

# **PricewaterhouseCoopers LLP, Canada**

## **Transparency Report 2011**

### **Introduction**

This Transparency Report is published in accordance with the Auditors Act (2001:883) in Sweden which aligned the Swedish regulatory regime with Article 45 (5)(e) of the Directive on Statutory Audit 2006/43/EC.

The Transparency Report is in respect of the financial year ended June 30, 2011.

The Transparency Report was approved by the firm's Chief Executive Officer and signed on its behalf by him on September 29, 2011.

### **Legal Structure and Ownership of the Firm (Article 40(1)(a))**

The Canadian firm of PricewaterhouseCoopers LLP (PwC Canada) is a limited liability partnership formed under the laws of the Province of Ontario, Canada. It is wholly owned by the partners of the firm.

### **Network Arrangements (Article 40(1)(b))**

PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited ("PwC International"), each of which is a separate legal entity.

PricewaterhouseCoopers member firms operate locally in countries around the world. By joining PwC International, and becoming part of the PwC global network, a member firm obtains the right to use the PricewaterhouseCoopers name and gains access to the common resources, methodologies, knowledge and expertise shared among the member firms. Each member firm also agrees to abide by PwC International's common standards and policies, which are approved by the Board of PwC International. Each PwC member firm engages in quality control and compliance monitoring activities, covering the provision of services, ethics and business conduct, and independence issues.

PwC International is an English private company limited by guarantee. PwC International provides an international network structure for PwC member firms. PwC International does not provide services to clients. PwC International's primary activities are to: identify broad market opportunities and develop associated strategies; strengthen PwC's internal product, skill, and knowledge networks; promote the PwC brand; and develop and work for the consistent application of common risk and quality standards by member firms, including compliance with independence processes.

Member firms of PwC International do not act as agents of PwC International in providing services to clients or otherwise, and PwC International does not act as the agent of its member firms. PwC International has no right or ability to control any member firm's

exercise of professional judgment. PwC International does not have any liability for the acts or omissions of any member firm.

### **Governance Structure of the Firm (Article 40(1)(c))**

PwC Canada's Chief Executive Officer ("CEO") and Senior Partner, Bill McFarland, is responsible for managing and supervising the management of the business and affairs of the firm. Among other responsibilities, the CEO has the authority to establish policies, strategic plans and budgets, and to appoint, remove and replace members of firm management. The CEO is a partner elected by the partnership, and is eligible to serve for two terms, initially for four years followed by an additional two year term.

PwC Canada's Partnership Board, comprised of 10 to 14 elected partners, is charged with overseeing the CEO and firm management. Among other things, the Board is responsible for monitoring the financial performance and internal controls of the firm, reviewing plans and budgets, approving the admission and removal of partners, and reviewing and evaluating the performance of senior management. Board members are elected for four year terms, and one half of the Board is elected by the partnership every two years. The Board meets several times throughout the year, and forms special Board Subcommittees to focus on particular issues as required.

### **Internal Quality Control System (Article 40(1)(d))**

The following is a summary of the system of quality control that PwC Canada has adopted over its accounting and auditing practice.

#### **Introduction**

Member firms of the PwC<sup>1</sup> global network come together through membership of PricewaterhouseCoopers International Limited ("PwCIL"), an English company limited by guarantee, with each member firm being a separate and independent legal entity. As part of the PwC Global Network, all member firms are obliged to abide by certain common risk and quality policies approved by PwCIL and to conduct risk and quality reviews. The PwC global network audit and quality control standards are set out in various policies. PwC Canada's policies are based on these common policies, which are supplemented to address local professional standards and regulatory requirements.

#### **Quality Control Standards**

Compliance with International Standards on Auditing ("ISA") requires PwC Canada to have a system of quality control over its auditing practice. These controls are embedded as part of PwC Canada's day-to-day activities. The quality control system is in compliance with International Standards on Quality Control 1 (ISQC1), Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, issued by the International Federation of Accountants (IFAC). The IFAC standards and requirements and, therefore, PwC Canada's quality control system, encompass the following six elements of quality control:

##### **1. Leadership Responsibilities for Quality within the Firm**

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<sup>1</sup> "PricewaterhouseCoopers" and "PwC" refer to network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

2. Ethical Requirements
3. Acceptance and Continuance of Client Relationships and Specific Engagements
4. Human Resources
5. Engagement Performance
6. Monitoring

### ***1. Leadership Responsibilities for Quality within the Firm***

PwC Canada's leadership is committed to audit quality and has established a firm culture embracing high standards in independence and professional ethics. This leadership is embedded throughout the detailed policies endorsed by leadership, including ethical, human resources and engagement performance discussed below. It is also demonstrated by the dedication of resources to quality. There is a partner responsible for risk management and quality control relative to PwC Canada's client service operations who reports directly to the chief executive officer.

