



Office of the Superintendent of
Financial Institutions Canada

Bureau du surintendant des
institutions financières Canada

Report on

**Superintendent
Management Oversight
Framework**

January 28, 2009



OSFI
BSIF

Canada 

Contents

Background

Introduction to Management Oversight Framework

Objectives and scope

Objectives

Providing assurance to the Superintendent

Scope

Audit evaluation criteria

Audit approach

Observations and Recommendations

Conclusion

Overview

Conclusion

Management Response

Appendices

Appendix 1 – Audit Evaluation Criteria

Background

An audit of the Superintendent Management Oversight Framework structures and activities was approved by the Audit Committee and the Superintendent for inclusion in OSFI's 2007-08 internal audit plans.

Introduction to the Management Oversight Framework

Broadly speaking, governance and accountability generally refer to the processes by which organisations are directed, controlled and held to account. They are concerned with structures (committees and meetings) and processes for decision-making, accountability, control and behaviour at the top of the organization.

A key activity in governance and accountability is management oversight (**Oversight**). The aim of oversight is to provide assurance an organization's objectives will be achieved and are being achieved.

Oversight consists of monitoring, evaluating and reporting on performance in achieving objectives, as well as internal and external auditing. Oversight is carried out through processes and procedures designed by the organization's chief executive and the executive management team and approved by the governing body. Oversight ensures management accountability for providing the direction, planning and monitoring of policies and procedures, management and financial controls, plus follow-up and implementation of audit recommendations.

Accountability is a keystone of public sector management as it enhances public confidence in stakeholders, and also provides management with the assurance of due diligence in decision making and adequate behaviour. Central to effective accountability is the ability to access relevant information. This includes the ability of management oversight within the organization to obtain the information needed for sound decision making and to respond to the public.

OSFI's legislated mandate was established in 1987 to supervise federally regulated institutions and private pension plans, to promptly advise institutions and plans as appropriate, to advance and administer a regulatory framework, and to monitor and evaluate system-wide or sectoral issues that may impact institutions negatively¹.

OSFI exercises management oversight with respect to *key responsibilities* such as:

- *Management*: ensuring effective management including decision making for achieving objectives.
- *Government*: observing internal key policies and practices as well those of central agencies such as Treasury Board.
- *Public*: communicating OSFI's mandate and objectives and demonstrating achievement of objectives to Parliament and the public at large.
- *Stakeholder*: meeting the expectations of external stakeholders in the financial industry such as private-sector associations and financial institutions, and international bodies such

¹ OSFI Report on Plans and Priorities 2008-2009 to 2010-2011, Section I: Overview

as the Basel Committee on Banking Supervision, the International Monetary Fund and the World Bank, as well key federal partners: the Department of Finance, the Bank of Canada, the Canada Deposit Insurance Corporation, the Financial Consumer Agency of Canada, and the Financial Transactions and Reports Analysis Centre of Canada.

As illustrated in the following figure, *Management Oversight* for this audit is composed of meetings and committees within and outside OSFI and key sources of information supporting the Superintendent's management oversight role.

- *Committees and meetings* such as Executive Committee, Audit Committee, Quarterly Monitoring Briefings.
- *Regular meetings* such as Executive Roundtable, Quarterly Monitoring Briefings, annual planning, Executive and direct reports one-on-one meetings, Collect Strategic Information (CIS) meetings, and security briefings.
- *Special Purpose meetings* covering substantive issues such as capital and liquidity requirements and material changes to rules which require focused detailed discussion by the Superintendent and the Executive.
- *Internal and external meetings and communications* where a two-way exchange of views and information occurs. Internal examples include *Coffee with the Superintendent*, *Keeping In the Loop* E-mails, Town Hall meetings, OSFI-net, and Executive and direct reports' 360 feedback.

External examples include Finance & Insurance Association meetings, domestic and international Regulators meetings, the Financial Stability Forum, the Basel Committee on Banking Supervision as well independent surveys with stakeholders.

