Operating Environment

CPA Canada pursues opportunities, provides services and conducts activities that may expose it to a variety of risks. The ability to respond appropriately and effectively to expected and unanticipated change is critical to the organization's success.

Risks to CPA Canada's strategy

Managing risk

An important aspect of governance and management best practices is to ensure that organizational risks are identified, assessed and managed in a timely, efficient and effective manner.

Risk management approach

CPA Canada's risk management policy is to apply an enterprise risk management (ERM) framework that helps guide the organization in its risk management activities. The ERM framework:

- establishes the roles and responsibilities of the CPA Canada Board of Directors, Audit Committee and Management Committee;
- specifies the organization's tolerance for risk;
- outlines the process for identifying, assessing and categorizing the organization's risks;
- ensures a uniform approach to risk mitigation, management and reporting;
- incorporates numerous approaches for managing risk, including avoidance, mitigation, transferal, insurance and acceptance;
- encourages a risk-aware culture where risk management is integrated into CPA Canada's strategic and operational decision-making;
- outlines how key risks, opportunities and impacts are determined; and
- facilitates the understanding, discussion, evaluation and management of risks at all levels.

Risk governance

Risk oversight of CPA Canada activities resides with the Board of Directors. The board oversees the organization's ERM and approves a risk management policy and an annual risk-tolerance profile designed to ensure a consistent understanding of risk exposure. The board is responsible for the annual approval of CPA Canada's multi-year strategic plan. It ensures that the strategic direction is sound, provides linkage between strategies and provision of services, and establishes the basis of the annual operational commitments and related budgets. It is through CPA Canada's strategic planning process that key risks affecting the organization as a whole are identified and addressed.

The board monitors compliance with the risk management policy and reviews the risk management policy and procedures annually.

The board delegates primary responsibility for risk management to the Audit Committee and is supported by the Management Committee. The board is kept informed of significant risks and mitigating strategies through ongoing reporting mechanisms.

The Audit Committee is responsible for reviewing the significant risks and uncertainties that may affect CPA Canada, and the adequacy of its risk management policy, procedures and controls. The committee recommends the risk management policy and annual risk tolerance profile to the board for approval.

The CPA Canada Management Committee, composed of the president and CEO, executive vice president and the vice presidents of each core business group and support function, provides leadership in the development and implementation of ERM.

The committee's responsibilities encompass:

- developing, implementing and maintaining an effective ERM framework for the organization;
- developing the risk management policy and risk tolerance profile of the organization;
- communicating the organization's risk management policy, risk tolerance profile, and ERM framework;
- identifying potential and emergent risks, assessing their likelihood and impact, determining what risks are not acceptable and when risk mitigation and risk management strategies must be developed;
- determining the right level of risk for each strategic initiative using the risk tolerance profile;
- assigning responsibility to develop risk mitigation approaches and actions to appropriate staff and/or boards and committees on an issue-specific basis;
- explicitly identifying risk mitigation resource requirements and allocation to manage risks to an acceptable level; and
- identifying opportunities to manage the uncertainties of potential and emergent risks, and potential outcomes.

Risk assessment

CPA Canada, under its risk management policy and risk tolerance profile, assesses its willingness to accept risk and seeks to manage those risks to an acceptable level, otherwise referred to as its tolerance for risk.

Members of the Management Committee are accountable for effectively managing risks relative to their respective areas and collectively updating the ERM framework during the year.

CPA Canada attempts to proactively mitigate its exposure to risk through sound planning, effective management, and the appropriate response strategies.

Key risks

A key risk is one that, alone or in combination with interrelated risks, can have a significant adverse impact on the organization's reputation, its ability to achieve its priorities, objectives and financial performance, and has a probability of occurring.

