (CPA Ontario).

CMAO and CGAO resigned their authorizations to license and govern the activities of their members as public accountants as of April 1 and July 2, 2014 respectively. CPA Ontario is now responsible for the regulation of all licensed public accountants in Ontario.

The Minister accountable for the Act is the Attorney General.

The Council's initial Standards were adopted on June 20, 2006. They were amended and restated on July 11, 2012, December 24, 2012 and January 8, 2014.

## ***II. Objectives***

The objects of the Council to achieve its mandate, contained in section 19. (2) of the Act, are set out below, along with steps taken to date by the Council to realize them.

- (a) developing and maintaining the standards that a designated body must meet in order to be authorized to license and govern the activities of its members as public accountants and raising the standards, as required*

Given that the Council's standards were adopted in 2006, it was agreed that a general updating of the Standards would be completed after the three designated bodies had been authorized. This update was completed in December 2013 with Ministerial approval of the changes received in January 2014.

The CEO and the Chair monitor national and international developments in public accounting to identify any need for change to ensure that the Council's Standards are in accordance with internationally respected public accounting standards.

*(b) determining which designated body meets the standards, when it meets them and whether the designated body continues to meet the standards after it is authorized to license and govern the activities of its members as public accountants*

The Council, together with its external consultants, identified potential evaluators. The Evaluation Team was selected based on the members having the requisite expertise, independence, time available to do the work and willingness to participate. New or replacement appointments to the Evaluation Team have been reviewed by Council including changes that were made in 2013 and 2014.

The Evaluation Team completed its review of the public accounting standards for:

- ❖ ICAO and reported its positive findings to the Council in October 2006. The Council approved the authorization of the ICAO as an authorized designated body (ADB) on November 1, 2006;
- ❖ CGAO and reported its positive findings to the Council in June 2010. The Council approved the authorization of the CGAO as an ADB effective June 22, 2010; and
- ❖ CMAO and reported its positive findings to the Council in January 2012. The Council approved the authorization of the CMAO as an ADB effective January 24, 2012.

As noted earlier, CMAO and CGAO resigned their authorizations to license and govern the activities of their members as public accountants as of April 1 and July 2, 2014 respectively.

*(c) overseeing the designated bodies in their capacity to license and govern the activities of their members as public accountants*

The objectives of the Monitoring and Review Process (as derived from sections 19 and 21) of the Act are to:

1. Determine whether the ADB continues to meet the standards after it is authorized to license and govern the activities of its qualified members;
2. Oversee the ADB in its capacity to license and govern the activities of its members as public accountants; and
3. Determine whether the purpose and objects of the Council are being met.

Since the unification of the three Designated Bodies (and the resignation of CMAO and CGAO as ADBs) CPA Ontario is currently the only ADB. As such, future references to oversight will be only to CPA Ontario. The Act also requires that periodic reviews of an ADB be carried out not less than once in every three years and to report on them to the Minister.

The extent of oversight procedures carried out for CPA Ontario will be tailored to the particular circumstances when each review is carried out. This approach reflects Council's agreement at its May 2009 meeting that the reviews for a given ADB could be less detailed over time if experience and circumstances appeared to support this inasmuch that the ADB has demonstrated that it has the necessary infrastructure, standards, processes and people to license and govern the activities of its public accountants at a level consistent with the Council Standards.

Two triennial reviews and three annual reviews have now been completed for CPA Ontario. The triennial reviews covered the two three year reporting periods ending October 31, 2009 and October 31, 2012. The first two years after authorization of CPA Ontario were reviewed coincidental with the establishment of the generic assessment guidelines that were subsequently used to establish that the three DBs met the Council Standards. The three annual reviews covered the years ending October 31, 2008, 2010 and 2011.

No Annual Review was carried out for the 2013 reporting year as the standards of CPA Ontario were undergoing a substantive review as part of their conversion to the new CPA programs during the Unification process.

An annual review for CPA Ontario is scheduled for completion in F'15. The next scheduled triennial review for the three year period ended October 31, 2015 is scheduled for F'16.

