



# FINANCIAL INSTITUTIONS

## CPAB Financial Institutions Industry Forum Highlights

The Canadian Public Accountability Board (CPAB) held a roundtable on December 5, 2019 in Toronto for audit committee chairs of Canada's big six banks and insurance reporting issuers.

Moderated by **Alan MacGibbon**, audit committee chair of Toronto Dominion Bank, the forum featured a roundtable discussion about matters top of mind for audit committees.

### What's top of mind

#### IFRS 9 implementation

The transition to IFRS 9, Financial Instruments, from an incurred loss to an expected credit loss model represented a significant effort for Canadian banks and their auditors.

The 2019 audit opinions for all Canadian banks that are cross-listed in the US included the allowance for credit losses as a key audit matter.

As it was important for CPAB to obtain a perspective on the approaches taken by audit firms to audit the allowance for credit losses of Canada's domestic systemically important banks, in 2019 CPAB conducted an IFRS 9 thematic review of the allowance for credit losses audit work for Canada's big six banks.

Directors commented on six ways they positioned themselves to oversee the IFRS 9 implementation:

- 1 Attending education sessions for particularly complex elements of the allowance including significant increase in credit risk thresholds and macro-economic modelling.
- 2 Soliciting presentations from external auditors on management's progress in implementing the Standard.
- 3 Obtaining benchmarking information from external auditors on allowances at other banks.
- 4 Dedicating sufficient time to discuss judgmental areas with auditors and management.
- 5 Attending their own and other banks' analyst calls to understand what investors are focused on.
- 6 Understanding how significant increases in credit risk transition loans between stages depending on different economic scenarios.

Other areas directors are considering include:

- How allowance and disclosure comparability among the six largest banks will evolve.
- Complexities associated with modelling geopolitical risk.

### IFRS 17 poses considerable accounting changes for insurers

The Insurance Contracts Standard, IFRS 17, comes into effect on January 1, 2022, a significant change for Canadian insurance companies.

Directors commented that their oversight approach for the IFRS 9 implementation will be beneficial for IFRS 17. Other oversight best practices include:

- Engaging with management on critical implementation decisions.
- Engaging external auditors on key implementation matters.
- Overseeing management’s plan to inform the market regarding implications.
- Forming an IFRS 17 audit committee working group to allow for more in-depth focus on systems, models and project management.

### Time allocated to internal and external audit oversight

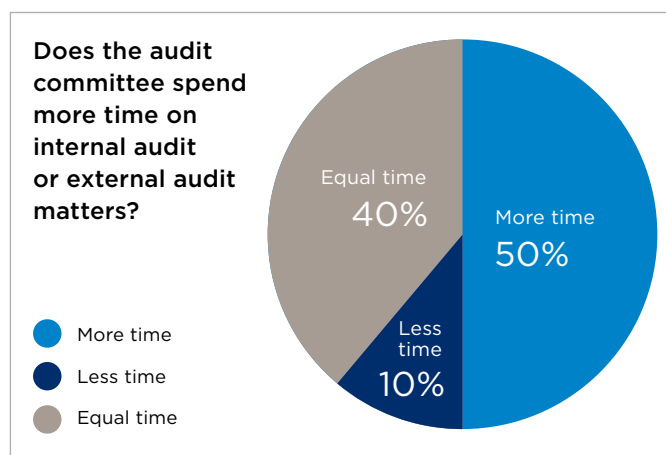
Directors shared their experiences about the amount of time spent by the audit committee with the internal and external auditor.

Leading practices to enable quality time with internal and external auditors include:

- Pre-committee meetings with internal and external auditors.
- Reviewing and responding to audit committee member notes prior to meetings.
- *In-camera* meetings with the CFO and CEO.
- Post-committee meetings with the CFO.

