

Exposure Draft

Revised Standards of Practice – Subsections 1510 and 1520 CPA Canada/CIA Joint Policy Statement

Actuarial Standards Board

June 2022

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MEMORANDUM

To: All Fellows, Affiliates, Associates, and Correspondents of the Canadian Institute of Actuaries, and other interested parties

From: Josephine Marks, Chair
Actuarial Standards Board

Jacques Tremblay, Chair
Designated Group

Date: June 30, 2022

Subject: **Notice of intent on the revised Standards of Practice – subsections 1510 and 1520 CPA Canada/CIA Joint Policy Statement**

Comments Deadline: **September 19, 2022**

AASB and CASB Exposure Draft

Joint Policy Statement Concerning Communications between Actuaries Involved in the Preparation of Financial Statements and Auditors

Highlights

The Auditing and Assurance Standards Board (AASB) and the Canadian Actuarial Standards Board (ASB) propose, subject to comments received following exposure, to issue a revised “Joint Policy Statement Concerning Communications between Actuaries Involved in the Preparation of Financial Statements and Auditors” (“Statement”). The revised Statement will replace the existing Statement, with the same title.

The AASB intends to append the revised Statement to Canadian Auditing Standard (CAS) 500, *Audit Evidence*, in the CPA Canada Handbook – Assurance, consistent with the existing Statement. The CASB intends to upload the revised Statement on the Canadian Institute of Actuaries website, consistent with the existing Statement.

The revised Statement has been written from the perspectives of the AASB and the CASB. Therefore, it contains terminology and concepts from the auditing and actuarial professions.

A joint CPA Canada/CIA task force has been assigned to develop revisions. Jacques Tremblay is co-chair of this task force; Pierre Lepage and Gus van Helden are members of the actuarial designated group, Lesley Thomson is the ASB observer. Members of the accounting task force are: Janice Deganis (co-chair), Bob Bosshard, Jessie Foster, Heather George, and Jessica Macht.

Key public interest considerations

Revising the Statement serves the public interest by:

- clarifying the scope of the Statement;
- clarifying the use of the other professional's work and addressing potential inappropriate use of the other professional's work;
- enhancing discussions between auditors and actuaries; and
- making other enhancements to improve the clarity of the Statement.

Main features of the exposure draft

The existing Statement was issued in 2007. Since its issuance, professional standards and practices relating to the determination of financial statements amounts using actuarial calculations and the audit of such amounts have evolved. In September 2021, the AASB approved a joint project with the CASB to consider what changes are necessary for the Statement to continue to be appropriate in the current environment.

The following sets out the AASB's and CASB's proposals to address the key issues identified.

Clarifying the scope of the Statement

The Statement is intended to facilitate communications between an auditor and an actuary as the two professionals conduct their respective engagements relating to the entity's financial statements. The AASB and CASB recognizes that it has become more prevalent for the inquiring professional to request the responding professional to perform work beyond their existing engagement. For example, an actuary may request additional information or work from the auditor that is beyond the work performed for the audit engagement.

The proposed revised Statement expands paragraph 1 and introduces new paragraphs 3A and 3B to better explain the scope of the Statement, including what is outside the scope.

Clarifying the use of the other professional's work and addressing potential inappropriate use

The existing Statement directs the inquiring professional to "consider" the work of the responding professional. The AASB and the CASB believe that the term "consider" may convey a different meaning to different users of the Statement and, therefore, is a potential source of confusion. For example, the AASB and the CASB understand that some professionals misinterpret the term "consider" in the context of "reliance" on the responding professional's work. However, under both the auditing and actuarial standards, the professional is responsible for their own work and that responsibility is not diminished by using the work of others.

To describe the desired action of the professionals more precisely, the proposed revised Statement replaced the term “consider” with “use”. Further, the proposed revised Statement introduces new guidance, as follows:

- paragraph 7A clarifies that the inquiring professional uses, but does not rely, on the responding professional’s opinion or their work; and
- paragraph 10(a) directs the inquiring professional to inform the responding professional of the intended use of the responding professional’s work or name to avoid potential inappropriate use of the responding professional’s work or name.

Enhancing discussions between auditors and actuaries

The communication between the two professionals starts with the inquiring professional initiating a discussion with the responding professional. This discussion is intended to facilitate the inquiring professional’s ability to use the responding professional’s work. This initial step is missing from the Statement. The AASB and CASB propose highlighting this step through examples of discussions between the professionals in paragraph 6 of the proposed revised Statement.