Figure 1

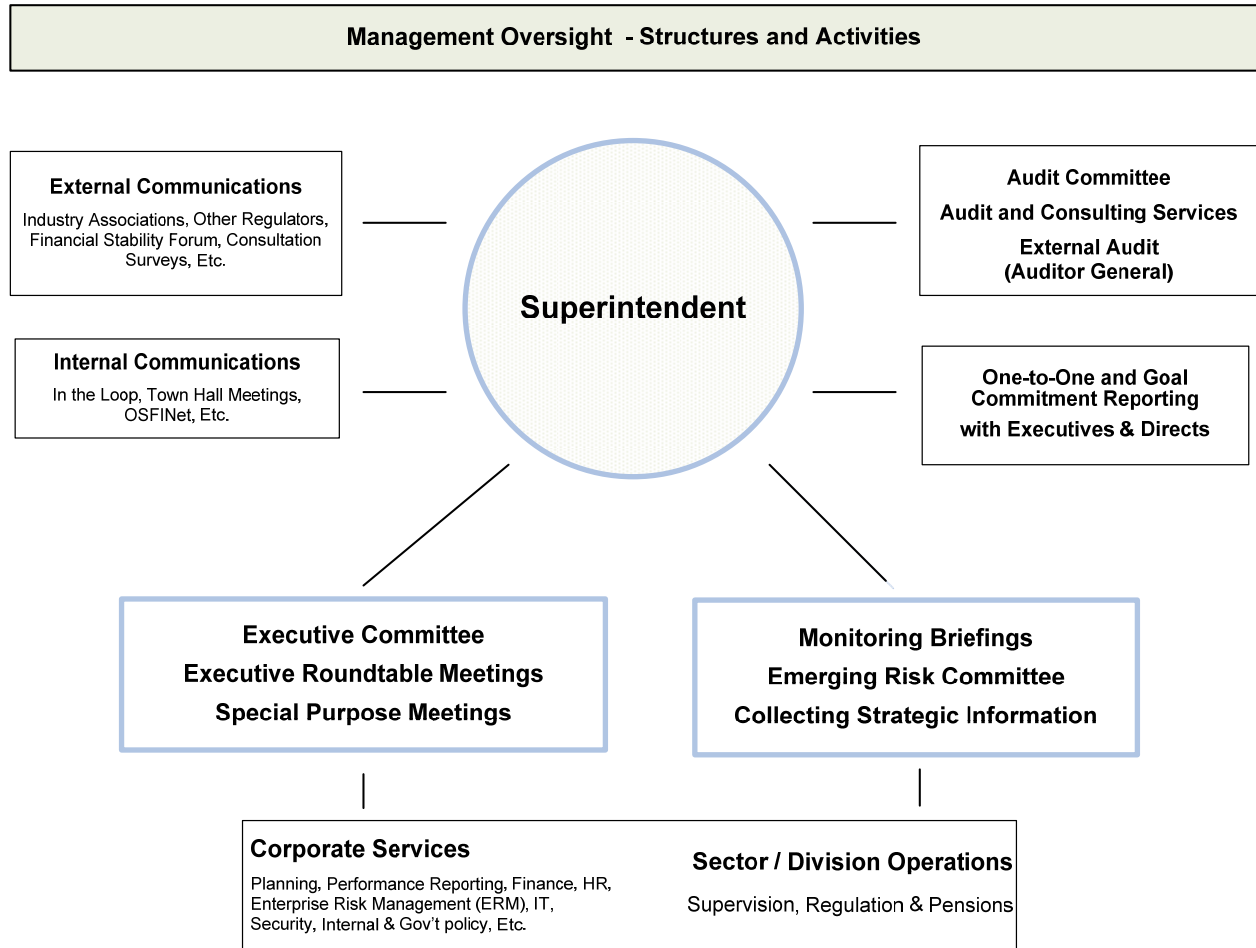
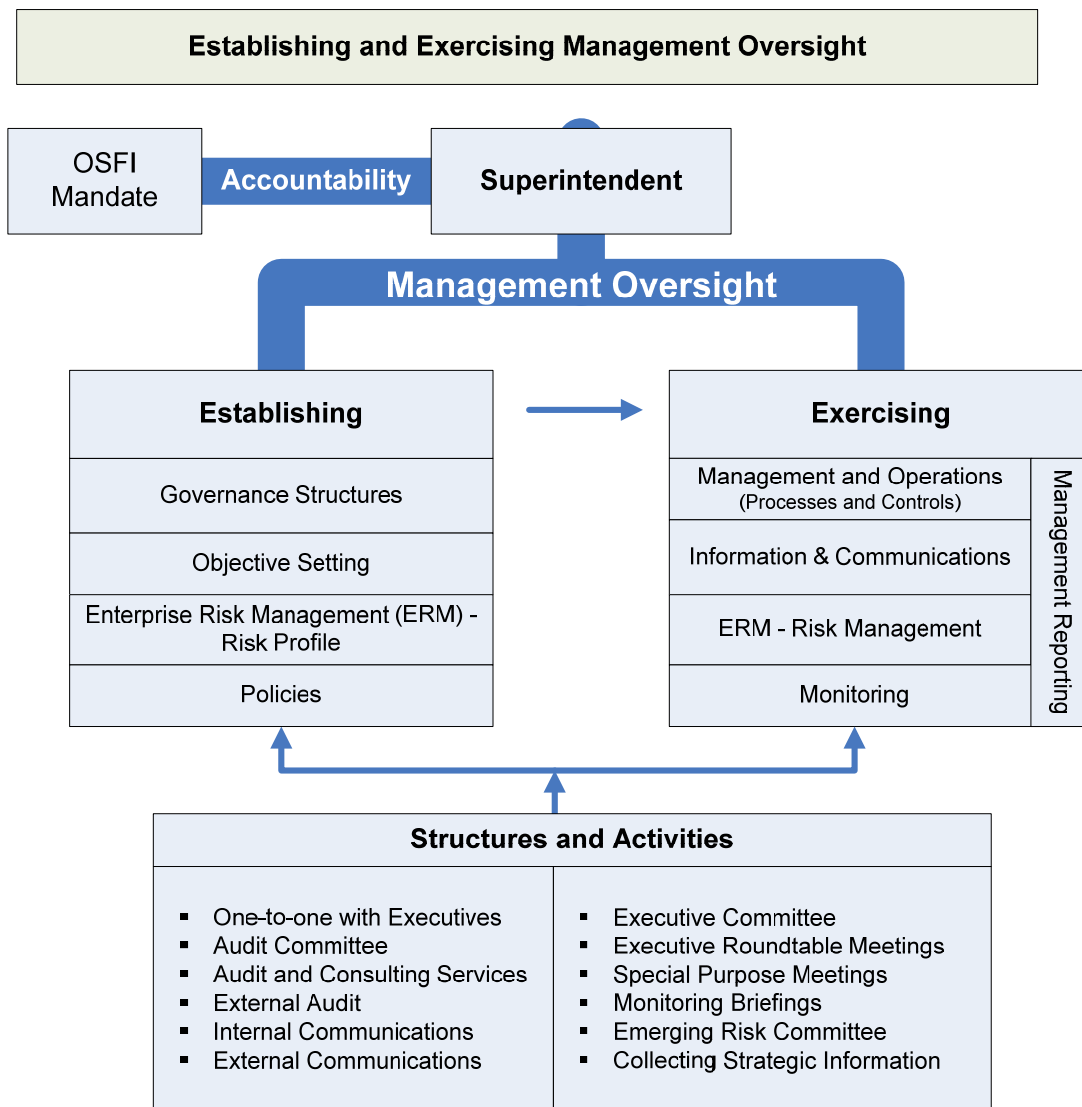


