



# FINANCIAL INSTITUTIONS

## CPAB Financial Institutions Forum Highlights

CPAB held a Financial Institutions Forum on December 12, 2018 in Toronto for audit committee chairs of large Canadian banks and insurance companies.

Moderated by **Alan MacGibbon**, audit committee chair of TD Bank Financial Group, the Forum featured roundtable discussions about matters that are top of mind for audit committees of Canadian banks and insurance companies.

## Issues facing audit committees of Canadian financial institutions

### Use of analytics in the audit

The use of technology is changing how audits are being performed, including the increasing use of data analytics. This creates new opportunities but also poses a new set of risks for the financial services industry, which works with particularly large and complicated data sets that can cause security and reliance issues for internal and external auditors.

Participants with internal audit teams working on data technology noted they were generally focused on improving processes and automating work. However, most participants are experiencing more data analytic use in the external audit, as many large firms have developed technology in this area. Using these data analytics tools, firms are able to perform tasks such as verifying valuation of derivatives portfolios.

Participants agreed that the challenges and risks surrounding control and access to data was an issue that requires more discussion. Firms, internal auditors and management should consider who has access to data and why and what is being done to secure the data. Moving forward, participants also agreed that further audit committee training in this area should be done to understand and anticipate new changes associated with this technology.

### Audit committee oversight of new accounting standards

Management and audit committees face increased responsibility when implementing new standards. IFRS 9, *Financial Instruments* and IFRS 17, *Insurance* were issued by the International Accounting Standards Board and are effective for fiscal years starting on or after January 1, 2018 and 2022, respectively. When reviewing audit strategy and implementing these standards, financial institutions may need to change certain accounting practices.

When implementing new standards, participants underlined the importance of project management for planning, allocating resources and executing work. Many audit committee chairs found it necessary to have some oversight over the project management due to the pervasive impact of the standards. There is also a need for increased coordination among functional areas of financial institutions which is challenging within a limited time frame.

Many participants noted that some concepts found in the new standards were complex and therefore require increased audit committee education and guidance to help clarify these areas. For example, one participant found that spending time with their controller was extremely helpful in understanding intricacies of the new standards.

Audit committees should monitor the implementation of new standards and ensure management has a clear strategy for accountability and reporting.

## Key Performance Indicators (KPIs)

Investors rely on KPIs and non-GAAP measures reported by financial institutions to inform investment decisions. While some standardization guidance exists in this area, KPIs are often defined differently across companies.

Participants discussed the importance of focusing on best practices and the challenge of maintaining consistency when measuring and evaluating KPIs. Thanks to a greater focus by standard setters in this area, participants acknowledged that their focus on the subject has increased overall.

Audit committees should consider how they can work with management and the auditor to improve the reliability of information used by investors.

## Audit Quality Indicators (AQIs)

Audit Quality Indicators (AQIs) are quantitative measurement tools to help audit committees measure and evaluate audit quality. Participants agreed that AQI use is beneficial and promotes healthy transparency and accountability between audit committees, management and auditors. Those currently using AQIs also noted their efficiency when leveraged in larger projects.

Participants also discussed striking the right balance of AQIs by avoiding implementing too many at once in favour of focusing on fewer over the long term. They also noted that over prolonged use, AQIs can create benchmarks and provide a context to what success looks like.

We encourage audit committees, management and audit firms to continue to explore how AQIs can be integrated into their audit processes.

## Developments in audit quality

### Trust in audit

When international regulators asked CEOs of the world's largest public accounting firms what is currently top of mind, trust and integrity were at the forefront. In today's global audit community, there is no shortage of examples where audit quality has been questioned. Discussions are continuing in some jurisdictions such as the UK around changes that can improve audit quality including steps to increase competition for large audits and reduce the potential for conflicts of interest.

### Audit quality management systems

CPAB believes increased focus on centralized quality control systems at the firm level is important to improve the consistency of audit quality. While most audits we inspect comply with the required standards, recurring inspection themes indicate that weaknesses in quality management systems persist, leading to inconsistent audit execution. Firm policies and processes – at both the leadership and engagement team levels – that manage risk and get the right people working on the right things at the right time are essential to delivering high quality audits, consistently. In 2018, CPAB implemented a new methodology to assess existing audit quality management systems to help accelerate improvements.

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## Emerging industries and disruptive enablers

CPAB is keeping an eye on emerging industries, including cryptocurrency and cannabis, with great interest and believes there is an urgent need for guidance on how auditors should be responding to typical audit risks associated with these clients. We recently published [our perspectives](#) on auditing in the crypto-asset sector to help address some of these risks.

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## Thank You

CPAB thanks everyone for their participation. We encourage ongoing dialogue and look forward to continuing the audit quality discussion at future events across Canada.

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