The introduction of International Financial Reporting Standard (IFRS) 17 *Insurance Contracts* has resulted in a possibility that an amount determined using actuarial calculations may comply with IFRS 17 but not with actuarial standards. To address potential impacts arising from such differences, the AASB and CASB propose to add subparagraph 10(e)(i) to direct the professionals to discuss the applicable financial reporting framework and accounting policy choices and the actuarial valuation choices.

Clarifying and updating definitions

The revised proposed Statement includes changes to the definitions that are intended to enhance the clarity of the definitions or to conform to the terminology used in other standards.

Effective date

The AASB and CASB propose that the revised Statement be effective for communications between the auditor and the actuary initiated on or after March 31, 2023. The Statement is expected to be made available on the AASB’s and the Canadian Institute of Actuaries’ websites on or before February 2023 and in the CPA Canada Handbook – Assurance (“Handbook”) in March 2023.

For users of the Handbook, Guidelines are effective as of the first day of the month of issue unless otherwise stated. Similar to Guidelines, the Statement does not impact requirements in the Handbook. Considering the nature of the Statement and the time needed for implementation, the AASB proposes that the Statement be effective at the end of the month of issuance in the Handbook.

The Chartered Professional Accountants of Canada and the Canadian Institute of Actuaries are jointly updating the non-authoritative guide, *Audits of Financial*

Statements That Contain Amounts That Have Been Determined Using Actuarial Calculations. This guide will address audit considerations arising from IFRS 17 and other developments in standards and practice. The guide is expected to be issued around the same time as the AASB and the CASB expect to issue the Statement.

An effective date for communications between the auditor and the actuary on or after March 31, 2023, would allow:

- the revised Statement and the guide to address issues arising from IFRS 17 as soon as practicable; and
- auditors and actuaries to update their work processes and methodologies to reflect both the revised Statement and the updated guide at the same time.

Comments received on the notice of intent published January 25, 2022

Comments were received from the membership in support of reviewing Subsections 1510 and 1520.

Issues to consider were creating additional education material to improve process. Examples were:

1. Interpretation differences and how to resolve them,
2. Interpretation of materiality, and
3. Scope creep and duplication of work between the two professionals.

Issues 1 and 3 were discussed at length by the joint working group and will be covered in the CIA/CPA Guide, but to the extent possible language was added to the Standard in order to help both professionals in dealing with these situations.

Issue 2 is outside the scope of this standard but will be re-evaluated during the revision of the CIA/CPA Guide.

Ongoing education of both actuaries and auditors on these important standards of practice was encouraged. Webinars were suggested and are being considered for later this Summer and Fall.

Comments requested

The AASB and CASB request comments on any aspect of the proposed changes. Comments are most helpful when they relate to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals should clearly explain the problem and include a suggested alternative, supported by specific reasoning.

The AASB and CASB seek views on the following questions:

1. Do you agree with the proposed changes as set out in the Appendix?
2. Do you agree that the proposed revised Statement is capable of being clearly understood and consistently interpreted and applied?

3. Do you agree that the proposed changes address the key public interest issues? If not, please specify what other changes should be made to the revised Statement.
4. Do you believe any of the proposed changes could create implementation challenges? If so, please explain why and where additional implementation guidance may be needed.

Auditors and other stakeholders of auditing and assurance standards may wish to submit their responses to the AASB. Actuaries and other stakeholders of actuarial standards may wish to submit their responses to the CASB. The deadline for providing your comments to the AASB and the CASB is September 19, 2022.

The ASB's due process has been followed in the drafting of this exposure draft.

We value your input and look forward to your feedback on this exposure draft.

For the ASB's consideration

For the AASB's consideration

Please submit comments to:

Jacques Tremblay at
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with a copy to Chris Fievoli at
chris.fievoli@cia-ica.ca

Please submit comments via this online
form and address your response to:

Karen DeGiobbi, CPA, CA
Director, Auditing and Assurance
Standards Board
277 Wellington Street West
Toronto, ON M5V 3H2

JM, JT

The following sets out the revised Statement with the proposed changes shown in mark-up.

Joint Policy Statement Concerning Communications between Actuaries Involved in the Preparation of Financial Statements and Auditors

This Joint Policy Statement, effective for communications between the auditor and the actuary on or after March 31, 2023 ~~October 1, 2007~~, has been approved by the Canadian Actuarial Standards Board of the Canadian Institute of Actuaries (CIA) and by the Auditing and Assurance Standards Board.

