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Presenters

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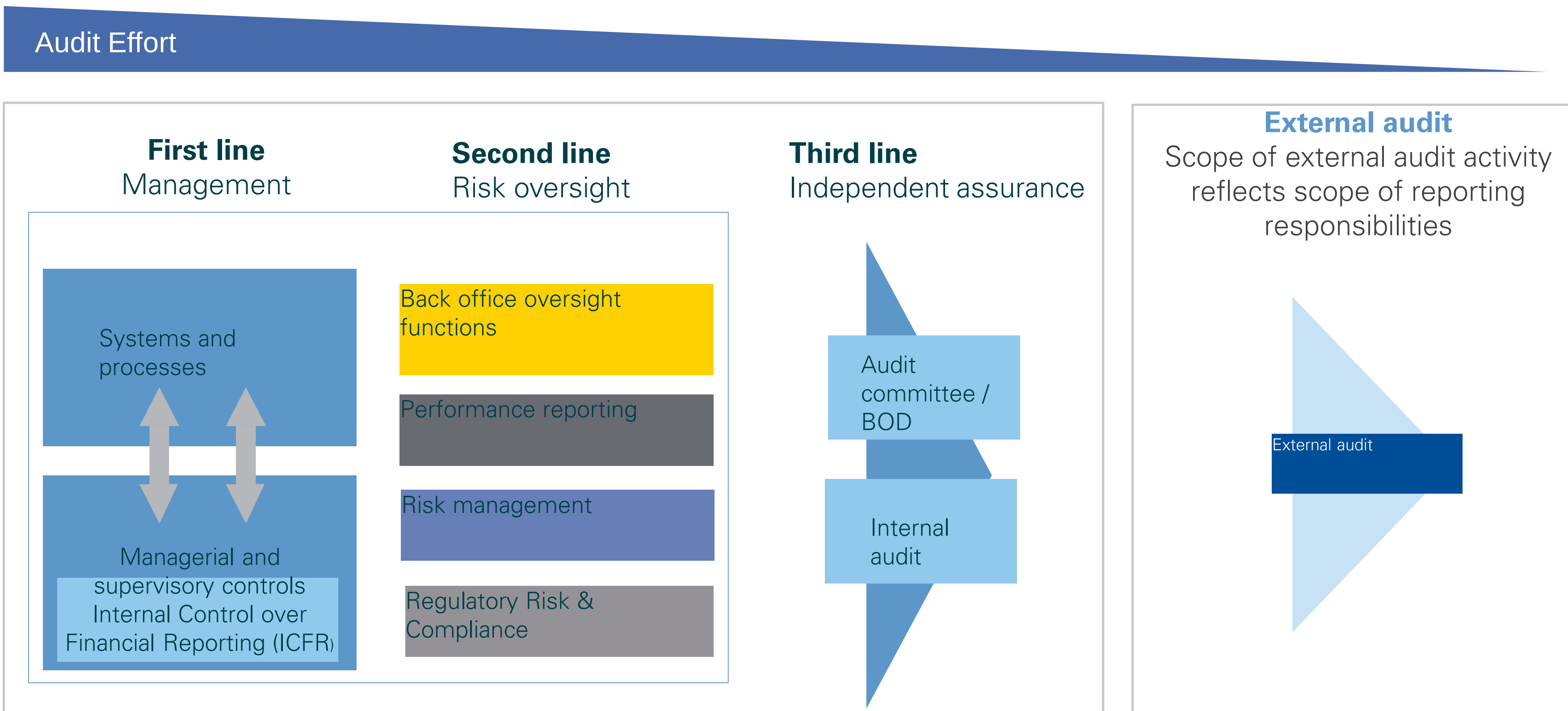
Agenda

- ❑ Current Audit Trends
- ❑ Areas of Regulatory Focus
- ❑ Evolution of the Audit

Audit aligned to your business

Working with your “three lines of defense”



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Information Technology and Cyber Risk

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Information Technology and Cyber Risk

- OSFI Cyber Security Self-Assessment Guidance (89 criteria)
- IIROC guidance coming in Fall of 2015

Cyber Security Governance

- Security accountability & oversight
- Cyber security framework/policy
- Security metrics
- Cyber insurance

