



Office of the Superintendent of
Financial Institutions Canada

Bureau du surintendant des
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Office of the Superintendent of Financial
Institutions

Internal Audit Report

On

Private Pension Plans Division

*Approvals
Management and Control Framework*

November 2010



Canada

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1. Background

Introduction Internal Audit conducts assurance work to determine whether OSFI's risk management, control, and governance processes, as designed and represented by management, are adequate to ensure risks are appropriately identified and managed.

The audit of the Private Pension Plans Division (**PPPD**) Approvals group was approved by the OSFI Audit Committee and the Superintendent for inclusion in the OSFI 2009-10 Internal Audit Plan. This Report presents the results of that audit based on audit work completed at the end of July 2010. The audit recommendations will support PPPD to continuously improve their control framework for approvals processing.

This report was presented to the OSFI Audit Committee and approved by the Superintendent. It was reviewed with the PPPD Director of Approvals and the Managing Director, who have provided their management response within this report.

Context

Under the Office of the Superintendent of Financial Act and the Pensions Benefits Standard Act federally private pension plans (**FPPP**) are required to seek approval from the Superintendent for different types of transactions affecting pension plans, including plan registration, asset transfer, full and partial plan termination, plan merger, refund of surplus, and reduction of benefits.

OSFI regulates some 1,400 federally registered private pension plans with \$123 billions assets.¹ The number of approval applications transactions requiring the Superintendent's approval has increased slightly.

In a rapidly changing and complex economic environment, OSFI's ability to process approval applications is essential in OSFI providing balanced, consistent, and timely decisions while ensuring legislative provisions have been applied.

During 2009, PPPD implemented an automated pensions case management system (**PCMS**) for processing of approval applications. As a result, OSFI has cut the number of outstanding requests for approval by 34% and eliminated the backlog. During 2010, OSFI continues to refine the approval processes to improve timeliness while ensuring complex transactions are carefully considered.

In addition, Approvals publishes approval instruction guides as an aid to pension plan administrators in submitting approval applications.

¹ OSFI Annual Report 2008-2009, Prudential Regulation in Challenging Times

2. Audit Objective, Scope and Approach

Audit Objective

The objective of this audit was to provide an assessment of:

- PPPD Approvals management and control framework with respect to processes and related governance and risk management practices, and
 - Identify potential areas for improvement, as appropriate.
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Audit Scope

The audit covered the PPPD Approvals internal control framework *as at September 2009* and as updated to June 2010 as well as any improvements underway.

The scope included a review of the new approval pensions case management system (PCMS), its implementation and its use. The PCMS was implemented on July 1st, 2009.

Matters outside of the scope

The scope of the work excludes detail testing of the application of PCMS, except a walkthrough of representative approval application cases.

Audit Approach

The audit was conducted in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, consistent with the Treasury Board Policy on Internal Audit.

The audit criteria, as set out in *Appendix A – Management and control criteria*, were used for assessing the Approvals management and control framework.

The audit work included:

- A review of Approval's management oversight structures for monitoring, decision-making, and process activities (manual and automated ones).
- A walkthrough of PCMS in terms of processing steps, decision and review points, and the maintenance of approval application information and processing information and decisions made.
- Interviews/discussions with PPPD & Approvals managers and staff including the Managing Director, PPPD and Director of Approvals, PPPD.

The audit work was conducted on a collaborative basis involving establishing management and control criteria, information gathering, walkthrough of selected approval processes, and discussions with Approvals management and staff.

3. Conclusion

Conclusion

The Approvals management and control framework for processing of and monitoring practices over pension plan approval applications is appropriate in ensuring transactions are completely and accurately processed and decisions made are authorized with supporting information and documentation.

We identified two minor areas where monitoring of operations could be further strengthened:

- Conducting a specific risk and control assessment of Approvals, with periodic updates, and the results incorporated into PPPD's risk register
- With release of the new pensions case management system establishing a continuous improvement process

Management has already completed an Approvals risk and control assessment and incorporated into the PPPD's quarterly risk register as well as put in place a continuous improvement process ensuring the currency of procedures and practices.

We found within Approvals management and control framework, refer to Appendix A, many effective risk management, governance and control procedures/practices over processing of approval applications and decisions made. For example,

- Approvals have comprehensive procedures and guidance for processing pension approval applications that include defined review and decision-making control points.
- OSFI follows a comprehensive corporate planning process that incorporates PPPD (and Approvals) plans and priorities
- Approvals has performance benchmarks for tracking and reporting of approval applications against them
- The information and level of internal reporting as well as reporting to senior management is appropriate
- There is a strong commitment and actions to develop and train Approvals staff

We wish to recognize the co-operation we received and the many helpful discussions we had through out the audit.

Chief Audit Executive, A&CS

Date

4. Management Response

Overview This report has been reviewed by Private Pension Plans Division (PPPD) Director of Approvals and the Managing Director, which acknowledges its observations and recommendations.

The recommendations will support PPPD in further strengthening their management and control framework.

Response Management is of the view that this report presents a fair and balanced assessment of Approvals management and control processes (framework). We accept the two recommendations for further strengthening our Approvals risk management process and a companion continuous improvement process.

The Approvals team currently identifies and addresses specific risks as laid out in its risks and controls document on an annual basis. These risks are considered in preparation of PPPD's ERM risk register. With respect to Approvals preparing a specific risk assessment, our risk assessment process now sets out direct linkage with the PPPD ERM risk register.

During 2010, Approvals has been refining the approval processes including the new pensions case management system (PCMS). As part of this process, we report to management on a quarterly basis on any improvements to our processes. We have put in place a continuous improvement process incorporating our quarterly reporting with an annual review of and reporting on our processes and practices, starting Spring 2011.

