



Office of the Superintendent of
Financial Institutions Canada

Bureau du surintendant des
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Report on
**Office of the Superintendent of Financial
Institutions**

**Regulation Sector
Approvals & Precedents Group**

Legislative Approvals Audit

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OSFI
BSIF

Canada 

OSFI Regulation Sector – Approvals & Precedents – Legislative Approvals Audit

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1. Background

**Regulation
Sector –
Approvals &
Precedents
Group**

Federally regulated financial institutions and other applicants are required to seek Superintendent or Ministerial consent for certain types of transactions, including incorporations, orders authorizing the carrying on of business activities in Canada, corporate restructurings and ownership changes.

Within OSFI, responsibility for the processing of these applications falls under the purview of the Approvals and Precedents Group (**A&P**) which is part of the Legislation and Approvals Division (**LAD**) of the Regulation Sector.

The A&P group is organized such that the Approvals group deals primarily with the processing of applications requiring approvals as prescribed by federal financial institution statutes and the Precedents group deals with interpretations of the statutes, guidelines and regulations and the issuance of guidance, including advisories, rulings and instruction guides, to support the approvals process.

OSFI's approval process focuses on balancing the need to be both efficient and thorough, allowing for improvements in timelines while ensuring complex transactions are carefully considered. Although the majority of the applications submitted to OSFI require Superintendent approval there are a significant number of applications relating to new incorporations, significant interest/control and transfer of business that need to be approved by the Minister of Finance.

OSFI processed 589 applications for approvals in 2006/07 covering all industry sectors (Banks, Trust & Loan /Co-Operatives, Life and Property & Casualty insurance). The applications requiring Superintendent Approval are classified either as *Deemed* or *Other*. The statutory *deemed approval* regime is one where an application is automatically approved 30 days after receipt unless the Superintendent extends the deemed approval date or denies the application. Seventy seven percent of the applications processed in 2006/07 required Superintendent Approval and 47% were classified as *deemed approvals*. Ministerial approvals accounted for 23% of all approvals in 2006/07.

OSFI Regulation Sector – Approvals & Precedents – Legislative Approvals Audit**2. Audit Objective, Scope and Approach**

Providing Assurance to the Superintendent

In order to manage its work in a complex and rapidly changing environment, OSFI develops and puts in place specialized policies, guidance and processes. In general, these are called frameworks. These frameworks provide assurance to the Superintendent and senior management that the nature and scope of work required to carry out OSFI's activities is well defined and that consistency and quality of the work is maintained.

Such frameworks are essential to the Superintendent and the Audit Committee in being able to fulfill their responsibilities under the Treasury Board Policy for Internal Audit regarding OSFI's governance, risk and control processes. Under the policy, Audit & Consulting Services is to conduct assurance reviews and audits of OSFI's operations reporting on the adequacy of OSFI's frameworks and their application in carrying out OSFI's activities. This Legislative Approvals Audit is such an assurance report.

Audit Objectives

The Audit Committee and the Superintendent approved an audit of OSFI's Legislative Approvals Process in the A&CS 2007/08 Audit Plan. The audit objectives were to provide an independent assessment and comment on:

1. The Legislative Approvals Framework which includes a review of the:
 - Process framework – the core process relating to the processing of applications requiring legislative approval. Generally this can be considered a review of policies, procedures and practices.
 - Management Oversight framework – the oversight activities and controls built around the core process that helps ensure the legislative approval activity is appropriately conducted and meets its objectives. This would generally entail an assessment of activity objectives, accountabilities, resource requirements, risk assessment, and performance measures.
2. The *application* of the Legislative Approvals framework, including:
 - The degree to which the framework is being applied and consistency in applying the framework from one approval to another; and
 - Whether an informed reader would be able to follow the facts, analyses, and judgments through to the conclusions.

For the purposes of this audit, Legislative Approvals Process means the processing of applications for approval under the applicable legislation.

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Audit Scope The Legislative Approvals audit involves a review of the current Legislative Approval framework and selected legislative approval applications received in the period April 1, 2006 to Sept 30, 2007 against evaluation criteria described in Appendix A – Legislative Approvals Framework Evaluation Criteria. These criteria are based on internationally recognized *Enterprise Risk Management – Integrated Framework* recommended by the *Committee of Sponsoring Organizations of the Treadway Commission (COSO)* as adapted to OSFI’s environment. In applying these evaluation criteria, A&CS looked for the existence of the criteria element and whether it has been operationalized (i.e. communicated, understood, implemented and followed).

