



Advisory

Title	External Audit Quality Initiatives – Insurers
Category	Accounting and Disclosure
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Sector	Life Insurance and Fraternal Companies Property and Casualty 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 Guideline¹ 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 committees² in discharging their responsibilities. We are of the view that these initiatives noted below provide best practices and should be implemented.

1. The Financial Stability Board has encouraged the International Association of Insurance Supervisors (IAIS) to enhance its standards related to external audit. As such, the IAIS is determining what changes are needed to the Insurance Core Principles to reflect the audit committee's responsibility in overseeing the external audit function. Insurers will be notified of OSFI's expectations after revisions to the Insurance Core Principles have been identified and agreed upon.
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)³. 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 resources⁴ 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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Deputy Superintendent

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 CPAB [*Protocol for Audit Firm Communication of CPAB Inspection Findings with Audit Committees*](#) issued in March 2014.
- 4 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*](#).