Key risk	Risk management strategy
EXTERNAL AND ENVIRONMENTAL	
Inability to support and act in the public interest	CPA Canada supports a robust and independent standard-setting process that helps to ensure the financial and non-financial information in the private and public sectors is reliable, comparable, transparent and credible. This is critical to investor confidence, a sound financial system and to acting in the public interest. CPA Canada also continues to enhance audit quality through several initiatives including collaborative efforts with regulators such as the Canadian Public Accountability Board (CPAB) and to enhance the value of audit by effectively responding to the technological, regulatory and other challenges facing audit practices. Through its Awards of Excellence in Corporate Reporting, Awards of Excellence in Public Sector Financial Management and guidance publications, CPA Canada helps establish best practices that support healthy capital markets and contribute to accountability and transparency. Through its financial literacy programs, publications, tools and resources, CPA Canada is a leading advocate for financial literacy.
Inability to identify and adapt to the diverse and changing needs of its key stakeholders and/or inability to demonstrate and deliver value	CPA Canada consults regularly with stakeholders including members, candidates, students, provincial bodies, academics, employers and others to monitor changes in expectations, needs and priorities, against which it benchmarks and measures its performance. Through its strategic planning process, CPA Canada ensures its key priorities and objectives are aligned with the ongoing needs of its stakeholders. It also conducts periodic research for relevant products and services, and listens to feedback to incorporate into programs and service delivery.
Inability to comply with, or adapt to, current and changing regulations and laws	CPA Canada's Code of Conduct sets out expected ethical behaviour of employees, volunteers and consultants, and helps set the tone at the top for a culture of integrity. It is everyone's responsibility to uphold the principles of respect, integrity, honesty and trust, and to speak up and report concerns about the violation of laws, regulations and CPA Canada policies. CPA Canada's policies and processes also provide for the timely review and monitoring of potential or actual legal or regulatory issues to enable senior management and the board to effectively perform their management and oversight responsibilities. CPA Canada also maintains a broad range of insurance coverage, which is reviewed annually with the Audit Committee. While it is not possible to entirely eliminate legal and regulatory risk, CPA Canada works closely with its legal and other advisers to manage risk, seek advice on the performance of legal obligations, and manage litigation that involves or impacts CPA Canada.

Key risk	Risk management strategy
INTERNAL AND OPERATIONAL	
Inability to protect CPA Canada's brand assets and/or effectively build brand awareness	To manage risks to its brand strategy, CPA Canada regularly monitors and measures the effectiveness of its branding initiatives through the Council of Chief Executive's Brand Steering Committee. It engages outside expertise to assist in this activity. It also maintains relationships with political and governmental bodies, and enhances its presence in Ottawa as a trusted adviser on business and accounting issues. CPA Canada has a strategic communication and crisis-management process, and a social media strategy and policy to enhance its effectiveness and credibility in the social media environment. The CPA Canada branding strategy ensures CPA Canada is talking to members with one voice.
Inability to attract and retain sufficient and appropriately skilled people who have the expertise (focus, commitment and capability) to support the achievement of CPA Canada's key strategic objectives and priorities; and address external and/or internal human resources-related matters	Various policies and practices address organizational design, employee recruitment programs, succession planning, compensation structures, ongoing training and professional development programs and performance management. Volunteer recruitment and recognition programs are utilized and volunteer satisfaction is monitored through surveys conducted periodically.
Inability to produce competent CPAs	To produce competent CPAs, CPA Canada employs uniform assessments throughout the certification program (including a common final examination). It works collaboratively with the provincial and territorial bodies to maintain a practical experience requirement, and ensure relevant competencies are developed and assessed.
Inability to deliver a CPA professional education program that meets the expectations of the marketplace, hindering new entrants and leading to an insufficient number of candidates being attracted to the program	CPA Canada regularly conducts research with members, employers and other stakeholders to measure satisfaction, determine key touch points to drive promotion, and bring the new CPA professional education program to the attention of prospective candidates. Broad stakeholder consultation on program relevancy also drives marketplace penetration and awareness. The CPA competency map and programming is regularly reviewed to ensure they remain relevant. In addition, alternate streams to certification have been developed to ensure the program remains inclusive and attractive. The delivery of the CPA education program in conjunction with the provincial and territorial bodies is heavily reliant on technology, and CPA Canada has partnered with key third-party providers with proven track records.

Key risk	Risk management strategy
INTERNAL AND OPERATIONAL (CONTINUED)	
Inability to ensure the CPA professional education program module evaluations and the common final examination are not compromised, and the reliability and validity of the examinations themselves are not brought into question	A team of experienced and dedicated CPA Canada employees and volunteers with expertise in the design and delivery of examinations ensures the examinations are not compromised, and results are reliable and valid. Comprehensive confidentiality and security processes are in place to ensure integrity.
Inability of CPA Canada to produce professional learning and development programs, publications, products and services that are innovative, relevant and aligned with contemporary technology and delivery models	CPA Canada manages these risks by conducting member-focused research to help select and deliver the products and benefits that provide value. Members are also encouraged to participate at events and try publications, products or services through a variety of marketing activities and promotions. The organization collaborates with provincial and territorial bodies to enhance and expand product offerings. It works closely with key strategic partners to design inventive programs with long-term benefits. Appropriate information technology skills and core competencies are available to the organization, and the IT infrastructure appropriately supports current and future development plans. IT Services monitors new technology and trends, works closely with stakeholders and undertakes extensive surveys to understand their needs and priorities.
Inability to adequately protect and secure CPA Canada's technology, IT infrastructure and information from a major negative event	IT Services employs a number of programs, procedures and processes to effectively respond to emergencies, and to safeguard CPA Canada technology, IT infrastructure and information from unauthorized intrusions and other threats.