Interpretations and Guidance as handled by the Precedents group was only assessed if it related to a specific application reviewed by A&CS and then only to the extent of the related consultation required between the Approvals and Precedents groups for the processing of that application.

Evaluation Approach The audit was based on a review of available documentation relating to the Legislative Approvals Process and Management Oversight framework; discussions with the A&P management, case officers, OSFI Information Management & Architecture unit and a review of a representative sample of applications for legislative approval. Our overall conclusions and recommendations are included in Section 3 and Section 4, with detailed observations and recommendations presented in Section 5 of this report.

Consistent with the Treasury Board Policy on Internal Audit the audit was conducted in accordance with the Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing.

OSFI Regulation Sector – Approvals & Precedents – Legislative Approvals Audit**3. Audit Conclusion****Audit
Conclusion**

Our audit conclusion based on a review of the Legislative Approvals framework and on how well the framework is being applied in OSFI, is that:

- *The Legislative Approvals Framework is well developed in terms of both the Process Framework (core process and associated policies, procedures and practices) and Management Oversight Framework (Objective Setting, Operating Environment, Risk Management, Information and Communication and Monitoring and Reporting). No significant concerns were noted. As outlined in this report, some enhancements to formalize current practices and clarify expectations will further strengthen the framework.*
- *There is consistent application of the Legislative Approvals framework from one approval to another. This was determined through the review of fourteen cases covering thirty seven approvals involving eleven case officers and a variety of legislative approvals by type, nature and industry.*
- *For each approval reviewed by A&CS, we were able to follow the facts, analyses, and judgments through to the conclusions.*

A&CS would like to thank all participants for their cooperation and contribution to this engagement.

Senior Director, A&CS

Date

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4. Summary of Observations and Recommendations

Overview

The Legislative Approvals framework is well developed in all areas of a process and management oversight framework. Although we do not have any significant concerns, the Legislative Approvals Process framework can be further formalized and strengthened in the following areas:

- *A&P Revised Application Processing Procedures*
- Case Completion Oversight and
- Approval Application Governance Procedures

These are summarized below. Detailed observations and recommendations are included in *Section 5 –Detailed Observations and Recommendations* section of this report.

A&P Revised Application Processing Procedures

The *A&P Revised Application Processing Procedures* is a guidance document that supports the approval process by providing step by step instructions, together with timelines for the processing of applications for approval.

It is our expectation that this key guidance document, supporting the approval process, remains current and clearly reflects management expectations as to timelines and steps to be followed by case officers in processing applications for approval. We also expect adequate management oversight to monitor compliance with these procedures. Our review of approval case files entailed an assessment of the extent of compliance with these procedures and also the associated management oversight.

We noted that although, for the most part, the requirements of the *A&P Revised Application Processing Procedures* were followed there were some instances where these procedures were not consistently applied. These instances of non compliance are neither pervasive nor do they impact the approval decision itself but they do suggest that greater clarity of expectations can be brought to the document and thereby to the approval process.

Specifically we found that:

- In some cases there were delays in scanning documents like recommendation and approval documents and signed notices to client into the Case Management System or sending notices to clients relative to the timelines in the *A&P Revised Application Processing Procedures*;
- For some approval applications notices to client did not conform entirely to the requirements of the *A&P Revised Application Processing Procedures*, primarily with respect to deficiency letters where deficiencies in application material was not clearly identified as such, and

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- There is limited direct management oversight of compliance with the administrative aspects of the *A&P Revised Application Processing Procedures*.

The Case Management System (CMS) is the custom designed software system dedicated to application processing activities. It also serves as the corporate repository for approval decisions. The recommendation and approval documents are key documents related to the approval decision and as such, we would expect that they would reside in CMS so as to adequately maintain the analytical trail in the corporate repository.

The notices to clients are an integral part of OSFI's *Service Standards* intended to enhance accountability and transparency relating to the approval service provided. These service standards establish time frames for the processing of applications for approval and require various notices to be sent to applicants at key points in the approval process. It is intended that these notices to client will serve as OSFI's formal communication to the applicant on the status of their application. The *A&P Revised Application Processing Procedures* incorporate these notices to client and specify the form, content and timelines for the issuance of these notices.

We are of the view that:

- There is no significant implication of a reasonable delay in scanning these documents into CMS as they are not directly used in A&P statistics or decision making;
- Communications regarding application deficiencies could be further harmonized to ensure applicants are clear in their expectations about the application process and, in particular, any legislated timelines; and
- Although, it is appropriate for management to focus its attention on the decision making aspect of the approval process vs. administrative compliance in periods of high volume approval activity, quality assurance procedures could be enhanced to monitor compliance with the administrative aspects of the approval process on an ongoing basis.