Purpose and Application

- 1. The purpose of the Joint Policy Statement ("Statement") is to ~~discuss~~ facilitate effective communication between an auditor and an actuary as the two professionals conduct their respective engagement relating to the entity's financial statements. This Statement sets out the process for:
 - (a) communications between an ~~actuaries~~ involved in the preparation of financial statements, and an auditors, regarding their respective responsibilities;
 - (b) how these ~~actuaries~~ and auditors would interact in carrying out their respective responsibilities; and
 - (c) how their respective responsibilities may be disclosed to readers of financial statements.
- 2. This Statement applies when an auditor is engaged to carry out an audit of financial statements in accordance with generally accepted auditing standards where the financial statements prepared by management include amounts determined by or with the assistance of an actuary. This Statement also applies when an actuary uses ~~considers~~ the work of an auditor in connection with conducting the actuarial valuation to determine amounts to be included in the financial statements prepared by management. ~~This statement does not apply to communications with an auditor's actuary or an external review actuary.~~
- 3. The financial statements of a pension plan or post-employment benefits plan and of the sponsor of such plans, ~~and~~ the financial statements of an insurance enterprise, and the financial statements of provincial workers' compensation schemes are the best examples of when this Statement applies.
- 3A. This Statement is not intended to address:
 - an actuary's request for the auditor to perform work that is not part of the audit of the financial statements; or
 - an auditor's request for the actuary to perform work that is not part of the actuarial valuation to determine amounts to be included in the financial statements.
 - For such requests, the professionals may consider recommending to management that another type of engagement be undertaken. For example, an auditor may consider recommending that an engagement under Canadian Standard on Related Services (CSRS) 4400, Agreed-Upon Procedures Engagements, be undertaken.

- 3B. This Statement does not apply to communications with an auditor’s actuary or an external review actuary, and does not supplant the respective professionals’ responsibilities under the applicable professional standards.
- **Definitions**
 - 4. For the purposes of this Statement:
 - (a) “actuary involved in the preparation of financial statements” means an actuary, either an employee of the company or an external independent consultant, who determines and reports on amounts to be included in the financial statements prepared by management;
 - (b) “applicable professional standards” means:
 - (i) when the responding professional is an actuary, the Standards of Practice and the Rules of Professional Conduct of the Canadian Institute of Actuaries; and
 - (ii) when the responding professional is the auditor, the Canadian Standards on Quality Management and the Canadian Auditing Standards (CASs) in the CPA Canada Handbook – Assurance and the relevant independence and other ethical requirements set out in the rules of professional conduct / code of ethics applicable to the practice of public accounting issued by various professional accounting bodies;
 - (c) “auditor” means a person or persons conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable, the firm ~~an auditor who has been appointed to perform an audit and report on financial statements or to perform specified procedures on data;~~
 - (d) “auditor’s actuary” means an actuary with the necessary skills, knowledge and experience used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence ~~an appropriately qualified actuary who assists the auditor in assessing risk and performing further audit procedures to respond to assessed risk;~~
 - (e) “data” includes particulars of:
 - (i) invested assets of a pension plan or post-employment benefits plan or an insurance enterprise;
 - (ii) membership of a pension plan or post-employment benefits plan;
 - (iii) policies of and claims against an insurance enterprise; and
 - (iv) reinsurance of an insurance enterprise;

- (fg) “external review actuary” means an actuary who reviews the work of another actuary at the request of a regulator and provides an opinion to the regulator as to whether the work meets applicable professional standards and accepted actuarial practice;
- (gf) “inquiring professional” means the actuary or the auditor, as the case may be, who is using ~~considering~~ the work of the other;
- (h) “insurance enterprise” includes the following enterprises, including companies, branches, fraternal benefit societies and other forms of organizations:
 - (i) life insurance enterprises;
 - (ii) property and casualty insurance enterprises;
 - (iii) reinsurance enterprises; and
 - (iv) workers’ compensation enterprises;
- (i) “management” refers to the person(s) with executive responsibility for the conduct of the entity’s operations ~~any person(s) having authority and responsibility for planning, directing and controlling the activities of an enterprise;~~ and
- (j) “responding professional” means the actuary or the auditor, as the case may be, whose work is being used ~~considered~~ by the other.