Organization & Resources

- Roles and responsibilities
- Training and development
- Security budget and funding

Situational Awareness

- Security event analysis
- Intelligence management

Threat & Vulnerability Risk Management

- Threats and vulnerabilities
- Technical and physical security controls
- Technical security measurements

Cyber Risk & Control Assessment

- Risk assessment, appetite & management
- VA/Penetration testing
- 3rd party / supplier risk management

Cyber Security Incident Management

- Management of information security/cyber events
- Change/problem management

Reference: http://www.osfi-bsif.gc.ca/Eng/fi-if/in-ai/Pages/cbrsk.aspx

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- ❑ Current Audit Trends
- ❑ **Areas of Regulatory Focus**
- ❑ Evolution of the Audit

Service Organizations

"Of the dealer-members examined during IIROC's 2014 examination cycle, outsourcing arrangements were in place at more than half of the firms, with 65% of these arrangements found to have been with affiliates of the firm" *(Source: IIROC 2015 Compliance Report)*

- **IIROC Rule 300.4 requires auditors to understand and evaluate outsourcing arrangements used by IIROC Dealer-Members**
- **Increased regulatory scrutiny over:**
  - User-end controls – what policies and procedures & internal controls are in place at the user entity
  - Service organization agreements, particularity with related parties outside of Canadian jurisdiction (lack of access to books and records & assets)

- **Need for service organization reports (CSAE3416/SAS70) [lack thereof may require auditors to test controls at the service organization]**

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Service Organizations (continued)

- **IIROC has issued guidance on outsourcing in Member Regulation Notice 14-0012. Members with outsourcing arrangements are encouraged to:**
  - Establish an outsourcing policy
  - Document the nature of activities outsourced
  - Due-diligence that will be performed by management at the time of selecting a service provider
  - Document the detailed policies and procedures the dealer-member will regularly undertake to supervise compliance with the SLA and verify the integrity of information provided by the service provider

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Internal Controls

- **IIROC Rule 2600, *Internal Control Policy Statement 1*, General Matters, requires dealer-members to maintain a set of internal control policies and procedures**
- **In certain situations, industry observations noted include:**
  - The absence of written policies and procedures for new business activities or the failure to change written policies and procedures for existing business activities that have been changed
  - Written policies and procedures are identical (nearly verbatim) with the minimum requirements set out in Rule 2600 (dealer-members should tailor to their specific business activities)
  - Non-performance of minimum required procedures (i.e. verifying the integrity of prices received from vendors, RAC estimates, reconciliation of accounts to third party statements)

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Other areas of focus

- **Hold mail**
  - What is the dealer-members’ policies and procedures around suppressed accounts
  - How are auditors comfortable with the completeness and accuracy of client confirmations
- **Accounting, reporting, and margin calculation errors**
  - Timing of recognizing assets relating to corporate finance transactions
  - Calculation of margin relating to corporate finance transactions
  - Inappropriate netting or off-setting of items within the financial statements
- **Valuation of securities**
  - Documentation of methodologies used to fair value unobservable financial instruments
  - Internal controls over pricing vendors
  - Form 1 vs client statement reporting

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New Accounting Standards on the horizon

- **IFRS 15 – Revenue from contracts with customers**

- **IFRS 9 – Financial Instruments**

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IFRS 15 - Objectives of the Revenue Standard

Remove inconsistencies and weaknesses in existing requirements

Provide a more robust framework for addressing revenue issues

IASB / FASB Converged Standard
(published May 28, 2014)

Provide more useful information through improved disclosure requirements

Simplify preparation of financial statements by reducing the number of requirements by having one revenue framework

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IFRS 15 - The Five Step Model Overview

1. Identify the contract with a customer
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price
5. Recognize revenue

IFRS 15 shall apply for annual reporting periods beginning on or after January 1, 2018

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Overview – IFRS 9 *Financial Instruments* – The complete standard

In summary

The IASB has now issued the completed version of IFRS 9 *Financial Instruments* ('IFRS 9' or the 'standard'), which substantially brings to a close the challenging project launched in 2008 to replace IAS 39 *Financial Instruments: Recognition and Measurement*.

IAS 39 has been revised in stages as follows.