It is our view that the *A&P Revised Application Processing Procedures*, which supports the approval process, may not adequately reflect the current operating environment with respect to timelines and management expectations with respect to notices to clients and may therefore require updating.

The *A&P Revised Application Processing Procedures* should be reviewed to determine if the timelines stated therein continue to remain reasonable in the current operating environment and whether management expectations regarding notices to clients (form and content) are

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appropriately reflected in the document.

As well, a procedure should be put in place to ensure appropriate management oversight of compliance with the *A&P Revised Application Processing Procedures*. The procedure should identify exceptions and associated management sign off protocol.

**Case
Completion
Oversight**

Applications for legislative approval are assigned a case number when received and tracked in a case file using the Case Management System (CMS) through the various stages of the legislative approval process. These stages are:

- Stage 1 – Approval Application Recording and Notification
- Stage 2 – Analysis of Application
- Stage 3 – Recommendation and Approval Decision
- Stage 4 – Wrap up and Case Closure

Each stage in the process requires a number of steps to be completed. Some of these steps are directly related to the evolution of the approval decision while others may be viewed as being more administrative in nature especially in the wrap up and closure stage of the process.

In reviewing applications for approval and related case files we found that there is no formal sign off requirement upon case completion to indicate that all steps in the approval process, through the various stages, have been completed as required.

We found that there is extensive direct management oversight over the individual applications for approval including review of case materials in CMS and regular face to face discussions with the case officers to ensure the appropriateness and timeliness of the approval decision. However, with respect to the administrative aspects of the approval process there is less consistent direct management oversight as it is expected by management that the established procedures and timelines will be followed by the case officers.

Although, we do not have any significant concerns, as our review of case files showed that the established procedures and timelines are generally followed by the case officers, it is our view that there are benefits to introducing a case completion sign off procedure. By doing so management will formalize the oversight process and receive assurance, in a consistent manner, that all the steps in the process, including administrative aspects, have been completed as expected. Issues of non-compliance will surface on a timely basis allowing management to assess and take necessary action. We believe this will strengthen the quality assurance aspects of the approval process.

Case completion sign off procedures should be initiated to confirm that key steps associated with the process, including manager review have

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been completed by the individuals with the assigned responsibility for completion.

The document with the appropriate sign offs should be scanned into the Case Management System as evidence of file completion.

**Approval
Application
Governance
Procedures**

We noted that, in practice, there is sound approval application governance where all aspects of the evolution of the approval decision, from receipt of application for approval to the approval decision, are addressed. Although some aspects of this governance is captured in written form the current application governance practices have not been documented in a comprehensive guidance document to ensure consistent understanding and application of management oversight.

It is our expectation that a sound framework will include appropriate formal documentation of effective existing management oversight practices to clearly establish expectations and serve as guidance for managers and directors to ensure a high quality of oversight. We found the current approval application governance practices to be effective and believe they should be formally documented as part of the Legislative Approvals framework so as to further strengthen this framework.

The current application oversight practices in A&P should be formalized in comprehensive written guidance outlining manager and director practices and activities specifically relating to application for approval process governance.

Management Response

**Management
Response**

We have reviewed the recommendations made by OSFI's Audit and Consulting Services (AC&S). With the view of maintaining the efficiency and effectiveness of the Approvals and Precedents (A&P) Legislative Approval framework, we will act on these recommendations as follows.

First, Approvals and Precedents (A&P) will amend the timelines contained in the *A&P Revised Application Processing Procedures* in light of the current operating environment. While the Report acknowledges that for the most part the administrative nature of the timeline slippages present little risk to the approvals objectives, decision making and A&P statistics, we have undertaken an analysis of case files to determine appropriate processing timelines in light of the current operating environment. In particular, we are looking at the "deficiency notice" to take into account the availability of new

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information management tools (e.g., telephone and email notifications), and to determine their content as well as how they should be documented in the Case Management System (CMS). Based on the results of that analysis, we will amend the *A&P Revised Application Processing Procedures* to ensure greater standardization around the client notification process.

Second, we are working on amendments to our existing management oversight procedures to ensure appropriate and ongoing adherence with the *A&P Application Processing Procedures*. In particular, the amendments will focus on identifying exceptions and will include a process to ensure management concurrence with any deviations. This will enhance the current A&P management oversight process, which includes regular meetings with case officers and senior OSFI management to discuss strategies and case specific questions, weekly reports on the progress of cases, ongoing communication with the Supervision Sector, and regular reporting against service standards.

