



Office of the Superintendent of
Financial Institutions Canada

Bureau du surintendant des
institutions financières Canada

Office of the Superintendent of Financial Institutions

Internal Audit Report on Supervision Sector

Supervision Support Group Credit Risk Division (SSG-CRD)

June 2015



OSFI
BSIF

Canada 

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1. Background

Introduction Internal Audit conducts assurance work to determine whether the Office of the Superintendent of Financial Institutions Canada's (OSFI's) risk management, control processes, and governance, as designed and represented by management, are adequate and functioning in a manner to ensure risks are appropriately identified and managed.

The audit of the Supervision Support Group – Credit Risk Division (SSG-CRD) was recommended by the OSFI Audit Committee and approved by the Superintendent for inclusion in the OSFI 2014-2015 Internal Audit Plan.

This report was presented to the OSFI Audit Committee June 19, 2015 and approved by the Superintendent. Management has reviewed this report and provided their responses along with action plans.

Context The Supervision Support Group - 2 (SSG-2) consists of four distinct support groups that provide support in the form of specialized technical knowledge to Lead Supervisor teams. The Credit Risk Division (CRD) is one of these Supervision Support Groups.

CRD's mandate is to:

- Provide advice and support to Supervision by carrying out monitoring, on-site and early intervention activities at federally regulated financial institutions (FRFIs), with respect to credit risk; and
 - Support Supervision's efforts to monitor and evaluate system-wide or sectoral issues related to credit risk that may impact institutions negatively.
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Why this audit is important CRD's activities are significant as credit is one of the most material risks in financial institutions, especially with respect to Deposit Taking Institutions (DTI). Given OSFI's integrated supervisory process whereby several aspects of CRD's activities directly contribute to the Federally Regulated Financial Institutions' (FRFI) specific overall risk assessment, the potential impact on the institution and consequently on OSFI's objectives could be significant, if credit risk (i.e. systemic and/or institution specific) is not properly and timely identified and assessed.

OSFI uses a disciplined, risk-based methodology to supervise FRFIs. OSFI's supervisory methodology (Methodology) is described, at a high level, in the Supervisory Framework (SF) 2010, and in more detail in a number of Supervisory Guides, including templates. These documents provide the conceptual framework to support an effective supervisory process that all supervisory groups, including SSG - CRD, must follow and apply.

2. About the Audit

Audit Objective

The objective of the audit was to assess whether CRD's supervisory process was risk-based and effectively contributed to the Supervision's risk assessment and intervention process. The audit had the following sub-objectives:

1. CRD's planning activities clearly demonstrated their risk-based thinking and approach, and allocation of resources.
2. Sufficient and relevant evidential matter was available to support CRD's credit risk related assessments, conclusions, and supervisory actions taken.
3. OSFI's Supervisory Methodology and related Guides were appropriately and consistently applied in the supervisory process followed by CRD in identifying, assessing, and reporting on credit risk related matters at financial institutions.
4. Quality Control (QC) reviews were effective at detecting work quality issues and ensuring that OSFI's methodology and related Guides were appropriately and consistently applied.

Audit Scope

The audit covered CRD's activities for supporting Lead Supervisor teams in risk assessing their institutions during the fiscal year 2013/14.

Recognizing that the supervisory process is continuously evolving, IA reviewed documentation relating to events after the audit period chosen for evidence of improvements, as appropriate.

Audit Approach

The audit evaluation criteria used for assessing CRD are based on the internationally recognized Enterprise Risk Management – Integrated Framework recommended by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The approach to conducting the audit included, discussions with key personnel, process walkthroughs with CRD's teams, a review of CRD's operational procedures and templates, and examination of selected supervisory documents.

Statement of Conformance

The audit was conducted in conformance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, consistent with the Treasury Board Secretariat (TBS) Policy on Internal Audit and the Internal Auditing Standards of the Government of Canada, as supported by the results of the Quality Assurance and Improvement Program.

3. Conclusion

**Audit
Conclusion**

Application of OSFI's Supervisory Framework (SF) is complex and requires significant expert judgement and the use of a disciplined and structured approach. The methodology requires Lead Supervisor teams and support groups, including CRD, to work closely together to integrate their work and leverage off of their respective expertise. As a result, in order to facilitate the full integration of CRD's work results into the supervisory process, it is important that CRD consistently applies OSFI's Framework as intended.

In recognition of the need to strengthen CRD's supervisory process and practices and enhance its contribution to OSFI's overall supervisory process, change initiatives were recently introduced in CRD (i.e., fill in vacancies, restructuring, some process changes). These changes appear to be directionally appropriate and will need some time to fully operationalize.