### ***2. Ethical Requirements***

**Integrity and Objectivity:** The reputation and success of PwC Canada depend on the professionalism and integrity of each and every partner and employee. All PwC Canada partners and staff are expected to uphold and comply with the standards developed by the PwC global network and PwC Canada. PwC Canada's management monitors compliance with these obligations by PwC Canada's partners and staff.

Upon hiring or admittance, all staff and partners of PwC Canada are provided with a copy of the PwC Global Code of Conduct. They are expected to live by the values expressed in the code in the course of their professional careers.

**Independence:** PwC Canada has adopted the PwC Global policies and related rules regarding independence and compliance, complemented when necessary by more restrictive local professional and regulatory rules. PwC Canada strictly monitors compliance with regulatory, professional, and PwC independence requirements related to financial interests in and business and service relationships with clients.

### ***3. Acceptance and Continuance of Client Relationships and Specific Engagements***

PwC Canada has implemented a process to identify acceptable clients based on the PwC global network's proprietary decision support systems for client acceptance and retention (called Acceptance and Continuance ("A&C")). A&C facilitates a determination by the engagement team, business management and risk management specialists of whether the risks related to an existing client or a potential client are manageable, and whether or not PwC should be associated with the particular client and its management.

### ***4. Human Resources***

PwC Canada partners and staff periodically receive a thorough orientation to the culture, values and core attributes of PwC - Quality, Trust, Teamwork, Excellence and Leadership.

PwC Canada aims to recruit only high quality staff that can operate as accounting and other experts in support of audits and who share in PwC Canada's strong sense of responsibility for auditing. There is a robust assessment of the quality of those people we hire from universities.

**Professional Development:** Training and development is an ongoing process. Training starts when a person is hired and continues throughout his or her career. Our people participate in a variety of local and regional and international formal training courses and they will also be trained through on the job coaching and supervision.

**Supervision and Direction:** Each engagement partner is responsible, in consultation with others as appropriate, for staffing engagements with partners and staff who have the professional competence and experience required in the circumstances. Further, each engagement partner is ultimately responsible for determining the extent of direction, supervision and review of the work of more junior staff to whom work is delegated.

## ***5. Engagement Performance***

**Consistent Global Methodology:** PwC Canada uses a consistent audit methodology and process for audit engagements. The methodology is enhanced as necessary to respond to the changing environment. All audit engagement partners and staff receive ongoing training in this methodology.

**Comprehensive Policies and Procedures:** To complement the Global policies and procedures, PwC Canada has comprehensive policies and procedures governing our local accounting and auditing practice that are constantly updated to reflect new professional developments and our operating environment, and to address emerging issues, as well as the needs and concerns of the practice. These policies cover not only professional and regulatory standards, but also reflect the guidance that PwC provides to its professionals about how best to implement them. They are available in electronic files and databases, are regularly updated or supplemented for all current developments and are accessible to our people remotely at any time.

**Risk and Quality (R&Q):** Consultation is a key element to quality control. PwC Canada has formal protocols setting out the circumstances under which consultation is mandatory. PwC Canada is supported by a Technical Department. They will also track new developments in accounting and auditing and provide updates to the appropriate professional staff. Our consultative culture means that our engagement teams will regularly consult with experts and others beyond those that are formally required.

## ***6. Monitoring***

PwC is responsible for monitoring the effectiveness of its quality control systems which includes carrying out, or arranging to be carried out on its behalf, independent reviews both at the management level of the Firm's systems and procedures (known as Quality Management Review - QMR) and at the individual engagement level (known as Engagement Quality Reviews) collectively referred to as the "Quality Review" process. The independent Quality Management Review and Engagement Quality Reviews are undertaken so that the firm and significant engagements are reviewed at least every three years. All assurance partners must have at least one of their engagements reviewed every five years. The Quality

Review process also involves periodic testing of the effectiveness of PwC Canada's quality controls in functional areas such as hiring, training, advancement and independence.

Quality monitoring is an integral part of PwC Canada's continuous improvement program. PwC Canada constantly evaluates inputs from formal programs such as this and a variety of informal sources in an ongoing effort to improve policies, procedures and the consistency of the quality of work. Instances of failure to meet performance standards are treated seriously and the partner responsible is counselled to improve performance and appropriate steps are taken to fully encourage improvement including, where appropriate, the imposition of financial penalties.