5. Observations and Recommendations

5.1 **Observation: There is not a separate Approvals risk and control assessment to support the PPPD risk register.**

Risk assessment

PPPD conducts regular risk assessments with reporting to senior management that incorporates the three operation groups (Supervision, Approvals, and Rule Making). There is a mapping of Approval risks based on the ERM risk 'buckets' such as people risk, process risk and system risk to Approvals internal control structure (COSO based criteria).

Approvals have mapped inherent risk to control criteria, refer to Attachment A – Management and control criteria, and key risk areas were identified. However, there is not an assessment of the controls against them and a roll up to PPPD's risk assessment (risk register). The next step would involve conducting a specific risk assessment to confirm the adequacy of current processes, practices and related controls, and identify areas for improvement (processes and/or controls).

The *risk* is that not all risks associated with the processing of approval applications are identified and assessed. Consequently, Approvals may not be able to ensure the completeness and accuracy of processing and provide timely decisions on approval applications.

Recommendation: We recommend that Approvals conduct a specific risk and control assessment with periodic updates and the results incorporated into the PPPD risk register.

5.2 **Observation: Approval needs to put in place a continuous improvement process.**

Continuous improvement process

In 2009 the Approvals group implemented an automated pension case management system (PCMS) and prepared an approvals procedures manual. These initiatives were essential in PPPD addressing concerns in a backlog in processing of pension approval applications, transfer of knowledge on approvals processing and of senior staff experience to new staff and in providing for succession planning. PPPD plans and priorities include a continued focus on staff development through cross training and on-the-job training tied into staff Goal Commitment documents.

Approvals is fine tuning the procedures and PCMS system, updating the procedures manual as appropriate. In 2010-11 Approvals plans to put in place a process for an annual review of procedures and practices in order to monitor the currency of them, their capacity to manage the volume of approvals applications and to identify areas for improved operations.

The *risk* is that Approvals may not be able to assess the currency of approval processes and adequacy of related controls to mitigate operation risk.

Recommendation: Establish a continuous improvement process including monitoring and reporting on operations.

Appendix A: Management and control criteria

Element	Components
Risk Management	<ul style="list-style-type: none"> ▪ OSFI and PPPD risk management and risk tolerance are incorporated into Approvals risk management and cascade down to management and staff ▪ Inherent risk, potential risk or events are identified, assessed and mitigation is put in place consistent with Enterprise Risk Management (ERM) policy ▪ A process exists for monitoring and identification of emerging risk / issues to anticipate forthcoming cases and need for Approval resources
Governance Objective setting	<ul style="list-style-type: none"> ▪ Mandate and legislative requirements are defined and communicated with OSFI management and PPPD Division ▪ Plans and priorities are established and aligned with OSFI plans and priorities, ERM, Department Performance Report and Annual Report ▪ A process exists for PPPD and Division management oversight for review and approval of plans & priorities, operations and related capacity and resource allocation ▪ Performance expectations are set, monitored and cascaded down to Approvals management and staff ▪ Approvals Procedures and Instruction Guides, policy, procedures, practices, and tools are established and as appropriate updated to support the implementation of Approvals plans and priorities
Operating environment	<ul style="list-style-type: none"> ▪ Responsibilities and the accountability and reporting structure are established and incorporated into Job Descriptions and Goal Commitment Documents ▪ Staff competencies are defined and incorporated into informal and formal staff development and training such as on-the-job training and knowledge transfer
Information and communications	<ul style="list-style-type: none"> ▪ Information requirements are established, including maintaining 'corporate memory, and incorporated into the processes ▪ A process for progress reporting and revision of plans and priorities are defined, understood and documented ▪ Case management and Approvals performance expectations are communicated among staff ▪ Instruction Guide and Info Pension articles on OSFI pension approvals communicate what is expected from external stakeholders and what they can expect from us
Monitoring and management reporting	<ul style="list-style-type: none"> ▪ Monitoring and management reporting processes and supporting practices and tools exist at the Approvals, PPPD and senior management levels including: <ul style="list-style-type: none"> ▪ Case-load and performance tracking reports Continuous monitoring of PCMS performance through usage and recording problems ▪ Monitoring of resource capacities, allocations and case loads ▪ Case management and PCMS incident / problem reports with management action plans and resolution of issues ▪ Reporting on:

Element	Components
	<ul style="list-style-type: none"> ▪ Achievement of plans and priorities ▪ Achieving performance standards ▪ Areas for improvement in operations and PCMS
Control Process	<ul style="list-style-type: none"> ▪ Pension Approval processes are established, documented, and supported by the PCMS system² that: <ul style="list-style-type: none"> ▪ Sets out management oversight and processes requirements ▪ Provides for <i>Case Creation Streamlined</i> processes through standardized application and process control forms (templates) ▪ Defines decision and control points aligned with risk management requirements ▪ Provides <i>Instruction Guides</i> and standardized forms for various types of approval submissions issued including specific guidance for exceptions and “precedents” ▪ Establishes procedures and protocols between Approval teams ▪ There is continuous monitoring of approvals cases through progressive reviews to ensure established procedures and processes are adhered to ▪ A performance monitoring system exists where issues / problems are identified, assessed, and mitigation taken ▪ Quality assurance process exists and incorporated into case management including: <ul style="list-style-type: none"> ▪ Monitoring adherence to PCMS requirements ▪ Identifying and reporting of matters of non-compliance ▪ Escalation of matters of non-compliance ▪ Provides for on the job training ▪ Backup plans for staff and systems are in place

² E.g. Approvals Procedures Manual and Pensions Case Management System (PCMS)