Financial risk

CPA Canada is exposed to a number of risks associated with financial instruments that have the potential to affect its operating and financial performance. The financial instrument risk exposures are: credit risk, liquidity risk and market risk (currency, interest rate and other price risk).

CPA Canada manages these risks in accordance with its risk management policy. The objective of the policy is to reduce volatility in cash flow and earnings, and safeguard assets.

CPA Canada also has an investment policy that details the asset quality and proportion of fixed income and equity securities in which it invests. It does not use derivative financial instruments to manage its risks.

Credit risk

CPA Canada is exposed to credit risk resulting from the possibility that parties may default on their financial obligations, or if there is a concentration of transactions carried out with the same party, or if there is a concentration of financial obligations that have similar economic characteristics that could be similarly affected by changes in economic conditions, such that CPA Canada could incur a financial loss. CPA Canada does not hold directly any collateral as security for financial obligations of counterparties.

The maximum exposure of CPA Canada to credit risk at March 31 is as follows **($000s)**:

	2015	2014
Cash and cash equivalents	$ 4,249	$ 18,206
Amounts receivable	17,600	10,213
Short-term investments	2,000	4,230
Investments - Guaranteed investment certificates	16,355	-
Investments - Canadian fixed income	-	7,381
Investments - Index pooled funds: Canadian fixed income	21,291	18,788
	$ 61,495	$ 58,818

Cash and cash equivalents, short-term investments and investments: Credit risk associated with cash and cash equivalents, short-term investments and investments is minimized substantially by ensuring that these assets are invested in financial obligations of: governments; major financial institutions that have been accorded investment grade ratings by a primary rating agency; and/or other credit-worthy parties. An ongoing review is performed to evaluate changes in the status of the issuers of securities authorized for investment under the investment policy of CPA Canada.

Amounts receivable: Credit risk associated with amounts receivable is minimized by CPA Canada's large and diverse customer base, which covers substantially all business sectors in Canada. CPA Canada follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary.

Concentrations of credit risk with respect to amounts receivable is limited due to the credit quality of the parties extended credit, as well as the large number and geographic dispersion of smaller customers. Amounts receivable from the provincial and territorial bodies generally relate to members' fees collected on CPA Canada's behalf and costs recoverable from the provincial and territorial bodies. At March 31, 2015 and 2014, amounts receivable from the three largest provincial and territorial bodies comprised 83% and 71%, respectively, of the total amounts due from provincial and territorial bodies.

Concentrations of credit risk with respect to guaranteed investment certificates are mitigated due to the credit quality of the major financial institutions issuing the investment. At March 31, 2015, 89% of the total holdings in guaranteed investment certificates are with the same financial institution.

Liquidity risk

Liquidity risk is the risk that CPA Canada will not be able to meet a demand for cash or fund its obligations as they come due.

CPA Canada meets its liquidity requirements by preparing and monitoring detailed forecasts of cash flows from operations, anticipating investing and financing activities, and holding assets that can be readily converted into cash. CPA Canada has a short-term unsecured bank facility of up to $1 million in place should it be required to meet temporary fluctuations in cash requirements. At March 31, 2015 and 2014, the bank facility had not been drawn upon.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency risk, interest rate risk and other price risk.

Currency risk

Currency risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate relative to the Canadian dollar due to changes in foreign exchange rates.

The functional currency of CPA Canada is the Canadian dollar. CPA Canada infrequently transacts in foreign currencies due to certain revenues and operating costs being denominated in foreign currencies, as well as sourcing certain purchases, services and capital asset acquisitions internationally.

CPA Canada does not use foreign exchange forward contracts to manage foreign exchange transaction exposures.

CPA Canada also invests a portion of its investment portfolio in an index pooled fund which invests in foreign equities. CPA Canada mitigates its currency risk exposure by investing in an index pooled fund that is composed of investment securities comprised of multiple currencies.

Interest rate risk

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in market interest rates.

The exposure of CPA Canada to interest rate risk arises from its interest bearing assets and fixed-rate long-term loans. CPA Canada's interest-bearing assets include cash and cash equivalents, short-term investments and guaranteed investment certificates held with financial institutions that earn interest at market rates.

Fluctuations in market rates of interest on cash and cash equivalents, short-term investments and guaranteed investment certificates do not have a significant impact on CPA Canada's results of operations.

The objective of CPA Canada with respect to its fixed income investments and guaranteed investment certificates is to ensure the security of principal amounts invested, provide for a high degree of liquidity and achieve a satisfactory investment return.