Management of PwC Canada believes that the quality control environment described above complies with all applicable regulations and provides a reasonable basis for believing that audits carried out by PwC Canada consistently meet the required quality standards.

### **External Inspections (Article 40(1)(e))**

PwC Canada is eligible to undertake statutory audit work by virtue of its registration with the Canadian Public Accountability Board (CPAB) of Toronto, Ontario. CPAB undertakes an annual inspection of the quality of PwC Canada's work as statutory auditors. In December 2010 CPAB issued a report on the 2010 inspection confirming that PwC Canada would continue as a registrant. As at June 30, 2011, the 2011 CPAB inspection was underway and is likely to be concluded towards the end of 2011.

### **Public Interest Audit Clients (Article 40(1)(f))**

During the period covered by this Transparency Report, PwC Canada has signed audit reports for the following clients that have transferrable securities listed on regulated markets in the countries noted.

#### **Belgium**

Imperial Oil Limited

#### **Norway**

Questerre Energy Corporation

#### **Sweden**

Lundin Mining Corporation

#### **United Kingdom**

Canadian General Investments, Ltd.

First Quantum Minerals Ltd.

La Caisse Centrale Desjardins du Quebec

### **Independence Procedures and Practices (Article 40(1)(g))**

#### **Organisation**

PwC Canada has a designated partner, (known as the Partner Responsible for Independence or "PRI" herein) with appropriate seniority and standing, who is responsible for providing

appropriate support and processes such that PwC partners and staff are knowledgeable about independence matters and that they take the actions required of them by the firm's independence policies and supporting guidance. The partner is supported by a small team of independence specialists. The PRI reports directly to the firm's Chief Executive Officer.

### ***Policies and guidance***

The PwC Network Independence Policy, which is based on the International Ethics Standards Board for Accountants Code of Professional Accountants, contains minimum standards with which PwC member firms have agreed to comply, including processes that are to be followed in order to maintain independence from assurance clients, when necessary.

The independence requirements of the United States Securities and Exchange Commission and those of the Public Accounting Oversight Board of the United States are, in certain instances, more restrictive than the firm's policy. Given the reach of these requirements and their impact on PwC Network Firms, the policy identifies key areas where these requirements are more restrictive.

PwC Canada supplements the PwC Network Independence Policy as required to comply with Canadian independence rules.

The firm's independence policy covers, among others, the following areas:

- personal and firm independence, including policies and guidance on the holding of financial interests and other financial arrangements, e.g. bank accounts and loans by partners, staff, the firm and its pension schemes;
- non-audit services and fee arrangements. The policy is supported by Statements of Permitted Services ("SOPS"), which provide practical guidance on the application of policy in respect of non-audit services to assurance clients; and
- business relationships, including policies and guidance on joint business relationships (such as joint ventures and joint marketing) and on purchasing of goods and services acquired in the normal course of business.

### ***Training and confirmations***

PwC Canada provides all partners and staff with annual or on-going training in independence matters. Training typically focuses on milestone training relevant to a change in position or role, changes in policy or external regulation and, as relevant, provision of services. [Partners and staff receive computer-based training on PwC Canada's independence policy and related topics.]

PwC Canada requires all partners and staff, upon joining and at least annually thereafter, to confirm their compliance with all aspects of PwC Canada's independence policy, including their own personal independence. In addition, all partners and others responsible for business relationships confirm that all non-audit services and business relationships for which they are responsible comply with the policy and that PwC Canada's processes have been followed in accepting these engagements and relationships. These confirmations serve two primary purposes: to identify any threats to independence that may have arisen; and to provide a periodic reminder of PwC Canada's independence policies and procedures. These annual confirmations are supplemented by system-driven engagement level confirmations for PwC Canada's audit clients.

