

11 June 2021

Jeremy Rudin, Superintendent  
Office of the Superintendent of Financial Institutions Canada  
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Sent via email to: [Assurance@osfi-bsif.gc.ca](mailto:Assurance@osfi-bsif.gc.ca)

**RE: Discussion Paper – Assurance on Capital, Leverage and Liquidity Returns**

Dear Superintendent Rudin:

The Institute of Internal Auditors (IIA) and our affiliate, The Institute of Internal Auditors Canada (IIA–Canada), appreciate the opportunity to comment on the April 2021 Discussion Paper, **Assurance on Capital, Leverage and Liquidity Returns**.

As a short introduction, The IIA is the global leader for the internal audit profession, setting the standards and encouraging independent and objective assurance and insight over all facets of an organization’s operations, from governance and internal control to an enterprise-wide approach to risk management. IIA–Canada plays an important role in serving 7,400 of The IIA’s more than 200,000 members worldwide across all industry sectors.

We understand that OSFI’s 2019–22 Strategic Plan “*aims for FRFIs and pension plans to be better prepared to identify and develop resilience to non-financial risks before they negatively affect their financial condition.*” The IIA is committed to providing internal auditors with relevant training and other support to ensure they possess the knowledge and skills required to provide effective assurance and advice to FRFIs and pension plans. One of our foundational standards that internal auditors are expected to follow, *Standard 2100 – Risk Management*, states, “The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.” To this end, The IIA has been working diligently over the past few years to produce a body of knowledge related directly to the risks OSFI mentions. Particularly insightful information comes from recent *Financial Services Practice Guides*, which we believe will be helpful to OSFI as it develops new and expanded guidance for financial services firms on assurance of capital, leverage, and liquidity risks.

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In addressing the OSFI discussion paper, The IIA and IIA-Canada recommend incorporation of clarifying language on:

- The basis for the proposals including the current assurance gaps and justification for additional levels of assurance.
- Responsibilities for the different assurance requirements (existing and proposed) and where overlaps or gaps can be reduced.
- The extent of work expected to be performed by internal audit to provide the basis for assurances required, including but not limited to systems, models, and third-party providers.

We also want to bring to your attention that there is a potential cost from implementing the proposed assurance requirements for regulatory returns. The additional assurance requirements for internal audit, for example, may have the unintended consequence of reducing resources necessary to effectively provide assurance over higher-risk areas and as a result additional internal audit resources should be encouraged.

Following are our comments to exposure questions posed:

### **Specific Questions:**

#### **QUESTION 3**

How can greater assurance over regulatory returns be promoted going forward?

*A: We recommend the OSFI provide summary details of past issues to increase transparency and provide guidance to help provide more robust assurance over regulatory reports. Greater assurance over regulatory returns can be promoted through The IIA's Three Lines Model with coordination of senior management/second line, internal audit, and external audit. Internal audit's role in reviewing internal controls would bring a valuable and independent perspective to the process.*

#### **QUESTION 5**

Should i) any regulatory ratios other than those listed in Tables 1 and 2, and/or ii) controls testing be added or excluded from the external audit requirements? If so, please provide supporting rationale.

*A: i) Current external audit assurance expectations already include portions of the regulatory returns, such as ratios that are included in the financial statements and related notes. External auditors would need to perform assurance work similar to the proposed internal audit attestation for the regulatory ratios to satisfy the assurance requirements.*

*ii) An internal audit function conforming to The IIA's International Standards for the Professional Practice of Internal Auditing is uniquely positioned to perform controls testing due to its knowledge of the business and independence from senior management. External audit firms could leverage the controls testing performed by internal audit as part of their attestation activities.*

#### **QUESTION 12**

Are the proposed filing requirements/frequency for senior management attestations adequate? If not, please provide supporting rationale.

*A: The proposal does not specify whether internal reviews required for senior management attestations would overlap with internal audit reviews, or if the internal reviews could be leveraged by internal audit assurance activities. We recommend allowing internal audit to leverage internal reviews to reduce or avoid unnecessarily duplicate attestation efforts by senior management.*

## **INTERNAL AUDIT**

### **QUESTION 13**

Should any regulatory returns be added or excluded from the internal audit requirements? If so, please provide supporting rationale.