Third, we are working on amendments to the file sign off procedures to confirm that key steps associated with the approvals process, including manager review, have been completed by individuals with the assigned responsibility for completion. Building upon the second recommendation, we will develop and implement a mechanism to ensure the maintenance of documented evidence that all the key elements of the approval process have been completed and/or adhered to. This process will be documented in CMS.

Fourth, the current application oversight practices in A&P will be captured in written guidance outlining manager/director practices and activities relating to the application for approval process governance. We agree that it would be helpful to enhance the managerial guidance and written procedures on application governance particularly for the benefit of new incoming managers and directors, but also to ensure uniformity in the managerial process. To implement this recommendation, A&P will build on existing documents such as current job descriptions. The revised managerial guidance and procedures will be incorporated in the *A&P Application Processing Procedures*.

We greatly appreciate the time and effort taken by A&CS to assist us in assessing the A&P divisional risks, and providing an objective evaluation of our current process and the results it achieves. We will continue to keep A&CS informed of our progress and remain open to further dialogue.

5. Detailed Observations and Recommendations

Overview The audit involved an assessment of the Legislative Approvals framework and the application of that framework against evaluation criteria described in

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Appendix A – Legislative Approvals Framework Evaluation Criteria. These evaluation criteria were reviewed and accepted by A&P senior management.

Our detailed observations and recommendations are discussed in this section in the following order:

- Legislative Approvals Process Framework
- Legislative Approvals Management Oversight Framework
 - Objective setting
 - Operating environment
 - Risk management
 - Information and communication
 - Monitoring and management reporting.

Legislative Approvals Process Framework

Overview

The Legislative Approvals Process framework was assessed using the Process and Control Activities element and related components as defined in *Appendix A - Legislative Approvals Framework Evaluation Criteria*.

Approvals & Precedents application processing activities are driven by the “legislative authorities” in the financial institutions legislation, i.e., *Bank Act, Trust and Loan Companies Act, Insurance Companies Act and the Cooperative Credit Associations Act* that it administers. Each approval requested for a financial institution is made under a section of one of these Acts that describes the type of approval being covered and the authority responsible for making the decision on the application, either the Minister of Finance or the Superintendent of Financial Institutions.

We found that these “legislative authorities” are embedded in the Approvals process from receipt of an application to the ultimate decision on the application and compliance with these legislative authorities is closely monitored. They are identified prominently in:

- Each application *Transaction Instruction*;
- The Case Management System that identifies the section of the Act under which approval is being requested, describes the approval and names the decision maker (Superintendent or Minister);
- All key client notices – Application Receipt, Application Withdrawal, Application Extension, Notice of Approval;
- All applications subject to User Fees;
- All recommendations for legislative approval of either the Superintendent or the Minister;
- All legislative approval documents signed by either the

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- Superintendent or the Minister and
 - Statistical reports prepared in respect of the approvals process.

Our assessment of the Legislative Approvals Process framework is discussed in the sections that follow.

**Overall
Observations**

Based on our review of legislative approval case files and discussion with case officers and management, A&CS found that the process to be followed for the processing of legislative approvals is well defined with decision and control points in place to manage the key identified inherent risks.

There are adequate and readily accessible decision making guidance and procedures available to support the approval process, and case officers routinely use these in their processing of applications for approval. Guidance, in the form of transaction instructions for each type of approval and incorporation guides, has been developed and posted on the OSFI external website for potential applicants. These guides include OSFI's information filing requirements, as well as administrative guidance, as appropriate, to facilitate the approval process. OSFI anticipates that applicants who provide all information and material requested can expect a more timely assessment of their applications.

The *A&P Revised Application Processing Procedures* require the case officers to refer to these transaction instructions to ensure all information requirements have been met before issuing an Application Receipt to the applicant. We found that this transparency facilitates the approval process as the application requirements and expectations, including related legislative authorities, are clearly stated.

Analysis and professional judgment are required and exercised continually through the process commencing with the receipt of the application for approval. We noted from the review of case files that there was enough supporting documentation available in the files to allow us to follow the analysis through to the decision.

Within the Approvals & Precedents group there is an escalating sign off requirement on approvals, that may vary slightly depending on the nature of the approval and the level at which it must be approved. This sign-off requirement is formalized in the *Approvals Sign-Offs* document. In addition to the sign-offs required in the A&P group, any application referred to Supervision for analysis must be supported by a signed-off *Supervisory Approach to Regulatory Approvals Transmittal Form (Supervision Transmittal)* prepared by Supervision and signed at the supervisory level in accordance with the *Supervisory Approach to Regulatory Approvals* document. Our case file reviews showed full compliance with the A&P

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prescribed sign-off requirements both within A&P and in the *Supervision Transmittal* received from Supervision.

