



January 20th, 2014

Delivery by E-mail

Mr. Kam Grewal
Vice President of Standards
Canadian Public Accountability Board
150 York Street, Suite 900, Box 90
Toronto, Ontario M5H 3S5

Dear Mr. Grewal:

Subject: Protocol for Audit Firm Communication of CPAB Inspection Findings with Audit Committees

The Office of the Superintendent of Financial Institutions (OSFI) appreciates the opportunity to comment on CPAB's draft *Protocol for Audit Firm Communication of CPAB Inspection Findings with Audit Committees* (Protocol). We commend CPAB and are supportive of the Protocol initiative and its objective of sharing CPAB inspection findings with audit committees. This should help them fulfill their role in overseeing and evaluating external auditors.

OSFI is responsible for the regulation and supervision of federally regulated financial institutions (FRFIs), as well as private pension plans subject to federal oversight. As a member of the Basel Committee on Banking Supervision, International Association of Insurance Supervisors and the Financial Stability Board, we have a keen interest in high standards of audit quality, given that the federal prudential regulatory system is based on a tripartite division of responsibilities involving:

1. Financial institution management and oversight processes;
2. Use of independent external reviewers (e.g., the external auditor); and
3. Monitoring and supervision by OSFI.

High quality audits enhance the confidence of users, including supervisors, in the reliability of audited financial statements and the quality of the information provided. We also believe that audit committees are important contributors to audit quality through their responsibility to oversee the work of external auditors. Therefore, OSFI and CPAB have a mutual interest in ensuring quality audits by external audit firms.



Overall, we believe the Protocol will deliver its intended benefit of sharing inspection information to improve audit quality by enhancing the nature and depth of discussions between the external auditor and the audit committee. We support the voluntary nature of the Protocol with the expectation that all CPAB registered audit firms will participate given the call for increased transparency by audit committees. Should the voluntary approach not prove successful in achieving a high participation rate, we would recommend that CPAB consider a mandatory approach to ensure consistency of application.

Responses to specific questions requested by CPAB are provided in the Appendix to this letter.

We would be pleased to discuss these comments and address any questions that you may have. Should you wish to do so, please contact Ken Leung, Senior Accounting Advisor, Accounting Policy Division by telephone at (416)-973-2103 or by e-mail at kenneth.leung@osfi-bsif.gc.ca.

Yours truly,



Julie Dickson
Superintendent

Appendix

Responses to specific questions requested by CPAB

Question 1:

Will the information shared under this Protocol assist Audit Committees in their oversight role and improve audit quality (see Paragraphs 10 to 13 for a summary of the information to be shared)? If not, please explain why you are of that view.

Response:

We support the sharing of CPAB inspection findings with the audit committee. The Protocol proposes to provide all reporting issuer audit committees with a copy of CPAB's annual Public Report and if applicable, the reporting of findings specific to the inspection of an individual reporting issuer. These reports contain important information that can highlight to audit committees the relevant audit quality issues and questions to ask the external auditors. The Protocol provides transparency of inspection findings in order to improve the effectiveness of the audit committee's oversight role.

The annual Public Report will highlight to the audit committee systemic audit quality issues. However, in our view, the reporting of findings specific to the inspection of an individual reporting issuer will be of greater value to audit committees. Reporting findings specific to the inspection of an individual reporting issuer should benefit the audit committees by helping them focus on concerns with audit quality, while at the same time directing the external audit firms to address audit deficiencies identified by CPAB. We are cognizant that only a sample of audit firms are selected for testing on an annual basis, so not all audit committees of reporting issuers will receive a CPAB inspection report each year. Nevertheless, we encourage CPAB to consider, on an annual basis, inspecting a sufficient amount of audit files pertaining to FRFIs commensurate with the level of risk, complexity and public interest of the audit file.

With respect to the voluntary approach of the Protocol, we expect all CPAB registered audit firms to present CPAB specific significant inspection findings to the audit committee if the audit file was inspected. A low participation rate could hinder the audit committee's call for increased transparency of CPAB inspection findings to support their role of overseeing and evaluating the external auditor. Should the voluntary approach not prove to be successful, we would recommend that the voluntary approach be changed to a mandatory adoption to achieve consistent application.

Question 2:

Will the confidentiality of reporting issuer file specific inspection findings to be shared under this Protocol be appropriately protected (see paragraphs 14 and 15 for a discussion of this issue)? If not, please provide your comments on changes that can be made to improve the confidentiality protection of the inspection findings.

Response:

Although paragraph 15 of the Protocol appears reasonable in maintaining the confidentiality of information related to the audit firms and their reporting issuer clients, we are not qualified to formally express an opinion on the whether the confidentiality of information will be appropriately protected under all circumstances.

The confidentiality of information that the audit committee of a FRFI shares with OSFI, including inspection information related to the audit firms and their reporting issuer clients, will be protected under the OSFI Act.

Question 3:

Do you have other comments on the proposed Protocol?

Response:

We encourage CPAB to continue coordinating with CPA Canada to incorporate the Protocol in the development of the annual assessment and periodic comprehensive review of the CPA Canada guidance for audit committees.