CPA Canada manages the interest rate risk exposure of its fixed income investments and guaranteed investment certificates by using a laddered portfolio with varying terms to maturity. The laddered structure of maturities helps to enhance the average portfolio yield while reducing the sensitivity of the portfolio to the impact of interest rate fluctuations. The fixed income pooled fund investments consist of varying maturities, which reduces the overall sensitivity to interest rate changes.

Other price risk

Other price risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all similar instruments traded in the market.

CPA Canada is exposed to other price risk because of its investment in index pooled funds.

The investment policy of CPA Canada restricts investments in index pooled funds to selected market indices. The investment policy for index pooled funds provides for an asset mix of 55% (+/-3%) fixed income investments and 45% (+/-3%) equities and is rebalanced to the asset mix on a quarterly basis. Risk and volatility of investment returns are mitigated through diversification of investments in different countries, business sectors and corporation sizes.

Financial risks associated with Defined Benefit Plans for Employees

The primary long-term risk of the Plans to CPA Canada is that the Plans assets and future operational cash flows of CPA Canada will be insufficient to satisfy the Plan liabilities. A summary of the funded status of the Plans is as follows ($000s):

	2015	**2014**
Funded plan:		
Plan assets at fair value	$ 56,832	$ 51,014
Defined benefit obligations	(61,069)	(51,416)
	(4,237)	(402)
Unfunded plans:		
Defined benefit obligations	(26,078)	(22,068)
Post-retirement benefits liability recognized in the statement of financial position	$ (30,315)	$ (22,470)

The liabilities of the plans expose CPA Canada to various forms of risk including liquidity risk and the risk associated with changes in actuarial assumptions, primarily interest rate risk with reference to the discount rate used to measure the defined benefit obligations of the Plans.

The assets of the Plan expose CPA Canada to various forms of risk including credit, liquidity and market risk which is comprised of interest, currency and other price risk. The assets of the plan comprise investments in index pooled funds. The investment policy for the index pooled funds provides for an asset mix of 40% (+/-3%) fixed income investments and 60% (+/-3%) equities and is rebalanced on a quarterly basis.

CPA Canada mitigates the risks relating to the plan assets in the same manner as its financial instruments. In addition, there is a natural offset in relation to the interest rate risk on the liability of its funded plan arising from its investments in index pooled funds whose values are also affected by changes in interest rates.

Changes in risk

There are no significant changes in the risk profile of the financial instruments and defined benefit plans of CPA Canada from that of CPA Canada and CGA-Canada in the prior year.

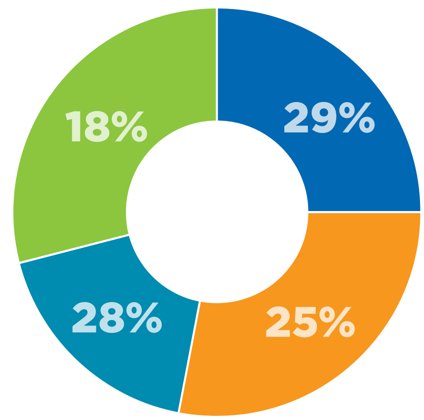
Capability to deliver results

Capital resources and liquidity

CPA Canada's cash and cash equivalents position was $4.2 million as of March 31, 2015, a decrease of $14.0 million from the $18.2 million[1] cash and cash equivalents position at the prior year-end. Cash and cash equivalents at year-end are held on deposit with major Canadian financial institutions in interest-bearing accounts or in guaranteed investment certificates.

Cash used in operating activities increased year-over-year by $13.5 million. The increase was primarily due to the net changes in non-cash working capital. Higher amounts receivables, lower accounts payable and accrued liabilities, and deferred revenue, due to a decrease in the amount of members' fees received in advance compared to the prior year, contributed to a decrease in cash.

Guaranteed Investment Certificates at Amortized Cost



$000s	
Matures in fiscal 2017	4,713
Matures in fiscal 2018	4,000
Matures in fiscal 2019	4,642
Matures in fiscal 2020	3,000

Investing activities used cash of $8.5 million primarily from the net purchases of investments and capital assets. CPA Canada also has available an undrawn operating line of credit of $1 million with a Canadian financial institution.