We acknowledge the fact that CRD's new management team has developed a strategy to address issues identified during their self-assessment and has moved the division towards a time of progressive and positive change. For example, CRD's new management team has been key in promoting 'partnership' and 'joint responsibility' in the assessment of an institution's credit risk.

While management's current strategy may be linked to a short-term plan to address immediate concerns, it is not linked to a long-term plan to ensure CRD's sustainable performance over time. The broad but informal strategy will need to be articulated in a logical structure of primary strategic goals, objectives, plans, and reasonable timeframes (i.e., 'road-map'), with adequate measures of effectiveness built into the process as milestones are achieved. CRD's management recognizes that their strategy will need to be linked to measures of effectiveness of CRD's role as a support group.

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3. Conclusion, Continued

**Audit
Conclusion**
(Continued)

IA recommends Management's continued efforts in the following areas, which are important in helping CRD effect its mandate as a support group.

- 1) Clarifying and ensuring clear understanding of CRD's role and the accountabilities that flow from CRD's mandate.
- 2) Enhancing CRD's monitoring and risk-based planning framework to allow for better allocation / balancing of resources and the planned supervisory work.
- 3) Developing an operational manual, including tools and technical guidance, that is aligned with OSFI's Methodology and allows for CRD's conclusions to be reached in a structured and systematic manner as to facilitate an effective integration of CRD's work results into the supervisory process.
- 4) Enhancing the quality control reviews conducted at each step in the supervisory process and ensuring they achieve their intended purpose and are effective.
- 5) Enhancing controls around CRD's collection, use, retention, disclosure, and disposition of personal information. And,
- 6) Enhancing the process/framework to effectively manage CRD's external resources.

We wish to recognize the excellent rapport and exchange of views with all involved in the audit. Their cooperation and contributions were invaluable to the success of the review.

Chief Audit Executive, IA

Date

4. Management Response

Response

CRD Management would like to recognize the efforts of Internal Audit with regards to this audit. IA made themselves available to clarify CRD management's question with regards to the process and conclusions of this audit. Given the fact that current CRD management took responsibility for CRD during the last 2 weeks of the period being assessed by Internal Audit, it is useful to have an independent and objective assessment of CRD's credit risk assessment work and processes employed.

CRD is in agreement with the general themes of this report.

Accountability for all action plans lies with the Senior Director of CRD, unless otherwise stated.

5. Observations and Recommendations

Observation 1 CRD's Mandate

CRD's mandate¹ is to:

- Provide advice and support to Supervision by carrying out monitoring, on-site and early intervention activities at federally regulated financial institutions (FRFIs), with respect to credit risk; and
- Support Supervision's efforts to monitor and evaluate system-wide or sectoral issues related to credit risk that may impact institutions negatively.

In summary, there is an institution specific and a systemic responsibility inherent in CRD's mandate.

CRD's mandate indicates that CRD "*contributes to the effective and efficient supervision of all FRFIs*" and is accountable for:

- monitoring the financial environment for potential credit risks, to identify both FRFI outliers and current and emerging credit related risks/trends; and,
- performing credit risk assessments consistent with OSFI's Supervisory Framework and timely identification of risks and recommending corrective actions.

Interviews with several members of Supervision groups revealed that CRD's support role and accountability continue to be unclear. For example, there is lack of clarity around CRD's role and coverage for non-conglomerates, including regional offices. CRD undertakes supervisory activities that focus on the risk identification and assessment of institution specific emerging credit risks within the conglomerate institutions (DTI and Life Insurers). As for the non-conglomerate institutions, CRD supports their risk assessment "*as appropriate.*"

The lack of clarity in CRD's role and accountability appears to hinder CRD and the supervisory groups it interfaces with, from developing and implementing an effective 'working' relationship. Given OSFI's integrated supervisory process and the Lead Supervisors' expectation that CRD provide leadership and guidance on their respective FRFI's supervisory strategy/plan to identify and assess credit risk related matters, the lack of role and accountability clarity could impact institution risk assessments and/or supervisory actions.

Recommendation:

Enhancing CRD's ability to achieve its mandate will require:

1.1 Direction from OSFI's senior management on CRD's role and accountability in identifying and evaluating emerging credit risks/issues and in supporting Lead Supervisors in developing supervisory strategies/plans for FRFIs that may be adversely impacted. And,

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¹ CRD's Mandate, dated January 2013

5. Observations and Recommendations, Continued

Observation 1 Recommendations (Continued): (Continued)

1.2 Direction from OSFI's senior management on how the interaction between CRD and Lead Supervisors, and other support groups CRD interfaces with is to work and the relative accountabilities that flow from it.