*(d) maintaining public confidence in public accounting through the appropriate prosecution of offences under the Act*

Outside experienced legal counsel is retained to assist with prosecution and management of offences under the Act. The Council’s role in regard to prosecutions is described on its website. To date, four prosecutions have been initiated and all successfully completed. The Council has not yet recovered any costs awarded to it by the Court.

**III. Activity Overview**

The Council’s activities over the past seven years have been focused on the oversight of the evaluation of the three DBs, development of Council Guidelines, responding to planned changes by ADBs in bylaws and regulations and maintaining confidence in public accounting through appropriate prosecution of offences under the Act. More recently, significant effort has been required to respond to the changes resulting from the AIT Mobility Panel Report. This report, along with Unification has led to questions about the future role of the Council. They are summarized at the beginning of the Business Planning memo to the Council.

In addition to these activities, the Council is required to develop and maintain the standards that a designated body must meet in order to be authorized to license and govern the activities of its members as public accountants and to raise the standards as required. The updating of the standards was completed in December 2013.

**V. Resources Required to Meet the Objectives**

Below is a summary of the objectives, resources required and financial impact. All other costs of operation are set out in the attached budget document.

<u>Objectives</u>	<u>Status of Follow- up</u>	<u>Consulting or Financial Resources Required Annually</u>
1. (a) Develop and maintain the standards that a designated body must meet in order to be authorized to license and govern the activities of its members as public accountants  (b) Conduct research to raise the standards as required	The Council's initial Standards were adopted on June 20, 2006. They were amended and restated on July 11, 2012, December 24, 2012 and January 8, 2014.  The Standards will continue to be maintained and raised as required.	Norton Rose Fulbright has been used extensively to advise on the legal aspects of changes being made to the Standards.

<b><u>Objectives</u></b>	<b><u>Status of Follow- up</u></b>	<b><u>Consulting or Financial Resources Required Annually</u></b>
2. Determine which designated body meets the standards, when it meets them and whether the designated body continues to meet the standards after it is authorized to license and govern the activities of its members as public accountants	The three accounting bodies were authorized. After the CMAO and the CGAO continued their business under the CPA Ontario banner they resigned from their authorized status.	No new resources required.  Four of the six external evaluators have remained in place since 2007. Two Council-approved replacements were engaged in 2012 and one additional evaluator was added in 2013.
3. Oversee the designated bodies in their capacity to license and to govern the activities of their members as public accountants	See comments in <i>II c</i> above	Resources are in place.  All costs for future CPA Ontario Reviews are recoverable from it.
4. Maintain public confidence in public accounting through the appropriate prosecution of offences under this Act	Most of the resources used for this activity are internal, supported as needed by an external law firm and investigative agencies.	Resources are in place. Engagement of legal and investigative services as required at a cost that is unlikely to exceed \$100,000.

#### ***IV. Risk Identification and Mitigation Strategies***

A report summarizing the risk environment for the Council was prepared by the CEO and discussed at the December 2009 Audit Committee meeting. Annually since then, the Committee has concluded that the risks have been appropriately assessed and are being appropriately managed. It was also agreed that it is essential that members of the Council and management remain aware of, vigilant and sensitive to the evolving changes in the public accounting environment in Ontario and other jurisdictions. This will enable the Council to become aware of issues that may arise and to deal with them appropriately.

In carrying out this review, the following risks have been identified:

##### **Governance Performance Risk**

The Council's nine public members are appointed by the Lieutenant Governor in Council (including the Chair and Vice Chair) and starting in 2014 by CPA Ontario in the case of the eight other members.

##### **Measures to Address the Risk:**

In an effort to ensure that Council Members are experienced and qualified and to assist the appointing bodies in their choices, the Council in the past, with the input of the designated bodies, developed a Member Profile and a template to be used to assess the competencies and diversity of individual Council Members and of potential appointees to the Council. This information is used to prepare a Competency and Diversity Matrix to assess the overall strength of the skills and diversity of the Council Members and to identify any gaps. The Council has requested the appointing bodies (now CPA Ontario) to use these tools in determining whether their respective appointees or proposed appointees are qualified to serve.

The Council has been successful in maintaining an appropriate dialogue and consultation with the Public Appointments Secretariat ("PAS") of the Ontario Government regarding the suitability of Council appointments. In addition, a new Chair of the Council was appointed in 2014.