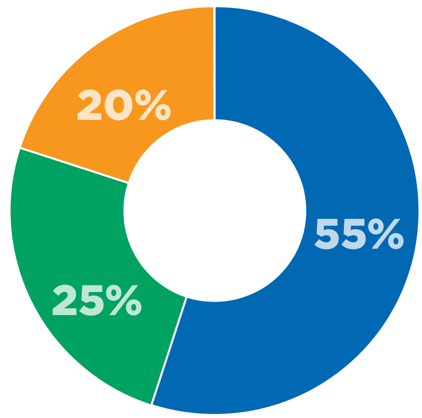
Financing activities used cash of $0.5 million for the repayment of long-term debt on the Burnaby office of CPA Canada.

CPA Canada's short-term investments have effective interest rates ranging from 1.4% to 1.45% with maturity dates in March 2016 (2014: effective interest rates ranging from 1.25% to 1.45% with maturity dates ranging from June 2014 to March 2015).

[1] THE COMBINATION OF CPA CANADA AND CGA-CANADA FINANCIAL POSITIONS ON APRIL 1, 2014.

CPA Canada's investments are comprised of guaranteed investment certificates and index pooled funds. The guaranteed investment certificates have effective interest rates ranging from 1.55% to 2.52% with maturity dates ranging from June 2016 to November 2019. CPA Canada's investments held no guaranteed investment certificates in the prior year. The Canadian fixed income investments in the index pooled funds have effective interest rates ranging from 0.70% to 6.52% (2014: 0.95% to 6.65%), with maturity dates ranging from April 2015 to December 2064 (2014: April 2014 to March 2064). CPA Canada's investment policy benchmark asset mix of the index pooled fund investments is set at 55% (+/-3%) for fixed income investments and 45% (+/-3%) for equities. The actual asset mix is rebalanced on a quarterly basis. The benchmark asset mix has remained the same throughout the year.

Index Pooled Funds at Fair Value



$000s

Canadian fixed income	21,291
Foreign equities	9,549
Canadian equities	7,736

Investment in capital assets is guided by the capital asset plan prepared by management each year and approved by the Board of Directors. For fiscal 2015, the plan called for an increase in capital spending. The additional capital investment was used to further expand the organization's information technology infrastructure, principally to support the new CPA professional certification and education programs, and to continue the work on CPA Canada's integrated website launched December 2014. CPA Canada's total capital investment in 2014-15 was $2.0 million compared to $1.6 million in the prior year.

Net assets

Net assets as of March 31, 2015 amounted to $36.6 million and consisted of $7.7 million invested in capital assets (net book value of capital assets less the unamortized balance of deferred tenant inducements and long-term debt used to purchase capital assets), and $28.9 million of unrestricted net assets, which increased by $7.7 million during the year. The changes in net assets were primarily impacted by a significant excess of revenues over expenses for fiscal 2015 of $15.2 million somewhat offset by the defined benefit costs for remeasurements and other items of $7.3 million as a result of the adoption of the new employee future benefits standards.

On October 1, 2014, in the final operational phase of unification at the national level, CGA-Canada combined its assets, obligations, employees and operations with CPA Canada excluding all insurance-related assets and liabilities related to the professional liability program operated for CGA public practitioners and the associated insurance fund. The initial phase of unification at the national level previously saw CICA and CMA Canada combine with CPA Canada on April 1, 2013. The transition to a fully unified Canadian nationalaccounting body was the culmination of the efforts of all three national legacy bodies—CICA, CMA Canada and CGA-Canada—and represented tremendous change and unprecedented growth in the size and scope of the combined organization.

To effectively manage the significant change and rapid growth taking place during the year, revenue streams from existing and new programs were closely monitored and expenditures were prudently managed, emphasizing cost containment, where possible. This was necessary in order to have sufficient financial resources available to continue to develop and enhance the new CPA Professional Education Program (CPA PEP) as it was rolled out across the country and while the existing legacy education programs were maintained, continue to develop and roll out the new CPA Prerequisite Education Program (CPA PREP), begin to develop the new Advanced Certificate in Accounting and Finance Program (ACAF), and continue to build the new integrated CPA Canada website launched during the year. CPA Canada, under a new and evolving operating environment, achieved all its key strategic initiatives for 2015, capping off a very successful year.

Higher revenues from almost all revenue streams and a focus on managing costs effectively through integration contributed to the $15.2 million excess of revenues over expenses for fiscal 2015. The unrestricted net assets are required to provide sufficient financial capital to meet any material unexpected financial risks such as future long-term lease costs and unplanned projects subsequently approved by the board. The unrestricted net assets are also available to help maintain reasonable stability in annual member fees.

The Audit Committee annually reviews the level of unrestricted net assets to assess its appropriateness. The unrestricted net assets of $28.9 million amount to the equivalent of approximately 3¼ months of fiscal 2015 expenses, which remains within the three-month expense guideline the Audit Committee considers the minimum amount needed in net assets to meet any unexpected financial risk.