Management Action Plan:

OSFI senior management will provide role and responsibility clarity to SSG and Lead Supervisor teams via the currently in progress update to the Risk Tolerance Framework, along with a review of the SWAP and applicable SSG mandate documents to ensure the "one office" concept is achieved. Finalization and closure is planned for January 2016. Accountability for this finding rests with the Superintendent.

Observation 2 CRD's Monitoring and Risk-Based Planning

CRD, as a support group, plays an important role in OSFI's supervisory process with respect to the assessment of significant activities at institutions that contain inherent credit risk, and that could be negatively impacted by system-wide emerging credit risks/issues. Consequently, there needs to be a clearly defined process for identifying and assessing system-wide emerging credit risks across all industry sectors and their impact on specific FRFIs, leading to supervisory plans that are clearly supported by a risk-based rationale. The output of this process is what Lead Supervisors require as key input to their annual supervisory planning process to help them develop a supervisory strategy for their specific FRFIs. Otherwise, there could be prudential issues that go undetected, misallocation of resources and/or unnecessary supervisory work by CRD due to an ineffective planning process.

CRD's process to monitor system-wide emerging credit risks/issues and risk prioritize its universe of FRFIs, leading to CRD's short and long-term work plans, was done at the conglomerate institution level, not at a system-wide level. CRD's monitoring process may not include all industry sectors and/or all institutions (for e.g., non-conglomerates, the Property and Casualty group, other), as the scope was limited to conglomerate institutions.

There were various monitoring and planning forums and meetings (informal and formal) with active participation by Supervisory groups and CRD that provided a perspective of risks at FRFIs, including risk prioritization and work plan impacts, with the Lead Supervisors and CRD taking on the responsibility to develop the supervisory strategy/plan to assess credit risk related matters at the FRFIs. IA was unable to follow CRD's trail of planning decisions and resource allocation criteria followed as linkages to CRD's supervisory work plans, including the results of monitoring work, were difficult to establish. CRD's institution specific

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5. Observations and Recommendations, Continued

Observation 2 **CRD's Monitoring and Risk-Based Planning** (Continued) (Continued)

planning documents usually included anticipated resources requirements, but did not include the analysis and the risk-based rationale needed to support the objectives, the scope, and/or specific credit issues CRD would focus on as part of the work CRD was committing to undertake. CRD's supervisory work was largely based on resources availability.

Recommendation:

2.1. Enhancing CRD's monitoring and planning process so that CRD can clearly and adequately demonstrate:

- the risk-based planning rationale and approach supporting CRD's planning decisions, with clear linkages to CRD's monitoring work;
- the criteria followed for resources allocation and needs;
- the alignment with Lead Supervisors' institution supervisory objectives/risk priorities; and
- CRD's planned supervisory work intensity (at the FI) is commensurate with the level of risk and significance of the Lead Supervisors' supervisory concerns (with the FI).

Management Action Plan:

With respect to "CRD's Monitoring and Risk-Based Planning" (recommendation 2) we acknowledge and agree that there is a need to better document the criteria and rationale we use when making risk based decisions in our planning process. Accordingly, we will develop appropriate procedures ahead of the next planning cycle, that is, by September 30, 2015, to ensure the appropriate linkages are clearly documented.

Observation 3 **CRD's Supervisory Reviews: Planning, Execution, Reporting, Follow-up**

CRD's technical guidance and tools are properly aligned with OSFI's Supervisory Framework; facilitate a consistent implementation of the supervisory process across CRD and allow for effective integration of CRD's work into the Lead Supervisor teams' supervisory work.

IA reviewed the Section Notes and other supervisory documentation completed by CRD's staff during the planning, execution, reporting and follow-up phases of the credit reviews they conducted at FRFIs. The documentation was intended to summarize CRD's risk assessments and conclusions/ratings of an institution's Quality Risk Management function (QRM).

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5. Observations and Recommendations, Continued

Observation 3
(Continued)**CRD's Supervisory Reviews: Planning, Execution, Reporting, Follow-up**
(Continued)

CRD's management is committed to use OSFI's Supervisory Framework as the overriding methodology driving its processes. Although CRD's staff demonstrated a sound understanding of the risks inherent in the credit activities of the institutions, CRD's credit risk assessments did not always align with OSFI's Supervisory Framework. IA noted the following.