Effective April 1, 2005, OSFI implemented seven service standards establishing time frames for the processing of applications for approval and for other services subject to a user fee. Although user fee service charges were repealed April 28, 2006, for many approval transactions, OSFI continues to track and report on performance against these standards. The service standards state that for purposes of measuring performance against the service standards, the first day of the process will be the day that OSFI receives all material information relevant to the approval as required by the applicable transaction instructions. This date is identified and communicated to the applicant in an Application Receipt.

The final day of the process for performance measurement purposes is the day that the decision is made by the Superintendent to approve or deny the request for approval or the day the applicant withdraws the application or requests an extension. For ministerial approvals the final day of the process is the day that a Recommendation Memorandum is sent by the Superintendent to the Minister of Finance to approve or deny the application. A Notice of Approval is used to communicate this decision to the applicant. We noted that all the approvals that we reviewed were processed within the timelines stated in the Service Standards.

In addition to the Application Receipt and Notice of Approval, the Service Standards and the associated *A&P Revised Application Processing Procedures* require other notices to be sent to the applicant at various stages in the approval process. These notices are intended to serve as OSFI's formal communication to the applicant on the status of the application. Our review of case files indicated that although, for the most part, the required notices were sent to the applicants on a timely basis there were some instances where the notices were either not sent or sent later than the timelines in the *A&P Revised Application Processing Procedures*.

Based on our survey of case officers, interviews with Managers and Directors and review of case files it was noted that:

- In some cases the *A&P Revised Application Processing Procedures* were not fully applied to recommendation and approval documents and notices to clients
- The quality assurance procedures do not include a requirement for formal sign off on case completion and
- Current application governance procedures have not been documented.

A discussion of these findings is provided in the sub sections below.

OSFI Regulation Sector – Approvals & Precedents – Legislative Approvals Audit***A&P Revised Application Processing Procedures – Scanning of Documents***

The *A&P Revised Application Processing Procedures* provide some timelines for the scanning of recommendation and approval documents into the Case Management System (CMS). Based on these timelines it is expected that these documents are scanned into the CMS within three working days of a decision. Our review showed that this timeline was not always followed.

The recommendation document is a key document as it pulls together all aspects of the application including the background, analysis and recommendation rationale. For Superintendent Approvals it also shows the review path including sign offs as evidence of review and management oversight according to delegated authorities.

The signed approval documents are evidence that the approval has been granted either by the Superintendent or the Minister as the case may be.

The Case Management System is used by A&P to support all aspects of the application processing activities; serve as a corporate repository for approval decisions rendered and for statistical and management reporting. Case Officers, Managers, Directors and Managing Director all use CMS extensively to develop their understanding of the application and supporting rationale for recommendations for approval. Consequently, completeness of this database is of importance to the approval process. If documents relevant to the approval decision are not scanned into CMS then the analytical trail within the Case Management System is not complete.

A&CS noted that although, in some cases, there were delays in scanning these documents into CMS (i.e. later than the 3 day expectation) the documents were available in CMS at the time of our review and were available in the paper files prior to scanning into CMS. It is our understanding from discussion with A&P management that going forward the electronic records will be the official corporate records and the paper files will no longer be maintained in their present form as replication of the electronic file. In view of this the completeness of CMS will take on even greater significance.

In discussion with case officers and management A&CS noted that they are aware of the timelines as laid out in the *A&P Revised Application Processing Procedures* document and attempt to follow them but when faced with a heavy case load and competing priorities some slippage in timelines can occur. It is felt by management that this slippage is of more of an administrative nature with little risk to the approvals objectives. The focus of management is to ensure that the limited resources are directed at the decision making aspect of the approval process where the risks lie and robust oversight is provided to ensure appropriateness and consistency of the approval decision especially in periods of unanticipated higher volumes or when processing increasingly complex applications. Although, we agree that this relative emphasis is appropriate, when resources are stretched, we also believe that quality assurance procedures could be enhanced to monitor compliance with the administrative aspects of the approval process on an

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ongoing basis.

We are of the view that there is no significant implication of a reasonable delay in scanning these documents as they are not directly used in the A&P statistics or decision making. Furthermore, given the high volume and increasing complexity of applications A&CS believes the timelines as laid out in the *A&P Revised Application Processing Procedures* may be too stringent as they are based on the processing of very simple applications. Consequently the *A&P Revised Application Processing Procedures* may not adequately reflect current management expectations and may require updating.

