European Commission  
Auditing Unit-F4, SPA 2/JII - 01/112,  
BE-1049 Brussels, Belgium  

Attention: DG Internal market and Services  

Subject: Green Paper – Audit Policy: Lessons from the Crisis  

The Office of the Superintendent of Financial Institutions (OSFI) appreciates having the opportunity to comment on the European Commission’s Green Paper – Audit Policy: Lessons from the Crisis (Green Paper). OSFI is the primary prudential regulator of federally regulated deposit-taking institutions, insurance companies, and federally regulated private pension plans in Canada.  

The Green Paper advances options to reduce systemic risk that may arise from the concentration of reliance by listed companies on a small number of large audit firms. It is suggested that a “joint audit” approach could be one way of mitigating disruption in the audit market, as it would encourage diversification by allowing mid-tier audit firms to become active players in the market segment currently dominated by four large firms.  

While OSFI supports global efforts to enhance financial stability, including the role of audit and the scope of audit, you may be interested in Canada’s prior experience with a domestic joint audit requirement. Note, however, that the Canadian requirement was not based on the “concentration” issue identified in the Green Paper.  

Prior to 1992, Canada’s banking legislation required that all banks have two auditors. This same requirement did not exist in other federal financial institution statutes, which resulted in an asymmetry of requirements across the federally regulated financial sector. As part of its regular review of the federal financial institution statutes, Canada harmonized its audit requirements in 1992 by removing the requirement that banks have two auditors. The amended legislation now provides banks with the option to have a second auditor, but does not make it a requirement.  

A primary reason for the policy change was that the potential for a division of responsibility associated with a joint audit approach could lead to some issues failing to get addressed during the course of the audit, and could also create incentives for management to choose the opinion of the auditor that yields the most favorable result.
for the financial institution. Accordingly, the net result could be less overall accountability, less auditor oversight, and diminished quality of financial statements. In addition, based on the results of a formal inquiry into the failure of two small Canadian banks in the 1980s, it was observed that the lack of clear accountability noted above can lead to difficulties in assigning responsibilities in relation to audit issues in the wake of a failure of a financial institution. Accordingly, the costs associated with the dual audit requirement were not considered to be substantiated by the benefits.

Since that change was made, Canada has also created the Canadian Public Accountability Board (CPAB), which serves as an independent audit regulator responsible for overseeing audit firms that audit Canadian public companies. The creation of CPAB has been an important development in overseeing and promoting higher standards for audit quality.

I thank you again for this opportunity to comment. I hope that this account of OSFI’s domestic experience might prove both informative and helpful as the European Commission continues with its efforts to enhance stability in the European Union.

Yours truly,

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