Figure 2 describes how the Management Oversight Framework is applied. Management oversight originates from the *Office of the Superintendent of Financial Institutions Act* which defines the mandate or purpose of OSFI, with respect to supervising and regulating financial institutions in Canada. Within this mandate the Superintendent is “solely responsible for exercising the authorities under the legislation” and, therefore, holds the accountability for achievement of the mandate as articulated in legislation. The Superintendent is empowered to delegate responsibilities to managers under her authority.

Management oversight is the mechanism by which the Superintendent gains assurance that these delegated responsibilities fulfill the requirements under her accountability. Management oversight is ‘established’ or enabled through governance structures, objective setting and risk profiling. It is ‘exercised’ through a variety of methods, including processes and controls, information and communications, risk management, monitoring activities, and management reporting functions.

Figure 2



Objectives and Scope

Objectives

The objectives of the audit were to:

- *Provide an independent assessment of the management oversight framework structures and activities for OSFI achieving its objectives*
- *Identify potential areas for improvement in the management oversight framework, if any*

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 for them to fulfil their responsibilities under the Treasury Board Policy for Internal Audit, in terms of OSFI's governance, risk and control processes. Under the Policy, Audit & Consulting Services is to conduct assurance audits of OSFI's operations reporting on the adequacy of OSFI's frameworks and their application in carrying out OSFI's activities. This audit of the Superintendent's Management Oversight Framework is such an assurance report.

Scope

The audit covered the 2007-08 period and 2008-09 up to July 31st 2008. The audit focused on the Superintendent's Management Oversight Framework structures and activities² including the nature and scope of information provided, monitoring and reporting on corporate and business plans, and how supporting functions are utilized, as well a walkthrough of Sector / Division information and reports supporting the Superintendent's management oversight role.

The audit was conducted on a collaborative basis and included the sharing of observations and assessments throughout the audit.

Matters *outside* of the scope of the audit were:

- An audit of the Assistant Superintendents' Sector / Division internal management oversight and reporting (Supervision, Regulation, Private Pension Plan Division, Corporate Services), except for a walkthrough / discussion of information and processes in support of OSFI management oversight and related reporting.
- An assessment of the underlying input, judgement and decisions made associated with oversight and performance reporting.

² Figure 1 – Management Oversight Framework – Structures and Activities

- An assessment of the degree to which the management oversight and performance reporting framework is being applied.

Audit evaluation criteria

The audit criteria or control criteria in the table below set out the elements and related components, which serve as the basis for assessing the Management Oversight Framework.

The criteria are broadly stated such that they may be considered within OSFI's complex and technical environment and its respective size as well Treasury Board policies and guidance. For example, the Management Accountability Framework (MAF) sets out expectations for senior public service managers of good public service management. The MAF 10 key elements that collectively define "management" were mapped to the criteria along with other established governance, accountability and control frameworks, TBS Internal Audit Sector - Core Management Control Framework (aligned with MAF and COSO), COSO (Committee Of Sponsoring Organizations of the Treadway Commission), and Institute of Internal Auditors - Governance Principles.

The risks associated with OSFI management oversight were identified based on OSFI's risk definitions and considered in developing the evaluation criteria. These risks were considered in forming audit observations and in reporting on management oversight. The audit criteria and risk associated with management oversight were accepted by the Superintendent as the basis for assessing and reporting on the management oversight framework.

The evaluation criteria elements and components, *Appendix 1 - Review Evaluation Criteria*, were used as the basis of assessing the Superintendent Management Oversight Framework structures and activities.

Audit approach

The audit was conducted in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, and consistent with the Treasury Board Policy on Internal Audit.

The audit work included:

- A review of management oversight structures, activities and processes including supporting information and communication of policy, direction, and guidance internally and externally.
- A review of information / input *from* the Sectors / Divisions and information / outputs provided *to* oversight meetings and committees.
- Interviews with the Superintendent, members of the Executive Committee, and those reporting to management oversight including support groups such as finance, OSFI planning, HR management, information technology, and risk management. An identification of management oversight practices with similar organizations of relative size, complexity of operations and regulatory environment.

Observations and Recommendations

Overview

The audit includes Superintendent - Management Oversight Framework for the 2007-08 period from April 1st 2007 to March 31st 2008 and the 2008-09 period from April 1st 2008 to July 31st 2008.

The audit assessed management oversight structures and information flows, including a walkthrough of each area of oversight as shown in Figure 1 - *Management Oversight – Structures and Activities*. It also reviewed the *coverage of reporting and underlying information flows* across areas of management oversight, but not the content and use of information provided.

For example, in Enterprise Risk Management (ERM) we reviewed the reports to the Executive, as well as obtained information on how these reports were used, but we did not review the way in which these reports were prepared nor the content involved. Another example of this is in External Audit and Review, where we reviewed the external audit report of Office of the Auditor General and its use for management oversight purposes, but did not review the underlying practices and process followed.

Generally, we reviewed whether structures and information flows for management oversight were appropriate and in place. Compared to an audit of the application of the Management Oversight Framework, the scope of this audit did not include an assessment of whether the structures and information flows were working as intended (How well is the management oversight framework working?).