*A: The potential regulatory changes include overlap between the work that internal audit and external audit would perform. Current external audit assurance expectations already include portions of the regulatory returns, such as ratios that are included in the financial statements and related notes. External auditors would need to perform assurance work similar to the proposed internal audit attestation for the regulatory ratios to satisfy the applicable financial statement audit requirements.*

*Internal audit department budgets may not increase as a result of the proposed regulatory changes commensurate to the increased scope for assurance activities, especially at smaller organizations. Proposed attestation requirements would require significant resources that could lead to a potential reduction in the ability of internal audit to provide assurance over higher-risk areas. In addition, we anticipate senior management requests for internal audit departments to perform reviews to support their attestation requirements leading to a further reduction in resources for risk-based assurance activities.*

*The IIA recommends that internal audit's scope for regulatory returns be limited to controls testing, which is an existing expectation and skill set for internal audit.*

### **QUESTION 14**

Are the proposed filing requirements/frequency for internal audits adequate? If not, please provide supporting rationale.

*A: The IIA's Mission of Internal Audit is "To enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight." Although the proposal states in Section 3.1.ii that "Assurance expectations should be risk-based and principles-based, consistent with OSFI's approach to providing guidance," requiring annual assurance activities by external audit, senior management, and internal audit regardless of inherent risk is not considered a risk-based approach.*

*The paper is unclear as to what risk-based assurance expectations for internal audit would comprise. We recommend that internal audit departments have the flexibility, based on risk assessments, to determine the frequency and extent of assurance activities, such as control testing.*

*At banks using internal models for regulatory capital purposes, OSFI should consider requiring only a negative form opinion rather than a positive form opinion from internal audit functions. That's because a positive form opinion is already provided for compliance with minimum regulatory requirements for regulatory capital models.*

**PROCESS AND NEXT STEPS****QUESTION 15**

Are the proposed effective dates adequate? If not, please provide supporting rationale.

*A: Based on size and complexity, internal audit departments may need to acquire additional technical skills to provide the proposed assurance activities. Performing an initial inventory of controls, systems, and processes that should be included in the scope of assurance activities will require additional time for planning, documentation, and evaluation of processes. Due to the complexity and volatility, liquidity will require additional time to hire and train internal audit staff. As organizations across the country will need to hire staff with the technical skill sets necessary to perform assurance activities for regulatory returns, there may be inadequate resources in the market to meet the demand. In addition, the upcoming IFRS 17 implementations will impact both senior management and internal audit. We recommend extending the effective dates for new requirements by one year to allow for a ramp-up period. We also recommend extending the deadline to submit results of regulatory report reviews to 120 days after year-end to ensure appropriate time is available to adequately perform the assurance reviews that will overlap with annual external audit schedules.*

**QUESTION 17**

What other views/options should be considered by OSFI?

*A: Assurance activities and related reviews by senior management, internal audit, and external audit described in the proposed requirements may result directly and indirectly in potential overlap and duplicate efforts. We recommend that each group be allowed to leverage the work of the others for related assurance activities after performing adequate due diligence to confirm the quality and competency of the work as stated in IIA Standard 2050:*

*“Coordination and Reliance: The chief audit executive should share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts.”*

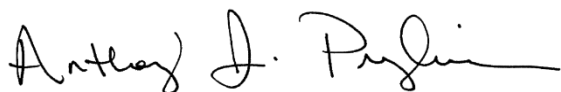
*We also recommend that OSFI clarify expectations for several parts of the proposal. The regulatory returns are derived from multiple systems at most organizations. The requirements should clearly articulate whether the scope for assurance activities is expected on an end-to-end basis for all systems and processes or only for key systems and processes. In addition, the proposed assurance requirements would benefit from clarification of the definition of what is considered a key system and processes and the extent of assurance activities for data accuracy and completeness, including model risk management. We would recommend a risk-based approach that only key systems and processes are required to be reviewed in the absence of any issues.*

*The proposal does not include any requirements for assurance regarding third-party providers that may be relied upon for a significant portion of the regulatory reports. We recommend OSFI include additional clarification regarding the scope of assurance activities for regulatory reports.*

*To ensure that internal auditing standards are followed by internal audit departments, we recommend that all internal audit departments be required to confirm that they comply with International Standards for the Professional Practice of Internal Auditing in each submission to OSFI.*

Thank you again for the opportunity to provide The IIA's input on this Discussion Paper and we look forward to further opportunities to assist OSFI in providing guidance to assist federally regulated financial institutions in identifying and developing assurance requirements intended to strengthen regulatory reports. Should you have any questions regarding the comments provided, please contact Paul Forgues, IIA-Canada's Executive Director, at [paul.forgues@theiia.org](mailto:paul.forgues@theiia.org).

Sincerely,



Anthony J. Pugliese, CPA, CGMA, CITP  
President and Chief Executive Officer  
The Institute of Internal Auditors

cc: Guy Desrochers, Chair of the Board, IIA-Canada  
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