



Advisory

Title	External Audit Quality Initiatives - Deposit-taking institutions
Category	Accounting and Disclosure
Date	May 9, 2014
Sector	Banks Foreign Bank Branches Trust and Loan Companies

OSFI has a strong interest in audit quality given external audits of federally regulated financial institutions (FRFIs) are an important element of our supervisory process. We believe that high-quality audits of FRFIs play an important role in OSFI's mandate to protect the rights and interests of depositors, policyholders and creditors of financial institutions. More broadly, such audits contribute to public confidence in a safe and sound financial system. In addition, OSFI's Corporate Governance Guideline [1](#) highlights the key role audit committees play in fostering a quality audit through the effective exercise of their responsibilities with respect to the external auditor and the statutory audit.

Recent international and domestic initiatives, which aim to strengthen external audit quality, have led to three notable efforts that can assist audit committees [2](#) in discharging their responsibilities. We are of the view that these initiatives noted below provide best practices and should be implemented.

1. The Basel Committee on Banking Supervision (BCBS) has issued a guidance document titled *External audits of banks* [3](#) . This document elaborates on Basel Core Principle 27 [4](#) and sets out the BCBS's guidelines regarding an audit committee's responsibilities in overseeing the bank's external audit function and the prudential supervisor's engagement with the external auditor. It also sets out the BCBS's expectations and recommendations for delivering a quality external audit of banks.

OSFI expects audit committees to review the BCBS guidance on External audits of banks and ensure its institution's practices meet this guidance to ensure quality audits.



2. Domestically, to promote discussions of external audit quality for reporting issuers, the Canadian Public Accountability Board (CPAB) has issued a protocol for the external auditor to share CPAB inspection information with the audit committees (the Protocol) [5](#) . This information should improve audit quality by enhancing the nature and depth of discussions between the auditor and audit committee on audit quality and applies beginning with CPAB's 2014 audit file inspections (2013 year-end audits).

OSFI expects audit committees of reporting issuers to discuss systemic audit quality issues raised in CPAB public reports with their external auditors, and to enquire whether the audit file of the institution has been selected for inspection by CPAB and whether there have been any significant inspection findings specific to the audit of the institution.

3. Additionally, Chartered Professional Accountants of Canada (CPA Canada) has issued guidance resources [6](#) designed to encourage open and candid discussions about audit quality. The guidance includes an overview on audit committee oversight of the external auditor and two companion tools to assist audit committees in the conduct of annual assessments and periodic comprehensive reviews of their external audit firm.

OSFI encourages audit committees to embrace the CPA Canada guidance and tools as part of their overall assessment of the external auditor.

We believe the aforementioned audit quality initiatives are pertinent to audit committees of insurers and should be applied accordingly by fiscal year-end 2014. As new guidance and publications on external audit quality are developed, OSFI expects audit committees to have a mechanism in place to ensure they are apprised of such developments and to determine the extent of their applicability.

Questions concerning this letter should be addressed to Kenneth Leung, Senior Accounting Advisor, Accounting Policy Division, at (416) 973-2103, by e-mail at Kenneth.Leung@osfi-bsif.gc.ca, or by facsimile at (416) 952-1662.

Yours truly,

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c.c.: Deposit-taking Institutions Auditors Advisory Committee

CPA Canada

CPAB

Footnotes

- 1 OSFI [*Corporate Governance Guideline*](#) issued in January 2014.
- 2 For FRFIs without an audit committee, this letter is applicable to those charged with governance.
- 3 BCBS [*External audits of banks*](#) guidance document issued in April 2014.
- 4 Core Principle 27 of the BCBS's [*Core Principles for Effective Banking Supervision*](#) (September 2012) states that the supervisor determine that banks and parent companies of banking groups have adequate governance and oversight of the external audit function.
- 5 CPAB [*Protocol for Audit Firm Communication of CPAB Inspection Findings with Audit Committees*](#) issued in March 2014.
- 6 CPA Canada, CPAB and the Institute of Corporate Directors have collaborated to publish guidance and tools for audit committees in January 2014: [*Oversight of the External Auditor*](#); [*Annual Assessment of the External Auditor*](#) ; and [*Periodic Comprehensive Review of the External Auditor*](#).