Framework Criteria

Observations and Assessment

Governance structures

*Committees &
meetings
established*

Recommendation
None

There is a formal description of OSFI's governance structure for oversight in the Management of Resources and Results Structure (**MRRS**). The MRRS identifies and describes three senior level executive committees as supporting the Superintendent in sound management and oversight. At the forefront of support to the Superintendent's management oversight role is the *Executive Committee*. The committee meets on a monthly/regular basis to address policy, regulatory, and management issues of the agency. Committee meetings include setting and approval of OSFI's annual strategic, operational and financial plans; setting of priorities and high-priority projects; allocation and reallocation of resources; and the monitoring and reporting of financial results and performance. The committee is a focal point for a flow of information to the Superintendent about operations, management and risk supported by a range of

**Framework
Criteria****Observations and Assessment**

committees and meetings such as the Audit Committee, Priority Project and IM/IT Change Management Committee (**PPICMC**), special purpose meetings, monitoring briefings, emerging risk committee, and sectors' reporting on plans, priorities and operations through steering committees and management meetings. The *Audit Committee*, chaired by the Superintendent, exercises oversight of core areas of OSFI's accountability, risk and control processes. The *PPICMC* advises the Executive Committee on project priorities and related funding matters.

A key function of the Executive Committee is a monitoring and decision making role in managing plans and priorities, including projects, budgets and expenditures through a defined planning and reporting process. Communications of decisions occurs through meetings with senior management and communications methods such as In-The-Loop e-mail. The planning process is being enhanced in response to a framework audit conducted which identified areas for improvement such as formalizing the planning framework, consolidating planning information, improving performance reporting against plans and formalizing and communicating the responsibilities in planning.

A set of committees and meetings are in place and information and decisions coming from the meetings are expected to be communicated as appropriate to OSFI staff in order to support Superintendent management oversight of OSFI operations, management and related risks.

*Roles &
responsibilities
established*

OSFI's *Report on Plans and Priorities (RPP)* and the *Management Resources and Results Structure (MRRS)* submitted to Treasury Board contain a description of the governance structure of OSFI. These documents describe the respective roles and responsibilities of senior level committees and the internal audit function, and how these are communicated. Aside from these formal structures, management oversight is supported by other meetings as shown in the diagram *Management Oversight – Structures and Activities*

Recommendation
None

The role and functions of the committees and meetings are conducted and communicated either through defined mandates (terms of reference), or regular agendas and topic setting, as well as communications from the Superintendent via OSFInet and In-The-Loop e-mail. For example, in the Audit Committee mandate, the role and responsibilities of the Superintendent, members of the committee and the Chief Audit Executive are formally defined. The Committee has a set term of reference, agenda, scheduled meetings and minute-taking in line with the *Policy on Internal Audit* of the Government of Canada. Similarly the Emerging Risk Committee has well defined terms of reference and processes for identifying and communicating risks to the Executive level.

Other committees, particularly the Executive Committee, have roles that are understood through formal agendas with standing discussion items, known submission requirements including reports, and communicated minutes of decisions and actions. For example, the Executive Committee agendas contain standing items on risk and financial/non-financial performance reporting and budget decision making. The Executive Committee is also the forum used to discuss Corporate Services policies and issues. Additional items are added as circumstances and management issues arise (i.e., business continuity

**Framework
Criteria****Observations and Assessment**

planning).

Other meetings such as special purpose executive meetings, one-on-one meetings, and the Collect Strategic Information meetings are less formally constituted (i.e., terms of reference) and cover a wide range of operational and management matters. Their roles are understood through communications by the Superintendent about their purpose or function as well as through ongoing practice in using agendas and preparing meeting deliverables/documents. For example, it is understood that special purpose executive meetings are established on specific topics requiring detailed executive discussions. Those interviewed demonstrated a consistent understanding of their role and others roles in committees and meetings supporting the Superintendent.

Objective setting

Policies & guidance are established, reviewed & changed as appropriate

Recommendation
None

With respect to policies and guidance in exercising management oversight, the Superintendent achieves consistency in applying management oversight through formal and informal means as set out in Figure 1 - Management Oversight Structures and Activities and Figure 2 which describes how management oversight is established and exercised. Formal means include delegation of authority, accountabilities for achievement of plans, committees and agenda. Informal means are also important via ongoing interaction and communication with the Executive and senior managers as events unfold. The *Governance Structure of OSFI (MRRS)* describes the elements of management oversight as well as the role of key governance structures. The required flow of information for decision making is determined when formal agendas are prepared and through operational process, supported by ongoing dialogue and communications by the Superintendent and the Executive on expectations for content and quality of submissions.

For an organization with a management team of four, there is an appropriate mix of formal and informal management oversight structures and process. With respect to the policies and guidance required for sustaining each element of management oversight, see below (Internal and Government Policy [internal controls] in *Policies and Process*).

Risk management

Key internal & external risks are identified & incorporated into management oversight

Recommendation
None

OSFI is a risk-focussed regulator and, as such, the concepts of risk, risk identification and risk assessment are embedded in many OSFI activities. OSFI has established an Enterprise-wide Risk management (ERM) framework. This employs both a top-down and bottom-up approach in the identification of inherent risks and controls, and the assessment of residual risks across the Office, for both operational sectors and supporting functions and services. Risk assessments are rolled up to the corporate level by the Sectors as an important element of the consideration of annual priorities and projects during the corporate and business planning process.

From an operational / program or external risk perspective, the Superintendent requires through oversight an assurance that risks are being effectively identified, assessed and, finally, controlled or mitigated, taking into account relevant information about the

**Framework
Criteria****Observations and Assessment**

financial institutions and the environment in which they operate, as well as about internal operations.