## ***Independence Systems***

As a member of the PricewaterhouseCoopers network the firm has access to a number of global systems that assist PwC firms and their personnel in complying with independence policies and procedures. These systems include:

- The Central Entity Service (“CES”), which contains information about corporate entities including public interest audit clients and SEC restricted clients and their related securities. CES assists in determining the independence status of clients of the firm before entering into a new non-audit engagement or business relationship. This system also feeds GPS;
- The Global Portfolio System (“GPS”), which facilitates the pre-clearance of publicly traded securities by all partners, directors and practice managers before acquisition and records their subsequent purchases and disposals. Where a member firm wins a new audit client, this system automatically informs those holding securities in this client of the requirement to sell the security, where required; and
- Authorisation for Services (“AFS”) which is a global system that facilitates communication between a non-audit services engagement leader and the audit engagement leader, documenting the potential independence threats of the service and proposed safeguards and acts as a record of the audit partner’s conclusion on the acceptability of the service.
- PwC Canada also has a number of Canadian specific systems which include:
  - A rotation tracking system which monitors compliance with PwC Canada’s audit rotation policies for engagement leaders and other key audit partners involved in an audit; and
  - A database that records all approved business relationships entered into by PwC Canada. These relationships are reviewed on a six monthly basis to ensure their ongoing permissibility.

## ***Independence Monitoring***

PwC Canada’s independence procedures and practices are subject to internal review on an ongoing basis. This is achieved through a monitoring and testing programme, which includes:

- Quality control reviews of engagements to confirm compliance with risk management processes, including independence [as described in Section 40(1)(d)];
- Personal independence compliance testing of a random selection of partners and managers;
- Compliance testing of independence controls and processes; and
- Annual assessment of PwC Canada’s adherence with the PricewaterhouseCoopers network’s independence risk management standards.

In addition, policies and guidance are reviewed and revised when changes arise such as updates to laws and regulations, when PwC Network policies and guidance change or as a result of the above reviews and of our monitoring and testing programme.

The results of PwC Canada’s monitoring and testing are reported to its management on a regular basis.

The investigations of any identified violations of policies also serve to identify the need for improvements in PwC Canada's systems and processes and for additional guidance and training.

### ***Disciplinary policy***

PwC member firms are required to have disciplinary mechanisms to promote compliance with independence policies and processes and to report and address any violations of independence requirements.

A partner or staff member may be subject to a fine or other disciplinary action for a violation of independence policy.

### **Continuing Professional Education of Partners and Staff Eligible for Appointment as Statutory Auditors (Article 40(1)(h))**

PwC Canada maintains up-to-date reference materials which are accessible by all assurance practice partners and staff. These cover audit policy, procedure and methodology, and include a library of Canadian and international accounting, auditing and ethical standards. To support and keep staff and partners' knowledge up to date, partners and staff receive regular communications on technical and regulatory topics as they arise. Support is available to partners and staff on auditing, accounting and regulatory requirements, including access to subject matter experts in specialist industries.

PwC Canada's internal training curriculum provides a broad range of technical solutions as well as business and personal skills programmes. There are also specialised training programmes available for those with clients in specialist industries. Through their participation in the internal objective setting and related performance appraisal processes, engagement leaders assess their on-going personal development needs and identify any necessary development activities, including in relation to quality. Unsatisfactory work results in reduced performance reward.

The PwC Code of Conduct sets expectations of behaviour and values. Mandatory ethics and business conduct training covers the Code of Conduct as well as ethical, accounting, auditing and other regulatory matters.

PwC Canada also monitors compliance with Continuing Professional Development requirements, including the completion of mandatory training programmes, so that PwC Canada's services are delivered by individuals who have the right experience and - where required - are qualified under relevant legislative and other applicable requirements.

### **Financial Information (Article 40(1)(i))**

An analysis demonstrating the significance to PwC Canada of the audit fees from the six audit clients listed above is shown below.

	2011	2010
	C\$000's	C\$000's
Audit services	3,702	3,674
Audit related services	1,499	588
Other services including tax	<u>415</u>	<u>78</u>

Total revenue from EU listed audit clients	<u>5616</u>	<u>4,340</u>
Total revenue of firm	<u>1,090,000</u>	<u>1,030,000</u>

**Remuneration (Article 40(1)(j))**

PwC Canada partners are remunerated solely out of the profits of PwC Canada. Audit partners are not permitted to be incentivised, evaluated or remunerated for the selling of non-audit services to their audit clients.

The final allocation and distribution of profit to individual partners is made by firm management once their performance has been assessed and the annual financial results have been determined. The firm’s partnership board approves the process and oversees its application.

Each partner’s remuneration is dependent upon their equity in the firm, which is a function of sustained performance as well as roles and responsibilities, and performance of the individual and his or her business unit in the current period.

Each partner’s performance is evaluated by assessing achievements against an individually-tailored balanced scorecard of objectives, based on the partner’s role and responsibilities.

There is transparency among the partners over the total income allocated to each individual.

  
Bill McFarland

CEO, PricewaterhouseCoopers LLP, Canada