The Council adopted a Code of Conduct and orientation procedures that focus Council Members on the fact that they owe their fiduciary obligations to the Council and, in the case of those Council Members appointed by the designated bodies, not to the designated body that appointed them.

The Council has a process for reviewing the performance of the Council, the Committees and Members of the Council every two years and that of the Chair and the CEO every year. The most recent review biennial review was completed for the fiscal period ended October 31, 2012 with the next one scheduled for the period ended October 31, 2014.

### **Mandate Risk**

It was reported in earlier versions of this document that if the Government of Ontario does not maintain its exception from the labour mobility provisions of the Agreement on Internal Trade for public accounting, the Council will be at risk to maintain fully the standards in Ontario that are required under the Act. As a result of the AIT Mobility Panel Report issued in January, 2012, that exception was withdrawn. There is ongoing communication with Ministry officials for determining how the Council will oversee public accounting in Ontario in the new environment.

### **Measures to Address the Risk:**

The Council has previously agreed to do what it can to promote high standards for public accounting across Canada. With Unification, CPA Canada has committed to continue with high public accounting standards across Canada. It is possible that certain of the CPA Canada recommended policies and standards might differ with those of the Council in areas such as the definition of public accounting, the issue of restricted licensure and the policy for practising in a substantive way. Once these policies and standards have been proposed by CPA Ontario, the Council will review them and plan to dialogue with Queen's Park on any issues that may need to be resolved to achieve harmonized public accounting policies and standards across Canada.

The Council continues to monitor licensure issues arising from the AIT Panel Report including the study that is being conducted by a committee of CPA Canada on the definition of public accounting, restricted licensure and practising in a substantive way. Council will consider engaging an external expert to advise it on these matters.

### **Management Performance Risk**

There is the risk that the Council will not have capable management in place to lead the planning and execution of operations. This risk has two parts: first, that management will not prove capable; and second, given there is only one senior professional, that there is insufficient management capacity in the case of sudden change.

### **Measures to Address the Risk:**

There is regular communication over the range of Council matters between the Chair and the CEO. The CEO attends all Council and Committee Meetings and there is an annual assessment of the CEO's performance by the Council.

The CEO's current arrangement with the Council expires in February 2016.

The Council recognizes that smooth backup arrangements are difficult to achieve in its situation, where the staff is limited in size. To meet the risk of an unexpected departure of the CEO, the CEO and the

Chair continue to network in the public accounting and related academic community with a view to identifying individuals who might be candidates to fill developing or unexpected management needs.

### **Litigation Risk**

Legal action may be undertaken against the Council, its members or former members, its employees or former employees, for decisions made or actions taken. Also, given the Council's role as an administrative body, proceedings may be commenced against the Council, its members or former members, its employees or former employees, seeking judicial review of decisions made.

### **Measures to Address the Risk:**

The Council has ready access to legal counsel that would immediately be engaged for these circumstances. In addition, Section 40 of the Act provides that *no action shall be brought against the Council, any member or former member of the Council or employee or agent of the Council for any act done in good faith in the exercise or performance or the intended exercise or performance of any power or duty under this Act or for any neglect or default in the exercise or performance in good faith of such power or duty.*

More recently, the indemnification form signed by all members of the Council has been reviewed with the office of the Director, Ministry of Finance, Legal Services branch to confirm that it complies with the requirements of the Ministry.

Efforts to reduce any risk of judicial review include compliance with the *Public Accounting Act, 2004* (the Council's operative statute) and, relying importantly on the assistance of legal counsel, with the *Statutory Powers Procedure Act*.

### **Operating Risk**

In addition to the objectives of the Council set out by the Act, the Council aims to manage its operations in a way that achieves proper stewardship of its resources.