Version	What's included?	Retained from IAS 39
IFRS 9 (2009)	New requirements for the **classification and measurement** of financial assets and financial liabilities.	Requirements for recognition and derecognition of financial instruments with only minor amendments.
IFRS 9 (2010)		
IFRS 9 (2013)	New requirements for **general hedge accounting**.[1]	
IFRS 9 (Complete standard)	Amendments to **classification and measurement** requirements for financial assets published in IFRS 9 (2009) and IFRS 9 (2010). **New impairment model** based on expected credit losses.	

The completed standard also amends IFRS 7 *Financial Instruments: Disclosures* to introduce new or amended disclosures.

Bottom line

- The standard could have a major impact across an organisation – particularly for financial institutions.
- Larger and more volatile bad debt provisions are likely.
- Companies need to start planning for transition, to understand the time, resources and changes to systems and processes needed .

No convergence with US GAAP

The FASB had launched a similar project to revise accounting for financial instruments but decided to continue in a different direction to the IASB.

As a result, companies applying both US GAAP and IFRS in their financial reporting will be required to implement different guidance – which could pose a significant operational challenge.

Effective date and transition

The standard will be effective for annual periods beginning on or after 1 January 2018, and will be applied retrospectively with some exemptions.

Early adoption is permitted.

Restating comparatives is not required, and permitted only if information is available without use of hindsight.

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Auditor Reporting Model - Globally

- **Global Standard Setters are developing new Audit Reporting Requirements**
  - International Auditing and Assurance Standards Board (IAASB) has approved their standard and the Public Company Accounting Oversight Board (PCAOB) in the US is developing their standard.

- **Impact on Canadian Companies:**
  - Canadian Auditing and Assurance Standards Board (AASB) intends to adopt the IAASB Standard, although they have tentatively deferred Canadian implementation.
  - This extension has allowed the AASB to issue an "Invitation to Comment," with the goal of soliciting input on implementation issues from all Canadian audit stakeholders, including audit committees.
  - The deadline for comment is October 30, 2015.

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Data & Analytics in the Audit

Hindsight	• Analysis of all historical transactions to identify anomalies and focus on the areas of highest risk and not just selected sample testing. It allows us to give organizations greater insights into their past performance.
Insight	• Ability to look beyond the figures – and measure successes against those of peers and the best in the world using industry-specific data and analytic models to provide benchmarks and identify patterns against which we can compare your organization's operations.
Foresight	• Predictive analytics uses performance trends to assess future performance. We can better predictive performance and, where appropriate, share sensitivity analysis with management and the board.

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Corporate Responsibility (CR) Assurance Services

Stakeholders and investors want to know that a company has identified it’s most significant environmental and social risks and impacts, and is addressing them effectively. They also need to know that the information provided by a company is accurate, credible and can be trusted.

Assurance readiness

Provides management with a clear understanding of the requirements for external assurance, the current state of the company’s readiness and understanding of evolving sustainability reporting frameworks through:

- Assess existing corporate reporting, data gathering, compilation processes and internal controls to identify strengths and weaknesses;
- Confirmation of the relevant topic assessment and selection of key economic, social and environmental performance indicators; and
- Providing insight in peers and reporting standard requirements.

External assurance

Obtain independent external assurance to enhance credibility with stakeholders, have reliable data to support management decisions and business investments and Improve scores on international acclaimed benchmarks.

Full or limited assurance can be obtained on:

- Selected performance indicators;
- The whole CR or ESG report; or
- Parts of the integrated annual report.

Triggers

- ✓ Avoiding being ‘behind the pack’ or a desire to maintain a leadership position
- ✓ Desire to enhance the quality of current CR reporting
- ✓ Changes to Corporate Reporting Frameworks
- ✓ Rising interest and attention paid to CR performance data (particularly by investors, analysts, customers, and employees)
- ✓ Increasing number of Canadian companies pursuing assurance
- ✓ Finance does not often have line of sight to the quality and reliability of CR information
- ✓ Reduce risk of a qualified opinion by pursuing an assurance readiness assessment as a first step towards assurance
- ✓ Reassurance for CEO/ CFO/ Legal that data and information is accurate and reliable

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What Questions Do You Have?

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