The Superintendent is informed of risks, including emerging risks, through quarterly reporting on risk to the Executive Committee, weekly Executive Roundtable meetings, scheduled Monitoring Briefings, industry meetings, and the Emerging Risk Committee, which was specifically established to keep the Superintendent abreast of any emerging or identified industry and institution specific risks. Daily one-on-one contact with the Assistant Superintendents involves “heads up” discussions of operational/program developments relating to risk.

On an annual basis the ERM manager for OSFI, with Sector risk co-ordinators, provides reports that include assessments of the level of risk as well as information on the controls in place and the additional actions required to mitigate risk to an appropriate level in OSFI. This information is provided at the business activity and corporate levels to the Executive and Sector Heads.

From an internal or administrative risk perspective, the Superintendent obtains risk information, including on emerging risks, from quarterly reporting to the Executive Committee, but also through one-on-one communications, Executive Roundtable Meetings and Special Purpose Meetings. Special purpose meetings are held at the election of the Executive Committee which determines the need to hold a separate meeting on a priority or project with risk implications. Internal and external audits are also a very important source of risk assessment with respect to operations and administrative matters and required controls.

A recent independent study of OSFI risk management observed that while there was effective oversight and monitoring of the ERM process, there were also opportunities for improvement. The ERM framework continues to be refined with respect to governance, policy, risk management processes, and reporting.

Policies and processes*Values & Ethics*

OSFI has several policies in the area of Values and Ethics: the *Conflict of Interest Policy*, the *Code of Professional Conduct*, and the *Policy on the Prevention and Resolution of Harassment and Conflict in the Workplace*. These policies and guidance are accessible by staff on the OSFI net under either Policies and Procedures or Employee’s Tool and Manager’s Tool Kit. In support of the Conflict of Interest Policy, employees are required to annually declare that they have read the policy and must submit a confidential report under the policy with updates as appropriate.

Recommendation

Establish and communicate a “disclosure of wrong doing” process

Under the Treasury Board Policy on Internal Audit’s Directive on Departmental Audit Committees, the Audit Committee “*is called to review, at least annually, the arrangements established by management to exemplify and promote public service values and to ensure compliance with laws, regulation, policies and standards of ethical conduct*”. In June, 2008, management reported to the committee on values and ethics at OSFI as well as continuing improvements undertaken. The OSFI employee survey assesses the values in the organization (i.e., respect within the work place).

**Framework
Criteria****Observations and Assessment**

There is an increasing requirement in government and in the private sector to develop and make widely accessible a confidential process for internal ‘disclosure of wrongdoing’. The Government *Public Servants Disclosure Protection Act (PSDPA)*, introduced in November 2005, requires that each organization have procedures for managing disclosures made under the PSDPA by employees of the organization. The Canadian Public Service Agency has not provided any ‘sample’ or ‘model’ procedure for organizations to copy and provide broad discretion with respect to the specifics of the procedures they establish which would reflect the specific mandate and operational realities of the organization.

At present there is no explicit policy within OSFI with respect to ‘wrongdoing’ although the Senior Director HR&A has been designated as the owner of this process and a link has been provided within @OSFI to contact the incumbent in the event of any “wrongdoing”. OSFI-specific policies and processes do exist for harassment and conflict of interest. OSFI needs to confirm its current policy guidance in support of the PSDPA, and establish and communicate a disclosure of wrongdoing process.

External audit

Annually, there is an external audit of OSFI’s financial statements. The external auditor reports on the results of the audit to the Executive Committee and the Audit Committee, including an opinion on the financial statements. The external auditor attends Audit Committee meetings. At each meeting there is an in-camera meeting with external members of the committee. Also, there is ongoing liaison between the external auditor and internal audit, Audit & Consulting Services, with respect to preparation for the audit and response to audit issues, which may include consideration of potential audits and follow-up work monitored by A&CS. External Audit observations are incorporated into OSFI planning.

Recommendation
None*Planning*

OSFI has established corporate, business and Sector planning processes in which the Superintendent and the Executive are directly involved in discussions, activities and planning decisions and implementation of underlining plans.

Recommendation
None

In 2007-08, Audit and Consulting Services completed a review of OSFI’s planning function reporting to the Executive Committee, Audit Committee and the Superintendent. Management has undertaken a number of improvements in OSFI planning, including recommendations of the Audit and Consulting Service report on OSFI planning. We support these improvements.

*Performance
(financial and non-
financial)*

OSFI carries out detailed financial reporting against budget, identifying any material variances during the course of the year. Any reallocation or special allocation is approved by the Executive Committee. In this way the Superintendent has continuing assurance of Sector financial performance as well year-end reporting through audited financial statements. The Audit Committee also reviews the financial position of OSFI at each quarterly meeting, and reviews and approves the year-end audited financial statements.

Recommendation
None

OSFI also conducts regular quarterly reporting to the Executive Committee of seven key indicators of service performance. For example, with respect to timely and effective

**Framework
Criteria****Observations and Assessment**

intervention, statistics are collected regarding the time to issue a supervisory letter. Another is the tracking of the number of Federally Regulated Financial Institutions in intervention. Sectors collect and report quarterly information on other key indicators which the Executive Committee reviews as needed.

OSFI has developed a set of operational (non-financial) performance measures that are reported quarterly to the Executive Committee. The status of progress on projects and priorities is also reported internally, and incorporated in public reports, most importantly the *Departmental Performance Report* and OSFI's annual report to Parliament. The Supervision, Regulation and Corporate Services Sectors as well the Private Pensions Plans Division report to the Executive Committee on plans and priorities deliverables.