- Documents IA reviewed showed that CRD's supervisory assessments and conclusion/ratings of FRFIs' quality risk management (QRM) functions were, for the most part, based on the results of CRD's work done to assess Operational Management (OM). This supervisory approach can lead to inaccurate QRM's supervisory ratings, and has made the integration of the results of CRD's work into the Lead Supervisor teams' supervisory work challenging and ineffective due to differences in content. For example, CRD's work did not include an assessment of the adequacy, completeness, and effectiveness of the credit risk management reporting the FRFI's Board and Senior Management receive for decision making, risk management and control purposes.
- Given the potential variation of key risks inherent in credit activities across FRFIs (large and small) and the different nature and rigour of key mitigating controls, the specifics of the institutions' methods and oversight practices (i.e., by the FRFI's QRMs) for managing credit risk need to be appropriately considered. This approach will help determine the risk focus, scope, nature and extent of supervisory work to be conducted at the institutions. A review of CRD's supervisory documents indicated that this information was not always factored into CRD's planning exercise. The extent of work was, for the most part, based on a "standard review" effort (i.e., *one-size-fits-all*).
- CRD's *standard reviews* required significant time and resources and consisted in a review of the FRFI's credit policies; operational management controls; and an "*established*" number of credit files. However, the number of credit files CRD reviewed was not adequately supported by any sampling methodology to support CRD's risk-based approach and/or alignment with what CRD was trying to achieve. These reviews may, or not, identify the underlying credit risk management issues, and could give CRD a false sense of comfort, until unforeseen circumstances reveal otherwise.
- For an efficient and effective supervisory process, OSFI's model is one of "*use of the work*" (*where appropriate*) of the results of the work of an institution's QRM functions and/or 3rd parties, as it gives insight to how much direct testing supervisors need to do to assess Operational Management's (OM) effectiveness. Furthermore, leveraging off the QRMs' work, as appropriate, can lead to scope coordination and minimize

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5. Observations and Recommendations, Continued

Observation 3
(Continued)

duplication of effort and focus CRD's resources on risks and controls of higher/critical interest to OSFI. IA noted that, for the most part, the results of QRMs' and/or 3rd parties work were not appropriately used, when available.

- CRD's follow-up process was not effectively integrated into CRD's supervisory process. This lack of follow-up work to ensure prior recommendations reported to FRFIs were properly and timely evaluated for its adequacy and effective implementation, has created operational issues for Lead Supervisors.
- CRD experienced significant delays in the delivery of its work plans, due to weak oversight of the planning process and various operational reasons. As a result, Lead Supervisors' reporting requirements to the FRFIs were impacted. While CRD may not be able to control all factors causing work delays, closer management of CRD's work plans' execution, (including adequate reconciliation of work planned with work performed) and reporting is important.

Recommendation:

Enhancing CRD's planning, execution, reporting, and follow-up process will require the following.

3.1 Development of a formal framework /operational manual with tools and technical guidance that is properly aligned with OSFI's Supervisor Framework, to address the full scope of CRD's supervisory work, and that:

- Allow for CRD's review approach to be flexible enough to adapt to individual FRFI's level of risk and Lead Supervisors' specific supervisory concerns (not always "one size fits all");
- Allow for CRD's conclusions to be reached in a structured and systematic manner to facilitate an effective integration of CRD's work into the Lead Supervisors' overall supervisory process;
- Use the results of the QRMs' work, as appropriate, to coordinate scope of work and minimize duplication of effort; and,
- Fully integrate the follow-up work into CRD's supervisory process.

3.2 CRD's formal methodology (including guidance and tools as well as "standard" documents like the "Pre-exam letter") be periodically reviewed for continued relevance and to proper reflect changes in the environment and/or OSFI's supervisory process. And,

3.3 CRD may be able to share some of its tools to promote clear communication across OSFI groups about the work it performs and, at the same time, transfer knowledge to Lead Supervisor teams.

5. Observations and Recommendations, Continued

Observation 3 (Continued) **Management Action Plan:**

With respect to “CRD’s Supervisory Reviews: Planning, Execution, Reporting, Follow-up” (recommendations 3.1 and 3.2) we acknowledge and agree with the need to develop an over-arching operational guide for CRD that encompasses the various guides and tools that already exist, as well as any new guides / tools that are to be developed as part of the broader Supervision wide training initiative currently underway.