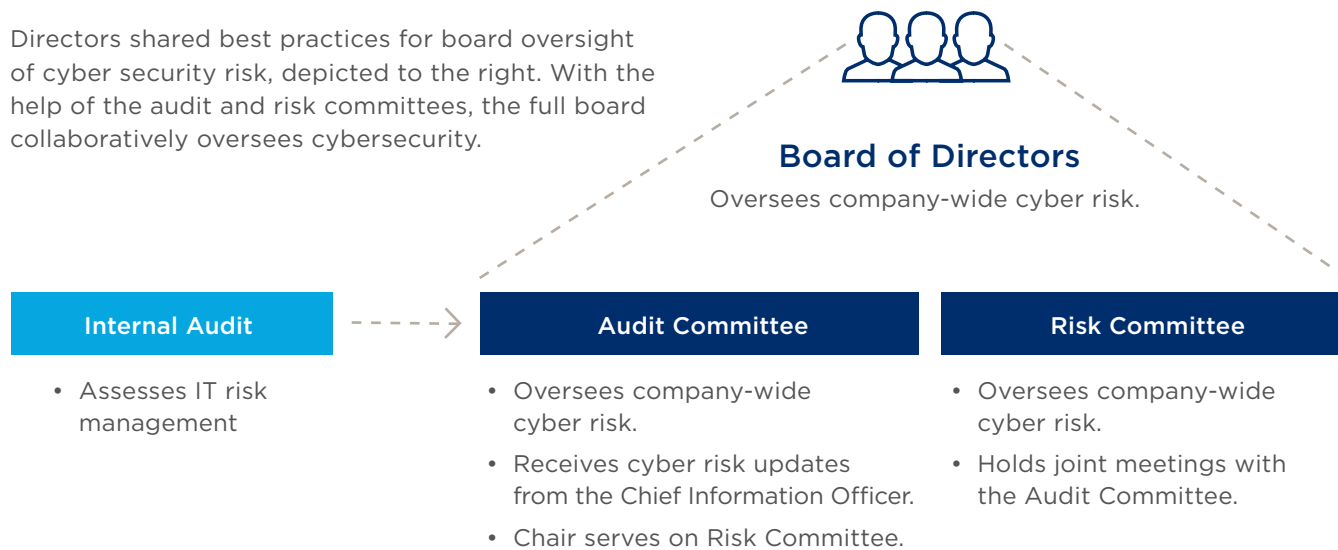
Directors commented that:

- With internal audit’s mandate covering the full scope of the business, more audit committee time is required.
- Comparatively, annual financial audit calls for more audit committee time at year end.
- Audit committees are open to receiving value-added external audit insight during the year.
- 15 to 20 per cent of audit committee agenda time is spent on internal and external audit topics.



### Cybersecurity oversight

Directors shared best practices for board oversight of cyber security risk, depicted to the right. With the help of the audit and risk committees, the full board collaboratively oversees cybersecurity.



### Data analytics and digital transformation

Directors commented that with the digital era elevating the prominence of data analytics and introducing significant digital transformations; access controls, privacy and internal controls over financial reporting have the heightened attention of audit committees.

## What’s new at CPAB

### CPAB and OSFI host audit quality roundtable

CPAB and the Office of the Superintendent of Financial Institutions hosted an Audit Quality Roundtable late 2019 for audit firms, regulators and standard setters to discuss audit quality matters and to advance better coordinated efforts.

As a result, action teams have been formed in the following four areas:



Directors commented that doing more in these areas is essential to address the public’s evolving expectations of auditors.

### Going concern and fraud

In 2019 CPAB performed thematic reviews of audit work covering going concern and fraud.

CPAB found a number of practices that can be used to strengthen audit work in these areas. See our recent publications in the area of **fraud** and **going concern**.

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## Data analytics in the audit

CPAB is dedicating significant resources to evolve our inspection skill sets in this area. We are also exploring how new audit technology will enhance audit quality.

Directors commented that it will be important that CPAB plays a role in evaluating the integrity of certain audit technology being introduced.

## Quality management systems

In 2018, CPAB implemented a new methodology to assess existing audit quality management systems at Canada's largest audit firms to help accelerate audit quality improvements and to drive more consistent quality audits.

Directors shared their experiences with certain quality management systems criteria, such as firm resource management, as areas they are interested in exploring with a direct link to audit quality.

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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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## Have a view?

CPAB would appreciate hearing from you. Please reach out to us at [stakeholderengagement@cpab-ccrc.ca](mailto:stakeholderengagement@cpab-ccrc.ca).

## Learn More

Visit us at [www.cpab-ccrc.ca](http://www.cpab-ccrc.ca) and join our mailing list. Follow us on Twitter — @CPAB-CCRC

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