



June 14, 2024
Financial Services Regulatory Authority (FSRA) of Ontario
25 Sheppard Avenue West, Suite 100
Toronto, ON
M2N 6S6

RE: IIA Comments on FSRA's Proposed Corporate Governance and Operational Risk and Resilience Guidance

Dear Sir/Ma'am,

On behalf of The Institute of Internal Auditors (The IIA), the international professional organization representing more than 245,000 internal auditors, with more than 7,800 members in Canada, I am pleased to submit the following comments for consideration in relation to FSRA's proposed [Corporate Governance and Operational Risk and Resilience Guidance](#).

The IIA generally supports the proposed approach articulated by FSRA intended to establish "sound corporate governance, and operational risk management and resilience practices."¹ Specifically, The IIA commends FSRA for recognizing the value of a properly resourced internal audit function as an essential consumer protection within regulated sectors.

The following sections outline a series of proposed recommendations designed to enhance the effectiveness of the internal audit provisions within the proposed guidance.

I. **[Risk Based Supervisory Framework for Ontario-incorporated Insurance Companies and Reciprocals](#)**

The *Risk-Based Supervisory Framework* recognizes the importance of an independent internal audit function that provides objective assurance to an organization's governing body. The IIA supports the inclusion of internal audit within the listed Oversight functions, the Risk matrix in [Appendix A](#), as well as *Principle 3: Effectiveness of oversight structures*, which highlights [The IIA's Updated Three Lines Model](#) (previously known as the Three Lines of Defence Model)².

The Three Lines Model acknowledges internal audit's obligation to ensure the independent assurance of the risk management function. Such inclusion signifies the essential role of an effective and well-resourced internal audit function in maintaining good governance at regulated entities.

II. **[Proposed Guidance: Corporate Governance for Ontario-incorporated Insurance Companies and Reciprocal Insurance Exchanges](#)**

¹ "Consultation: Corporate Governance and Operational Risk and Resilience Guidance." Financial Services Regulatory Authority of Ontario, n.d., <https://www.fsrao.ca/engagement-and-consultations/consultation-corporate-governance-and-operational-risk-and-resilience-guidance>.

² The Three Lines Model clarifies specific corporate governance roles and responsibilities among an organization's leadership (i.e., board of directors, management, and the internal audit function) to promote strategic and operational alignment, proper oversight, and independence of the internal audit function.

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The Proposed Guidance: Corporate Governance for Ontario-incorporated Insurance Companies and Reciprocal Insurance Exchanges outlines the importance of internal audit related to oversight and risk management. However, the proposal limits its discussion of the role of internal audit to Principle 4, Integrity of Financial Statements. Internal audit functions evaluate the organization as a whole and can provide assurance in multiple areas, such as data privacy, cybersecurity, and asset protection.

The Government of Ontario defines the role of internal audit in the [Internal Audit Directive](#).³ This directive outlines that "Internal auditing includes, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives." As such, FSRA's inclusion of the role of internal audit should align with the Government of Ontario's overarching directive, which would necessitate the expansion of the role of internal audit in risk reporting beyond financial statements.

Given the important role of internal audit in evaluating matters across an organization, The IIA recommends highlighting internal audit in Section 3, Risk Reporting, governing corporate governance and risk management. The presence of internal audit in this section will serve as a mechanism for a governing body to "ensure that there are appropriate internal controls on, and oversight of the inputs to the Insurer's reporting, including controls to ensure data quality and the integrity of any calculations and models used to process the data.

Proposed Guidance: Operational Risk and Resilience for Ontario-incorporated Insurance Companies and Reciprocal Insurance Exchanges

Although FSRA acknowledges the role of internal audit in *Principle 1 of the Proposed Guidance: Operational Risk and Resilience for Ontario-incorporated Insurance Companies and Reciprocal Insurance Exchanges*, this recognition appears limited to risk management. Internal audit can support an organization in a much broader way that extends beyond risk management.

The IIA recommends that internal audit be highlighted as a resource for assessments and assurance related to other operating areas mentioned in the guidance, such as information technology (including cyber) risk management, third-party risk management, resilience plan management and the oversight of new business activities.

A competent and properly resourced internal audit function enhances an organization's overall governance by providing the board with objective perspectives from professionals independent of the organization's management. Including internal audit as a recommended or required resource aligns with FSRA's supervision objectives and is a critical component of meeting effective organizational governance objectives.

The IIA welcomes further engagement with FSRA regarding the proposed *Corporate Governance and Operational Risk and Resilience Guidance* and/or any other matters related to the role of internal audit in Ontario's financial services industry. If you have any questions regarding this

³ "Internal Audit Directive." Ontario, Ontario Government, n.d., <https://www.ontario.ca/page/internal-audit-directive>.

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The Institute of Internal Auditors
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letter or issues related to internal audit or organizational governance, I'd kindly ask you to please contact me at jillian.fernandez@theiia.org.

Sincerely,

Jillian Fernandez
Director, Advocacy (Canada)
The Institute of Internal Auditors, Canada