We have engaged Practices to ensure that any operational guidance we generate as part of the broader Supervision training initiative will be reviewed by Practices to ensure it aligns with the Framework and supplements the existing, higher level Practices guides. While the time-line for the broader Supervision training initiative is up to three years, we are setting a completion date for establishing the operational guide for CRD as March 31, 2016 noting that this guide will continue to be updated as the broader training initiative runs its 3 year course.

With respect to recommendation 3.3 the concept of sharing tools and transferring knowledge is included in the aforementioned Supervision training initiative.

Observation 4 **CRD’s Quality Control Reviews**

Quality control (QC) reviews are conducted at each step of CRD’s supervisory process by the appropriate level of management, as per Guide G19, to ensure OSFI’s Supervisory Framework (SF) is appropriately and consistently applied, as intended.

In general, quality control reviews did not identify some of the findings IA noted in the CRD’s supervisory documents we reviewed. High turnover and new senior staff joining CRD, who may not have been fully versed and/or trained on OSFI’s Framework and its application, may have contributed to this issue as CRD’s staff was instructed to follow a supervisory approach that was not always aligned with OSFI’s Supervisory Framework.

Furthermore, CRD’s staff spent significant time and effort in conducting “*quality assurance*” (“QA”) reviews of the work done by CRD’s consultants. These QA reviews appeared to be, in some cases, a full “re-do” of the credit file reviews consultants performed. It is unclear whether the nature and extent of these QA reviews had been properly assessed for effectiveness and efficiency by management. These QA reviews significantly impacted CRD’s work completion and reporting timelines.

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5. Observations and Recommendations, Continued

Observation 4
(Continued) **Recommendations:**

4.1 CRD considers having the Practices Division provide training on OSFI's Supervisory Framework and related Guides to help address areas where the principles of the Supervisory Framework are not being followed and/or applied as intended. And,

4.2 The requirements of the Guide G19 need to be fully implemented to ensure quality control reviews (including 'QA' reviews of consultants' work) achieve their intended purpose and are conducted in a timely and effective manner. Management needs to reassess the nature and extent of the QA reviews and demonstrate the value.

Management Action Plan:

With respect to recommendation 4.1, we concur that guidance provided previously in CRD was not always aligned with Supervisory Framework as it pertained to how CRD's conclusions were to be documented in the RAD and Risk Matrix. As noted above, CRD has engaged Practices and they have agreed to review documents to be generated by CRD to ensure they are aligned with the Framework.

Specific to recommendation 4.2 we agree there is an opportunity to review our QA process from an efficiency stand-point as part of our over-all efforts to improve production time for our review work. This review is scheduled for completion by December 31, 2015.

Observation 5 **Compliance with the Privacy Act Requirements on Personal information**

The Privacy Act and its Regulations provide the legal framework for the collection, retention, use, disclosure and disposition of personal information. Personal information includes, among other things, identifying numbers, such as Social Insurance Number (SIN). Federal government institutions collecting personal information require parliamentary authority to do so. Under the Privacy Act, personal information including the SIN can be collected only if it relates directly to such program or activity. Federal government institutions have to demonstrate the need to collect or use the SIN under that program or activity, and seek policy approval from Treasury Board prior to implementing a new collecting or a new consistent use of the SIN.

For retail lending reviews, CRD requests FRFIs to provide photocopies of all borrowers' documentation containing personal information (including SINs) that are part of the credit files selected for CRD's 'on-site' review. These documents are used by CRD's consultants to perform their detailed loan file

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5. Observations and Recommendations, Continued

Observation 5 **Compliance with the Privacy Act Requirements on Personal information** (Continued)

reviews. There were a few instances where institutions had provided CRD with electronic copies of these documents as well, which were stored in OSFI's electronic document system. Access to the electronic documents was not sufficiently restricted.

CRD's practice is to keep the photocopies of the borrowers' documentation containing personal information (including SINs) after the 'on-site' reviews. Documents are stored in CRD's locked cabinets documents until CRD's staff perform their 'quality assurance' (QA) reviews of the work done by CRD's consultants. After the QA reviews are done, documents are kept by OSFI's Records group.

Treasury Board has issued a Directive on SIN that applies when federal government institutions collect the SIN for both administrative and non-administrative purposes, as contemplated in the Privacy Act. The Directive contains requirements for the collection, use, and disclosure of the SIN by federal government institutions. For example, only the federal government institutions listed in Appendix A of the Directive can collect the SIN. OSFI is not one of the institutions listed in Appendix A.