### **Measures taken:**

All significant disbursements and commitments are approved in line with the Council-approved policy for *Commitments and Approvals*. As regards procurement, the Chair and the CEO work together to ensure that the Council receives proper value for money;

The Chair and CEO will continue to follow good governance processes to engage consultants in ways consistent with the need for the Council to engage highly specialized evaluation resources that will provide continuity over time to complete CPA Ontario evaluations;

Management of short term funds follows the terms of an *Investment Policy Statement*;

Cash transactions are minimal;

Quarterly financial results against the annual approved budget are reported to the Council;

The Audit Committee's responsibilities include the review of the Council's financial statements, the Council's risk management processes, systems of internal controls and compliance with applicable laws and regulations. The Audit Committee is chaired by a public member of Council and a majority of its

members are also public members. The external auditor for the Council carries out an annual audit and reports directly to the Audit Committee;

There is an annual budgeting process based on historic costs for expense categories that are controllable;

The Council's operations are straight-forward with minimal opportunity for mismanaging Council assets;

Triella Technology Transformations was engaged to perform an IT security review in 2013. All substantive recommendations were implemented;

The IT security provisions for the Council are constantly monitored by this IT services provider;

The Council's software and hardware needs are regularly monitored and upgraded as needed; and

Daily backup is performed for all systems by an external service provider.

#### ***V. Summary of Staff Numbers, Impact of Business Plan on Human Resources and Compensation Strategy***

The Council has a staff of three permanent employees; a CEO, Administration Manager and Administration Coordinator and one part-time lawyer who provides recording secretary and miscellaneous legal services.

The salary for the CEO is set by the Council, and for the two other employees, by the CEO. The CEO uses the Board of Trade Not-for-Profit compensation statistics as a guideline for setting competitive salaries. Benefits are also compared to the Board of Trade surveys for the Not-for-Profit sector. The pension plan is defined contribution.

#### ***VI. Performance Measures and Targets over the Three-Year Life of the Business Plan***

##### **Performance Measures**

- Monitoring and oversight responsibilities are carried out annually and reviewed by the Council;
- Acknowledgements to public accounting complaints and s. 22 requests are made within 24 hours of receipt of complaint or request for s. 22 review;
- To date, there appear to have been no public complaints about the Council that have been registered with the Minister or the Chair;
- The CEO receives strong performance ratings from the annual performance review process; and
- Annual controllable operating expenditures of the Council stay within budget.

##### **Targets**

Appropriate oversight of CPA Ontario through the annual and triennial reviews;

- Resolve the future role of the Council after the completion of an external review;
- Resolution of public accounting matters related to the definition of public accounting, restricted licensure and practising in a substantive way; and
- Continuing timely responses to public complaints and prosecution needs.

## ***VII. Financial Budget over the Three-Year life of the Business Plan***

See attached Budget document.

## ***VIII. Initiatives Involving Third Parties***

The CEO has made a commitment to be involved in other initiatives that would assist him and the Council in remaining knowledgeable and current on matters relating to public accounting. With this goal in mind, the CEO is a member of the Council of Governors of the Canadian Public Accountability Board. In addition the CEO is a member of the Consultative Advisory Group of the International Accounting Education Standards Board. Neither of these commitments requires significant commitment of time or costs.

## ***IX. Implementation Plan***

We believe that we have the resources required, as set out above, to implement the plan.

## ***X. Communication Plan***

The Council maintains a website to provide extensive information on the Council's role and activities. There are no plans to expand communications beyond this.

## The Public Accountants Council for the Province of Ontario

### Three Year Budget

	F'14 Projected Actual	F'15 Budget	F'16 Budget	F'17 Budget
Salaries and Benefits <sup>1</sup>	\$585,723	\$596,000	\$ 600,000	\$ 605,000
Standards Assessments <sup>2</sup>	905,227	920,000	120,000	40,000
Council Fees & Prep, Travel Time & Meetings <sup>3</sup>	83,606	141,000	97,000	97,000
Legal Advisory <sup>4</sup>	110,762	130,000	140,000	140,000
Standards <sup>5</sup>	140,705	170,000	120,000	120,000
Hearings & Prosecutions <sup>6</sup>	16,369	100,000	100,000	100,000
Consultants <sup>7</sup>	67,436	250,000	100,000	100,000
Office <sup>8</sup>	41,244	67,000	65,000	65,000
Rent <sup>9</sup>	144,589	120,000	127,000	129,000
Insurance <sup>10</sup>	12,667	13,000	13,000	13,000
Amortization <sup>11</sup>	12,291	11,000	11,000	10,000
Audit <sup>12</sup>	12,000	12,000	12,000	12,000
<b>Total</b>	<b>\$2,132,619</b>	<b>\$2,530,000</b>	<b>\$ 1,505,000</b>	<b>\$ 1,431,000</b>
Less: Recovery of Standards Assessments	905,227	920,000	120,000	40,000
<b>Net Operating Costs</b>	<b>\$1,227,392</b>	<b>\$1,610,000</b>	<b>\$ 1,385,000</b>	<b>\$ 1,391,000</b>