In addition, the Executive receives progress reports from key projects / committees such as the Emerging Risk Committee, the International Financial Reporting Standards initiative, the Minimum Continuing Capital Surplus Requirements initiative, Basel II, and Priority Projects and IM/IT Change Management Committee. OSFI has an approach for monitoring and reporting on progress in the achievement of plans and priorities.

In line with recommendations of the internal audit report on OSFI planning, OSFI is establishing performance indicators to demonstrate achievement of results anticipated from plans and priorities. Performance indicators and targets are included in reporting to the Executive Committee on outcomes (results) in the OSFI's *Program Activity Architecture* within the *Management Resources and Results Structure*. The indicators are being developed further to enhance the clarity and precision of targets, as well as required processes to enhance the use of this information in decisions making, in program design and management. We support these improvements and recognize them as an ongoing refinement process.

*External
monitoring &
relations*

Another element of management oversight is external monitoring and relations to ensure the Superintendent is made aware early of emerging trends, issues and risk that may affect the financial industry, financial institutions or OFSI. Through a range of external and internal meetings referred to in the *Management Oversight – Structures and Activities* diagram, the Superintendent keeps watch over the industry, international regulatory and Canadian government environments.

Recommendation
None

The Superintendent and Assistant Superintendents attend external meetings such as the Basel Committee on Banking Supervision, the Accounting Standards Oversight Council of Canada, the Financial Stability Forum, the Integrated Supervisors group, the Council of Governors of the Canadian Public Accountability Board, and also sit on the board of the Canadian Deposit Insurance Corporation. The Assistant Superintendent, Corporate Services and other OSFI staff also attend meetings with central agencies in the federal government to monitor changes in government operating requirements and policy.

Nurturing relations within the industry associations can yield valuable intelligence and views about emerging developments in Canada and abroad that can be analyzed and discussed further within OSFI. The Superintendent presents OSFI plans to industry

**Framework
Criteria****Observations and Assessment**

associations, meets with senior management of financial institutions, and is a guest speaker at numerous conferences. In addition, the Superintendent is the Chair of the *Financial Institutions Supervisory Committee*, which meets at least quarterly to facilitate the exchange of information among key stakeholders about the state of the financial industry in Canada and internationally. The Superintendent participates in a special *Senior Advisory Committee* that meets occasionally to review and discuss broad policy directions.

Change management
(internally focused)

Change management generally refers to a structured approach to transitioning individuals, teams, and organizations from a current state to a desired future state. In change management, Management's responsibility is to detect trends in the macro-environment as well as in the microenvironment so as to be able to identify changes and initiate programs.

Recommendations
None

At OSFI change initiatives are identified as part of the environmental scanning and risk assessment that occurs annually in the front end of the planning process. As part of the planning process, the Executive Committee uses environmental and risk information to carry out a strategic level Strength, Weakness, Opportunities and Threats (SWOT) discussion. The purpose is to identify change requirements in plans and priorities. From a resource allocation perspective, the planning process considers required changes in resources and projects, as part of the Sector business planning processes and ongoing monitoring of budgets by the Executive Committee. In addition at the Sector level, business planning considers change initiatives which can be funded from within existing and planned budgets. Finally, OSFI plans and priorities which address change management needs are managed through the planning process, governance and reporting structures and activities.

Internal & government policy
(internal controls)

OSFI policies and guidance set out delegated responsibilities and required processes in the two areas of management oversight: internal operations (Supervision, Regulation, Pensions) and Corporate Services. These policies and guidance derive from the Superintendent's statutory powers under the OSFI Act and various other Acts, as well Treasury Board policies and directives that are adapted to the OSFI working environment. For example, the Superintendent has in place a *Framework for Exercising the Superintendent's Powers* which sets out the parameters within which statutory powers are to be exercised on behalf of the Superintendent by OSFI officers pursuant to s. 10 of the OSFI Act. The Supervision sector has in place *Supervisory Framework 1999 and beyond* "to provide an effective process to assess the safety and soundness of regulated financial institutions". In addition, Supervision has a Practices Group with the role to identify and review supervisory practices where efficiency and effectiveness can be improved, document approved practices and assist Supervision in implementing practices adopted by OSFI. In general terms, this means assisting in the ongoing roll-out of the *Supervisory Framework*, and also its betterment.

Recommendation
Establish a structured process for oversight of OSFI policy and guidance

Within their areas of activity, each Assistant Superintendent is responsible for maintaining policy and guidance and informing the Superintendent on updates or changes to policy and guidance when circumstances warrant. Risk management processes also identify issues/areas where consideration of policy change or development may be needed. Internal audit reports submitted to the Audit Committee

**Framework
Criteria****Observations and Assessment**

and the Superintendent contribute to an assessment of adequacy and compliance with relevant policy and guidance depending on the audit criteria involved. As well, other Government organizations, such as the Public Service Commission, Treasury Board Internal Audit Services, and Management Accountability Framework groups, conduct periodic independent reviews of compliance with respective Government policies and guidance.

When OSFI corporate policies and guidance are developed or changed, Treasury Board policies and guidance and various legislative requirements are taken into consideration and are adapted for OSFI's circumstances and needs. Corporate Services units such as Finance, Human Resources, IT/IM and Security are responsible for this policy activity. As Treasury Board policies and initiatives change, the Executive Committee reviews them and as appropriate adapts them to OSFI needs. Under various Treasury Board policy requirements, OSFI reports on the appropriateness and alignment of its policies and guidance with Treasury Board policies and guidance in areas such as Official languages, Diversity, and the Management Accountability Framework.

