



November 19, 2012

(Delivery by email: comments@pcaobus.org)

Office of the Secretary,
Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC
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USA

**Re: PCAOB Release 2011-006 Concept Release on Auditor Independence and Audit Firm Rotation
PCAOB Rulemaking Docket Matter No. 37**

The Office of the Superintendent of Financial Institutions (OSFI) appreciates having the opportunity to comment on the PCAOB *Concept Release on Auditor Independence and Audit Firm Rotation* (CR). OSFI is the primary prudential regulator of Canadian federally regulated banks and other deposit taking institutions, insurance companies and federally-regulated private pension plans which includes the five largest domestic banks and two life insurance companies that are publicly listed foreign private issuers registered with the Securities and Exchange Commission (SEC).

OSFI has a keen interest in ensuring that a high standard of auditor independence is maintained given that the Canadian federal prudential regulatory system is based on a tripartite division of responsibilities involving:

1. The financial institutions' management and oversight processes;
2. The use of independent external reviewers (e.g., the external auditor); and
3. Monitoring and supervision by OSFI.

We agree with the CR's statement that "...the global financial crisis has tested the credibility of the audit in the public mind once again" and therefore understand and agree with the PCAOB's initiative to consider whether more should be done to enhance auditor independence, objectivity and professional skepticism. However, because financial institutions are highly complex organizations that have significant learning curves associated with their audit, we believe that requiring mandatory audit firm rotation would introduce significant risk that may cause audit quality to suffer in the early years of an engagement.

Two alternative measures to consider for enhancing auditor independence, objectivity and professional skepticism include:

- *Focusing on the role of Audit Committee (versus focusing on auditors themselves)*. Audit committees should be more demanding in terms of what they expect from external auditors and the higher-risk areas of audits should be adequately communicated to audit committees. We believe that the PCAOB's *Standard*



No. 16, *Communications with Audit Committees*, issued in August this year, goes a long way to enhancing the relevance and timeliness of the communications between the auditor and the audit committee. OSFI has also chosen to focus on audit committees and we are placing additional requirements on audit committees through a revised corporate governance guideline that makes it clear, for example, that we expect audit committees to be questioning auditors about whether accounting estimates are aggressive or conservative, and whether key areas of risk such as accounting estimates are being disclosed to the audit committee.

- *Encouraging audit firms to consider whether their organizational structures remain appropriate in today's business environment.* In its *2011 Report on the Inspection of the Quality of Audits Conducted by Public Accounting Firms*, PCAOB's Canadian counterpart, the Canadian Public Accountability Board (CPAB), noted that, "Since the operating models of public accounting firms have changed little over the years, it is timely to think about whether the current structure is conducive to audit quality." We agree that a review would be timely with particular consideration of how firms encourage and reward public service and investor protection.

We would be pleased to discuss any questions you may have.

Yours very truly,



Julie Dickson
Superintendent