See attached notes

# The Public Accountants Council for the Province of Ontario

## Notes to Budgets for F'15, F'16 and F'17

1. Salaries provide for a non-executive Chair, a CEO, an Office Administrator and Administrative Coordinator. The salary rates allow for adjustments to reflect inflation and level of responsibilities.

Benefits for administrative staff include:

- a. Contributions to staff RRSPs at 5% of earnings up to YMPE plus 6% of earnings over YMPE
  - b. Group Life Insurance based on 2 times annual earnings
  - c. Travel Insurance is 2 times annual earnings
  - d. Health Insurance and Dental Plan
  - e. Council contributions to CPP
  - f. Employer Health tax at statutory rates.
2. The operations line of Standards Assessments for CPA Ontario will continue to be shown as a recoverable expenditure rather than treating them as operating expenditures. For F'15, the planned recoverable expenditures will relate primarily to the ongoing evaluation of the new CPA public accounting program and for the Annual Review for CPA Ontario for the reporting year ended October 31, 2014.
  3. Council fees include travel for Council members and the related costs of Council and Committee meetings. It has been assumed that the size of the Council will remain as is for F'15. As there is continuing uncertainty about the future of the Council and the time needed to discuss such matters, provision has been made for two Council meetings in excess of three hours and three regular meetings. In addition, provision has been made for two Audit committee meetings, one Governance committee meeting in excess of three hours and two regular Governance committee meetings. F'16 and F'17 include provisions for the same number of meetings but with the Council reduced to nine members.
  4. Legal Advisory is an estimate for general external legal services to the Council, primarily from Norton Rose Fulbright (NRF) and R. Vezér. Extra costs have been budgeted in F'15 for NRF for general legal matters that may arise with the deliberations on the future of the Council. The budgets for external advisory for F'16 and F'17 have been set to reflect the costs for the Council meetings and NRF costs related to the Council role.
  5. This is an estimate for general external legal services to the Council for matters related to Standards, primarily from Norton Rose Fulbright (NRF). Extra costs have also been budgeted for NRF for discussions that may arise with the deliberations on the future of the Council.
  6. Hearings and Prosecutions include costs of investigations and prosecutions for complaints. The actual costs will depend on the number of prosecutions required. As this number is not reliably predictable, an estimate has been made based on two cases being prosecuted each year.
  7. Consulting includes the estimated cost of \$160,000 (\$60,000 in F'14 and \$100,000 in F'15) net of 50% sharing with the Ministry of the Attorney General. In addition, an allowance for costs has been made that may be incurred for negotiations on the future role of the Council. For F'16 and F'17 there is a general provision for consulting costs.

8. Office includes telephone, internet, stationery, printer supplies and other general expenses.
9. Basic rent is \$13/sq. ft. for 3,171/sq. ft. = \$41,223. Shared operating costs for 2015 are based on the estimated operating cost increases as provided by the landlord and then adjusted by an inflation estimate of 3% for F' 16 and F' 17.
10. Insurance is estimated at current renewal rates plus inflation. The D&O insurance coverage remains \$10M. The Travel/Accident covers Council Members while travelling for \$100K, and the CEO for \$200K. The office leaseholds and equipment continue to be insured at \$358,000 for replacement costs.
11. Amortization is based on the standard Council annual rates applied to the original cost of assets. In addition, the monthly amortization for many of the Council assets is ending. These changes result in a reduction of the estimated amortization for F' 15 to \$11,000.

Amortization is based on the standard Council annual rates applied to the original cost of assets as follows:

Furniture & Fixtures	10% Straight Line
Computer Equipment	25% Straight Line
Leaseholds	20% Straight Line

12. The Audit expenses are expected to remain at approximate historic levels.