However, the activities and processes are informal and there are no scheduled reviews of the suite of policy and guidance to confirm they are up to date and relevant. OSFI needs to put in place a structured (formal) process for the oversight of OSFI policy and guidance, to monitor and confirm existing policy and guidance, and to identify and review changes. This process for oversight provides assurance to the Superintendent that appropriate policy and guidance are in place.

Human resources

The Human Resources function at OSFI manages and provides policy and guidance in areas such as HR planning and resources, staffing, compensation, goal commitment development and performance reporting and staff training and development. Human Resources maintain a suite of HR policies and guidance which are accessible to employees through the OSFINet Manager's and Employee's Tool Kit and generally in OSFINet OSFI Policies and Procedures. OSFI also reports on HR-related Treasury Board policies such as employment equity and official languages and on Public Service Commission requirements under the *Public Service Employment Act*,

Recommendation
None

The objective of OSFI planning and HR planning is to ensure the right people and the right resources are at the right place (resource allocation) to achieve OSFI's mandate, plans and priorities. OSFI conducts annual Corporate and Sector business as well HR planning exercises designed to align human resources against stated priorities. OSFI is strengthening its corporate and business planning, and HR planning activities and processes (framework) and how they integrate. We support these initiatives.

Through the Executive Committee quarterly meetings and, as appropriate, Special Purpose Meetings, as well One-to-One with Assistant Superintendents, Town Hall Meetings, In-The-Loop, and Employee Surveys (refer to *Management Oversight – Structures and Activities*) HR matters / issues are brought to the attention of the Superintendent. The Union Management Consultation Committee serves as a basis for further discussion about the quality of the work environment and provides the Superintendent with the required information.

**Framework
Criteria****Observations and Assessment**

Recurrent or standing HR items are included in quarterly reporting to the Executive Committee such as a review of current full-time equivalents and approval of any incremental adjustments to Sector HR capacities, a review of training and development programs, staffing appointments, and a review of HR plans.

Asset management, including Security

In OSFI, asset management is largely limited to information technology (hardware and software), office equipment, accommodation, and the security of assets and information holdings. Finance, Facilities and IM / IT divisions / groups maintain inventories of assets with periodic verification of them. Accounting records are maintained for value and financial reporting purposes.

Recommendation
None

Through financial reporting and inventory management of facilities and IT assets, the condition of assets is reviewed in detail by the Assistant Superintendent, Corporate Services, and then reviewed by the Executive Committee, and the Superintendent.

Security policies and guidance include the protection of assets such as controlled access to facilities and information technology systems. These policies and guidance as well business continuity planning is in place, and reviewed by the Executive Committee and the Superintendent as ongoing agenda items.

Internal audit & audit committee

The Government Policy on Internal Audit states: *“The policy affirms the repositioning of the function as a provider of assurance services to departmental senior management. Essentially, assurance services are objective examinations of evidence for the purpose of providing an independent assessment of the soundness of risk management strategies and practices, management control frameworks and practices, and information used for decision-making and reporting”.*

Recommendation
None

Assurances provided to the Superintendent by the Chief Audit Executive, through audit engagements, provide management an assessment of the soundness of management policies, guidance and processes within the Office. Chaired by the Superintendent, an Audit Committee with a majority of external members has been in place since 2004, supported by mandates of the Superintendent, Audit Committee and Chief Audit Executive consistent with the Treasury Board Policy on Internal Audit

Under the new Treasury Board Policy on Internal Audit, the Superintendent is responsible for the adequacy of internal audit coverage. The audit committee has a role to play in ensuring that the results of internal audit are incorporated into the departmental priority setting, planning and decision-making processes. To facilitate this internal audit planning and engagement management policies, guidance and processes are in place. In this respect the Superintendent and Audit Committee review and approve a multi-year risk-based internal audit plan and audit reports. In addition, management report to the Executive Committee and the Audit Committee on progress and completion of plans for addressing audit report recommendations.

Audit & Consulting Services report directly to the Superintendent as well to the Audit Committee. The Superintendent, the Audit Committee and the Chief Audit Executive under the Policy on Internal Audit have specific mandates which define respective responsibilities and accountability.. A key accountability is individual attestation to the

**Framework
Criteria****Observations and Assessment**

adequacy of OSFI's governance, risk and control processes.

*Management
information*

The flow of information to and from the Superintendent for management oversight purposes is established in practice through meeting and committee structures across the Office (refer to the Figure 1 - *Management Oversight – Structures and Activities*). They allow the Superintendent to keep abreast of operations, issues and risks depending on the urgency and the complexity of the matter and provide information, analysis, assessments and recommendations for required actions. Figure 2 – Establishing and exercising management oversight illustrates the role of structures and activities and the flow of management oversight information.

Recommendation
None

For example, the Superintendent's One-to-One with direct reports provide for timely insight of challenges and issues facing each Sector; the Emerging Risk Committee provides identification of various emerging issues and risks and their possible impact on the financial institutions; and the Monitoring Briefings and Special Purpose Meetings provide for discussion of identified issues and associated action(s) needed.

Facilitating decision making requires that management information be provided in a manner that suits the working style and needs of the Superintendent. OSFI continues to assess the content, presentation and length of reports, briefings and presentations as adapted to the Superintendent's needs. For example, recently, the Superintendent reminded senior management of the nature and scope of information expected in briefings for the Superintendent.

Information & communications*Internal & external
communications*

From a management oversight perspective, communications involves a two-way flow to and from the Superintendent. Information is provided in the expectation that feedback and on the ground intelligence is supplied to the Superintendent to provide a source of early warning on issues, as well as an assurance of performance and required improvements.