Although the borrower's personal information will not be used by OSFI in a decision making process that directly affects the individual borrowers, the Directive would likely apply because OSFI is a federal department collecting SIN information.

Recommendations:

5.1 Consideration should be given to have CRD's staff perform their "quality assurance" review of consultants' work during the 'on-site' review at the institutions.

5.2 Determine whether it is necessary for CRD to obtain borrowers' personal information (including SINs) from institutions to conduct the credit file reviews; if yes, determine how the Treasury Board's Directive requirements apply to OSFI. And,

5.3 As required, enhance controls around borrowers' personal information CRD collects, uses, and retains to ensure this information is properly safeguarded.

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5. Observations and Recommendations, Continued

Observation 5 **Management Action Plan:**
(Continued)

CRD has amended its operating procedures to instruct FRFI's to redact any SIN's from pre-exam material prior to submission to OSFI.

With respect to recommendation 5.2, we acknowledge the need to review our current operating procedures vis-à-vis requirements stipulated under the Privacy Act and will do so on a priority basis. To that end, we have had discussions with the Director, Enterprise Information Management who has engaged an external consultant to complete a Privacy Impact Assessment of CRD by August 31, 2015. To the extent the outcome of the assessment indicates changes to our procedures are required, we will make the appropriate amendments by November 30, 2015.

Observation 6 **Management of CRD's External Resources**

To achieve its mandate, CRD requires resources with the relevant skills, knowledge, and experience. These resources need to have the ability to perform in-depth analyses and apply judgement within short timeframes on complex issues requiring specialized credit knowledge, within a rapidly changing credit environment. It is important that the resources used are acquired through a rigorous assessment of their qualifications. They need to be effectively managed and adequately safeguarded against loss or departure.

CRD has a "curriculum" that identifies minimum levels of knowledge for its internal staff at varying levels. However, CRD's contracting documents (i.e., "statement of work") to recruit external consultants contained no qualifications and clear scope of work to help select potential consultants for CRD. As a result, it was unclear as to what was CRD's HR strategy to complement its staff knowledge and address skill gaps with external consultants' knowledge/expertise.

CRD makes extensive use of external consultants to conduct institution specific credit file reviews. The quality of CRD's work is heavily skewed towards reliance on the experience of the consultants used. Their work, in general, appears to be well received by CRD. However, while we have not assessed the quality of the consultants hired, it is important to note that consultant's knowledge can become dated over time due to increased complexity of credit activities/products and the newness of the concept of risk management practices.

IA reviewed CRD's process in place to hire and manage external consultants and noted the following.

- The lack of a formal "curriculum", including qualifications, that identifies the required levels of skills, experience and expertise.
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5. Observations and Recommendations, Continued

Observation 6 Management of CRD's External Resources (Continued) (Continued)

- Existing database contained minimal information on consultants. The process to handle such matters as accreditations, potential conflicts of interest, years of consulting service to CRD/OSFI, areas of expertise, performance assessments and training needs, was informal.
- CRD's review of consultants' performance at the end of each assignment was informally and inconsistently done. The process to assess and discuss with consultants matters regarding performance and/or the quality of their work on previous reviews lacked rigour and purpose. It was unclear how the results of these reviews were used to help CRD manage its external consultants.
- Given the increasing complexity of credit activities/products and/or risk management practices, more time may be needed in ensuring consultants get sufficient time to train and learn the proper context of the risk priorities and supervisory concerns of the FRFIs they will work on.

Recommendation:

6.1 CRD's management should conduct a capacity assessment, including skill set requirements, linked to CRD's objectives and HR Strategy, so that any gap/weaknesses identified may be properly addressed to ensure CRD will have an adequate "specialized knowledge & skilled staff basis" to meet its supervisory mandate.

6.2 Management should periodically assess overall skills, knowledge and expertise available in CRD's pool of resources (internal and external) for its currency, relevance and adequacy; and identify areas for further training / learning. And,

6.3 Existing processes to hire and manage CRD's external resources should be improved and a formal framework be developed to ensure:

- Clearly defined statements of work with accompanying necessary qualifications;
- Clear selection process that demonstrates how the resources meet the necessary qualifications and experience for the assigned work;
- Information on external resources is kept current to support their continued use and decisions on future assignments; and
- Performance of external resources is assessed at the end of each assignment and feeds into future assignments and/or learning needs.

Management Action Plan:

With respect to recommendation 6, CRD commenced an action plan to expand the size, quality, and capacity of the pool as well as document the related procedures in the Fall of 2014 with a completion date set of September 30, 2015.