The *A&P Revised Application Processing Procedures* should be reviewed to determine if the timelines stated therein continue to remain reasonable in the current operating environment.

As well, a procedure should be put in place to ensure appropriate management oversight of compliance with the *A&P Revised Application Processing Procedures*. The procedure should identify exceptions and associated management sign off protocol.

A&P Revised Application Processing Procedures – Notices to Client

As previously stated in this report OSFI Service Standards call for certain notices to be sent to the applicant through different stages of the approval process. Our review showed that in some instances certain notices were either not sent to the applicant or sent later than the timelines stated in the A&P procedures document. Additionally, in some cases the signed notices to client were not scanned into CMS.

Where notices were not sent the case officer provided us with a reasonable explanation as to why the notice had not been sent. However, A&CS did not note any documented evidence of management concurrence with the case officer's decision.

The OSFI Service Standards state that if information contained in the application for approval is incomplete relative to the transaction instructions OSFI will issue a "deficiency letter" to the applicant. The *A&P Application Processing Procedures* require this deficiency letter to be a form letter with a standard "opening and closing" statement.

Our review of case files showed that in many cases, where additional information was required prior to the issuance of an Application Receipt, deficiency letters were not issued to applicant identifying that the application was not complete and additional information will need to be submitted before the application can be "receipted". The application receipt date is significant as it starts the clock for the measurement of service standards and related statistical reporting.

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Communication took the form of emails or records of phone conversations. In most cases the email communication to the applicant did not explicitly state that the application will be considered incomplete until the requested information is received.

In each case where a deficiency letter was not issued A&CS noted that there was enough evidence in the file to support the case officer's assessment that the application material was not complete. However, we are of the view that this should be explicitly communicated to the applicant as stated in the OSFI Service Standards so that applicants are clear in their expectations about the application process and associated legislated timelines.

The *A&P Revised Application Processing Procedures* should be reviewed to determine if the timelines stated therein continue to remain reasonable in the current operating environment and whether management expectations regarding notices to client (form and content) are appropriately reflected in the document.

As well, a procedure should be put in place to ensure appropriate management oversight of compliance with the *A&P Revised Application Processing Procedures*. The procedure should identify exceptions and associated management sign off protocol.

**Case
Completion
Oversight**

In reviewing applications for approval we found that there is no formal sign off or case completion document to indicate that all steps in the process have been followed and associated timelines have been complied with. We found that, although, the approval decisions themselves are well supported, within service standard timelines, documented and well presented in the recommendation memorandum with extensive direct management oversight there was considerably less oversight of the administrative aspects of the process. This was also discussed in the *A&P Revised Application Processing Procedures* section above.

In the absence of a formal case completion document some steps in the Approval Process may not be followed by case officers as intended and these instances of non compliance may not be detected on a timely basis. CMS may not be complete as relevant documents supporting the approval decision may not be scanned into CMS. Our observations relating to the application of the *A&P Revised Application Processing Procedures* discussed above corroborate this.

A case completion checklist and sign off should be considered to track the key steps in the Legislative Approvals process.

Initiate file sign off procedures to confirm that key steps associated with the process, including manager review have been completed by the

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individuals with the assigned responsibility for completion.

The document with the appropriate sign offs should be scanned into CMS as evidence of proper file completion. (This can take the form of a file completion checklist).

**Approval
Application
Governance
Procedures**

Based on the responses of officers, managers and directors on the quality and extent of management oversight A&CS is of the view that, in practice, management oversight of the decision making aspect is exercised on a continual and disciplined basis from the beginning to the end of the application process by various means including meetings, weekly application status reports produced by case officers for the review of management, monthly statistical reports and time prompts and special reports generated by CMS that focus on critical application time lines. Although there is substantial management oversight in practice A&CS did not find specific written procedures or guidance on application governance.

The omission of written procedures/guidance on application governance leaves satisfaction of this risk area to the interpretation of Managers and Directors who are in place at the time applications are reviewed. There is little written protocol to school new incoming Managers or Directors on the steps and activities that they should engage in to ensure a high quality of oversight.

The current application oversight practices in A&P should be captured in written guidance outlining manager/director practices and activities specifically relating to application process governance.