Recommendation
None

There are many methods and forums the Superintendent utilizes to communicate with staff and to receive feedback, such as e-mail, postings on OSFINet and meetings (i.e., town halls, Collect Strategic Information, monitoring briefings, etc.). These communications occur at all levels of the organization. Supporting these communications are the activities of the Human Resources Training and Development group which provides training programs on OSFI policy, guidance and processes in both the technical / operations and administrative and management areas as well as the Communications Group which helps with internal communications through OSFINet.

External communications occur for the purposes of advancing a message, but also keep abreast of emerging issues. One part of this is media monitoring which provides up to date information with current news articles of interest to OSFI, as well as media perceptions that may require further outreach to resolve, including by the Superintendent.

**Framework
Criteria****Observations and Assessment****Monitoring and management reporting***Superintendent
monitoring*

The Superintendent is accountable for OSFI plans, priorities and results under the OSFI Act and delegation of authorities to staff in order to assist in their implementation. The Superintendent's monitoring of delegated responsibilities and of compliance to policies and guidance is a crucial element of management oversight. Through the various committees and meetings referred to in the *Management Oversight – Structures and Activities* diagram, and related reporting, the Superintendent has structures and information flows in place for monitoring.

Recommendation
None

For example, the quarterly report to the Executive Committee includes scheduled and recurrent agenda items such as OSFI financial statements and financial highlights, performance indicators, and information on recent risk developments. Recurrent or standing items are added to the agenda as required such as Audit and Consulting Services reports, HR planning, training and development reports, an employee survey and, Business Continuation and Pandemic Planning. Other items are brought forward as identified and agreed upon by the Executive Committee.

In their area of delegated responsibilities Assistant Superintendents are in daily contact with the Superintendent. Monitoring occurs through regular reporting to the Superintendent on the status of operational activities (files). For example, Assistant Superintendents alert the Superintendent and obtain approval for “material or important” decisions (i.e., which set a precedence for policy). As indicated in the *Framework for Exercising the Superintendent’s Powers* “ should Assistant Superintendents or Senior Directors have any doubt about the materiality or importance of the decision being made or action to be taken, they are required to discuss it in advance...” As indicated in interviews one-on-one discussions may evolve into special purpose executive meetings to discuss important decisions on operations or policy.

*Compliance with
internal & TBS
policies &
guidance*

See Internal and Government Policy (internal controls) in *Policies and Process*.

Recommendation
Establish and
communicate a
“disclosure of wrong
doing” process

Conclusion

Overview

The audit of the Superintendent Management Oversight Framework structures and activities was for the 2007-2008 fiscal year period and from April to July of 2008-09 fiscal year period.

The audit was conducted on a collaborative effort basis with valuable exchanges of views with the Superintendent, executives and senior managers. We observed a strong commitment to provide the Superintendent with the information needed in exercising management oversight of OSFI operations.

Conclusion

Our audit conclusion, based on the assessment of the Superintendent Management Oversight Framework structures and activities is that:

The Management Oversight Framework incorporates all elements and components of a comprehensive control framework. As outlined in this report, there are two areas for strengthening the Management Oversight Framework:

- *Establish and communicate a process for “disclosure of wrong doing” within the existing Values & Ethics envelope of policy*
- *Establish a structured process for oversight of OSFI policy and guidance*

Our review team wishes to recognize the support of those involved in the audit and their comments.

Senior Director,
Audit & Consulting Services

Date

Management Response

The Superintendent's management oversight framework as described in this report reflects the key structures and activities used by the Superintendent in establishing and applying management oversight with respect to: delegated responsibilities under the *Framework for Exercising the Superintendent's Powers*; flow of information for accountability and decision-making; and establishing a 'tone from the top'.

The assessment of the Management Oversight Framework is appropriate. The two recommendations for strengthening the framework will be incorporated in improvements underway within the Office. The Assistant Superintendent, Corporate Services, will co-ordinate: a) the implementation of a process for 'disclosure of wrong doing' within the Office's suite of HR policies; and b) a pro-active process for a scheduled review of OSFI's overall suite of policies and guidance on its currency and relevancy. The Assistant Superintendent, Corporate Services, will report quarterly to the Executive Committee and the Audit Committee on progress and completion of implementation of the report's recommendations. The work is expected to be complete by the 2nd Quarter of 2009-10.

Audit Evaluation Criteria – Appendix 1

Framework Elements	Components
Governance Structures & Objective setting	<ul style="list-style-type: none"> ▪ Committees and meetings are established for supporting management oversight ▪ The roles and responsibilities of committees and meetings are established ▪ Policies and guidance for management oversight are established, reviewed and changed as appropriate
Risk management	<ul style="list-style-type: none"> ▪ Key internal and external risks to achieving OSFI objectives are identified and incorporated into management oversight
Processes	<ul style="list-style-type: none"> ▪ Management oversight processes³ are in place covering: <ul style="list-style-type: none"> ○ Values and Ethics ○ External audit and review ○ Plans ○ Performance, operations and finance ○ External monitoring and relations ○ Change Management ○ Risk Management ○ Internal and government policy ○ Human Resources ○ Asset Management, including IT ○ Internal audit and audit committee
Information & communications	<ul style="list-style-type: none"> ▪ Management oversight information is defined, gathered, assessed and reported ▪ Regular internal and external communications are in place
Monitoring and management reporting	<ul style="list-style-type: none"> ▪ Superintendent has oversight monitoring including performance information, and reporting on achieving objectives ▪ Compliance with internal and TBS policies and guidance and other obligations are monitored and reported on

³ The subject areas covered in management oversight processes align with the Management Accountability Framework (MAF), but have been modified to reflect the nature of OSFI operations. The MAF is focussed on the different nature of government department operations and employs language and definitions more suited for this purpose.