Legislative Approvals Management Oversight Framework**Overview**

In assessing the Management Oversight framework A&CS considered the following elements of the *Legislative Approvals Evaluation Criteria – Appendix A*:

- Objective Setting
- Operating Environment
- Risk Management
- Information and Communication and
- Monitoring and Management reporting

Overall, A&CS found that the Legislative Approvals Management Oversight framework is well established and is being applied consistently in the processing of applications for approval. We are satisfied with the Legislative

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Approvals Management framework and do not have any recommendations for inclusion in this report. However, in the spirit of continuous improvement, we have communicated to the A&P management some observations from our review to enable them to further strengthen the efficiency and effectiveness of the management oversight framework.

Our observations for each of the above elements are summarized in the sections that follow.

Objective Setting

We found that the objectives for the Approvals group are defined, align with OSFI's corporate objectives, include established processing service standards and are well understood and followed consistently in the day to day processing of applications.

Case officers, managers and directors had a consistent understanding of the objectives as being timely, appropriate, accurate, consistent and transparent processing of applications according to legislation/government policy and in keeping with the overall OSFI mandate and established service standards.

We also noted that statistical reports are produced on a periodic basis to evaluate compliance with the objective (including associated service standards) and the results of these reports are communicated quarterly to Executive and are published in the OSFI Annual report.

Operating Environment

Our review indicated that responsibilities, authorities and the reporting structure for the Approvals group are well defined and appropriately documented. The Approvals group is divided into an Insurance group and a Deposit taking group. A portfolio approach is applied with this structure where members of each group concentrate on financial institutions from a particular industry. We believe this structure, with the focus on specialization, facilitates the efficient and effective processing of applications for approval since it allows approvals staff to keep abreast of the increasingly complex external environment in each industry.

Based on our review of case files, documentation and discussion with staff and management, we are satisfied that formal and informal training necessary to maintain knowledge levels to effectively handle applications for approval is being provided to staff. The extent of knowledge demonstrated by case officers in the analysis and recommendation for approvals indicates that case officers have the required training to adequately process applications for approval.

We also noted that a formal, documented training tool - The Learning Map was introduced in April, 2007 to define training necessary to achieve and

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maintain required knowledge levels, especially for the training of new staff. With the current focus in the group, on succession planning and the related implementation of the Regulatory Officer Development Program (RODP), the formalization of a training program to help develop the competencies and knowledge required to process applications for approval in an efficient and effective manner is appropriate.

Risk Management

With respect to risk management we noted that risk is managed within the group on a day to day basis by the Managers and Directors who are responsible for controlling operations. The Managing Director has regular formal meetings and several informal ad-hoc meetings with the Directors where emerging risks are discussed. Staff meetings held every couple of months are also used to discuss emerging or changing risks and associated action plans. Since applications for approvals constitute 85% to 90% of the activity of the group the close attention to cases and case related process, including extensive discussions, is conducive to timely and accurate assessment of inherent risks. The case officers confirmed to us that there are ongoing formal and informal forums for case officers to funnel their views on emerging risks to more senior levels within their group. They also felt that management was receptive to their input when it was provided.

Periodically, as part of the OSFI ERM process, changes are made to the A&P Risk Register to reflect the risks already identified during the course of the year. The Risk Register is available on the OSFI Electronic Data Management System (EDMS) for all staff to review. We found that the case officers had a good understanding of the key inherent risks facing their group.

We also noted that various levels of management including senior management have an opportunity to comment on the A&P identified risks, controls and action plans as noted in the A&P Risk Register and the final Risk Register for A&P, therefore, reflects the views of senior management.

Information and Communication

Based on our review we found that there are established systems in place to adequately support the approval process. The Case Management System not only supports the processing activities but also functions as the corporate memory housing not only applications in process but also closed cases with summary information on decisions made along with supporting rationale.

There are numerous regular meetings held at various levels within the group which facilitate the sharing of information and communicating expectations regarding applications for approval.

We also found that the group is very aware that there are other stakeholders that are impacted by the approvals process and the approvals staff has a good understanding of how their work relates to the work of others. Documented

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procedures have been established to deal with each of these stakeholders. We found, in our review of case files, that case officers had a good knowledge of the policies, practices and procedures to be used in the processing of applications for approval and Managers and Directors exercised appropriate oversight of officers in the development of their cases.

**Monitoring
and
Management
Reporting**

It is our assessment that there are adequate monitoring and management reporting processes in place for reporting on approval activities. Adherence to the approvals practices, processes and performance standards is monitored through various means including direct management oversight related to individual applications; various meetings; review and sign off protocol; statistical reports; CMS controls and service standard reporting.

In our review of the planning process for the group we noted that the group is subject to some planning challenges given the inherent nature of the approval activity. The approval process is essentially a transaction based process which is initiated by applications for approval. The group cannot control the volume of applications, industry, timing, complexity or nature of these applications. In addition the inability to refuse applications and the necessity to comply with time constraints especially with deemed approvals make the planning exercise particularly challenging.

We noted that the A&P management is very sensitive to these challenges and is proactive in estimating, monitoring and allocating resources on an ongoing basis. Approval activity potentially impacting planning is monitored through:

- On going dialogue of case officers with the financial institutions and Supervision Relationship Manager
- Tracking of emerging issues, changes/potential changes to legislation and the associated expected volumes,
- Economy/industry developments and
- OSFI projects & priorities.

The results of this monitoring is communicated by case officers to their managers and Director who in turn communicates with more senior levels, including the Assistant Superintendent, Regulation Sector, on a weekly basis.

The many forums both formal and informal for regular information sharing within A&P, Regulation Sector and Supervision Sector and externally with the Department of Finance all contribute to the effective monitoring of approval activity.

We noted that the group is managing resources effectively by continuous monitoring and reporting of volume and nature of approval activity. In all the cases reviewed by A&CS the applicable timelines as laid out in the service

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standards were met.

With respect to the quality assurance activities as they relate to the identification of precedents in applications for approval our scope for this audit limited the assessment to observations linked to the two case files that we reviewed. Based on our review we noted that the documented protocol for dealing with precedents relating to applications for approval was followed by the case officers. We also noted that there was documented evidence of oversight at the appropriate level relating to both cases; the cases were appropriately assigned and status reported up to senior management at the weekly meetings with the Assistant Superintendent, Regulation Sector.

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Element	Components
1. Process and Control Activities	<ul style="list-style-type: none"> ▪ The process to be followed for legislative approvals is clearly defined with decision and control points in place that are aligned to identified inherent risks, and include: <ul style="list-style-type: none"> ▪ Decision-making guidance and policies where necessary. ▪ Appropriate level of analysis, application of judgement and documentation. ▪ Professional, service and transparency standards for dealing with the industry. ▪ Authorities, escalation and approval/sign-off requirements. ▪ Reporting requirements within and outside of Legislative Approvals. ▪ Quality assurance processes have been built into the legislative approvals framework to facilitate: <ul style="list-style-type: none"> ○ Monitoring adherence to the legislative approvals framework ○ Dealing on a timely and effective basis with matters of non-compliance ○ Escalating matters of non-compliance where necessary
2. Objective Setting	<ul style="list-style-type: none"> ▪ Objectives for the Legislative Approvals function are <ul style="list-style-type: none"> - defined, - align with OSFI's corporate objectives, - include established application processing service standards, and - are understood ▪ Risk tolerances have been established through the ERM process.
3. Operating Environment	<ul style="list-style-type: none"> ▪ Responsibilities, authorities, and the reporting structure are defined. ▪ Staff competencies, including required formal and informal training necessary to maintain knowledge levels, are defined.
4. Risk Management	<ul style="list-style-type: none"> ▪ Potential inherent risks or events that may impact the achievement of objectives have been : <ul style="list-style-type: none"> ▪ Identified; ▪ Assessed in accordance with OSFI's ERM policy. ▪ Mitigated where control gaps exist. ▪ Senior management has communicated its views on the inherent risks of the legislative approvals function.
5. Information and Communication	<ul style="list-style-type: none"> ▪ Information systems appropriately support the regulatory function through the provision of timely and accurate information to track and monitor approval activities ▪ A corporate memory is built and maintained through the capture of summary information on decisions made along with supporting rationale ▪ The policies, practices and procedures for dealing with legislative approvals are appropriately communicated to approval staff ▪ Staff involved in the legislative approvals process understands how their work relates to the work of others ▪ Open and timely channels of communication exist among approval officers and senior management to: <ul style="list-style-type: none"> ○ Ensure appropriate input and consistency of decision making ○ Ensure expectations are communicated.
6. Monitoring and Management Reporting	<ul style="list-style-type: none"> ▪ Ongoing quality assurance activities exist to monitor and report on: <ul style="list-style-type: none"> ○ Adherence to the approvals practices, processes and performance standards. ○ Approvals activity (volume, complexity etc.) to support planning. ○ Whether precedents have been identified and dealt with and whether the resulting decisions have been appropriately described. ○ Areas for process improvement. ○ Overall effectiveness in achieving approvals objectives. ▪ Appropriate management reporting practices to the Managing Director, Regulatory Approvals, Senior Director, LAD and the Assistant Superintendent, Regulation Sector, have been established.