Responsibilities with Respect to Financial Statements

- 5. The financial statements are the responsibility of management. The representations contained in the financial statements may include amounts determined by an actuary. The auditor is responsible for expressing an audit opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
- 6. The actuary or the auditor may choose to use the work of the other professional. The process of using the work of the other professional starts with the inquiring professional initiating a discussion with the responding professional. This discussion facilitates the ability of the inquiring professional to use the responding professional’s work. For example:
 - 5(a) In determining these relevant financial statement amounts, the actuary is responsible for assessing the relevance, sufficiency and reliability of the data used in the valuation. The actuary may discuss with the auditor the nature, timing and extent of the auditor’s procedures relating to data integrity and controls to facilitate the actuary’s use of the auditor’s work for assessing the relevance, sufficiency and reliability of the data. In such cases, the actuary involved in the preparation of the financial statements acts as the inquiring professional and the auditor acts as the responding professional.

- ~~6(b) The auditor, on the other hand, has a responsibility to express an opinion on the fairness with which the financial statements present the financial position, results of operations and cash flows in accordance with the applicable financial reporting framework, which will normally be generally accepted accounting principles. When the financial statements include amounts determined by an actuary, the auditor may discuss with the actuary the assumptions, methods and data used to determine the actuarial amounts to facilitate the auditor's use ~~considers the work~~ of the actuary's work as part of the audit evidence supporting the actuarial valuation. In such cases, the auditor acts as the inquiring professional and the actuary involved in the preparation of the financial statements acts as the responding professional.~~

Using ~~Considering~~ the Responding Professional's Work

- 7. The inquiring professional may use ~~consider~~ the work of the responding professional provided that the inquiring professional takes reasonable care to determine that there is a basis for such use ~~consideration~~. This is done by communicating with the responding professional to establish an understanding of the work to be carried out by each and by considering:
 - (a) the responding professional's appointment to do the work;
 - (b) whether the responding professional has followed the standards of their ~~his or her~~ profession in carrying out the work; and
 - (c) the appropriateness of the responding professional's findings and opinion.
- 7A. Use of a responding professional's opinion or their work does not constitute reliance. The Standards of Practice of the Canadian Institute of Actuaries are premised on the actuary being responsible for their work, and that responsibility is not diminished by using the work of others. Similarly, the CASs are premised on the auditor having sole responsibility for the audit opinion expressed on the financial statements, and that responsibility is not reduced by the auditor's use of the work of others.
- **Communication between the Two Professionals**
- 8. Communication would be established between the auditor and the actuary involved in the preparation of the financial statements when planning their respective engagements, and further communication would take place as necessary throughout the engagement.
- 9. On a timely basis, each professional seeks from management the right to:
 - (a) communicate with the other professional; and
 - (b) when necessary, disclose any relevant information to the other professional.
- 10. The inquiring professional would:

- (a) inform the responding professional of the intended use of their consideration of his or her work in accordance with this Statement, including, if applicable, the intended use of the responding professional's work or name in communications with third parties to avoid potential inappropriate use of the responding professional's work or name;
- (b) request confirmation from the responding professional that they have he or she has been appointed by law or engaged by the shareholders, policyholders, directors, or management to do the work that the inquiring professional intends to use consider;
- (c) request confirmation from the responding professional that they are he or she is a professional in good standing;
- (d) request confirmation from the responding professional that they he or she would will carry out the work required in accordance with the applicable professional standards; and
- (e) make the responding professional aware of the inquiring professional's needs. This would include a discussion of:
 - (i) the applicable financial reporting framework and accounting policy choices and the actuarial valuation choices to provide the respective professional with a basis to evaluate potential impacts, if any, arising from differences between the applicable financial reporting framework and accounting policy choices and the actuarial valuation choices;
 - (ii) the application of the concept of materiality to determine that the responding professional would will be using a materiality level that is appropriate in relation to the inquiring professional's materiality level in accordance with applicable professional standards;
 - (iii) subsequent events, to determine that the responding professional understands how they are to be treated and that the responding professional he or she would will consider the effect of matters that come to their his or her attention up to the date of their his or her report;
 - (iv) the timing of the work to be carried out by the responding professional and the date of their his or her report; and
 - (v) any questions relating to the responding professional's work.
- 11. The responding professional would provide a written response to the inquiring professional that would:
 - (a) confirm the expectation that they are he or she is available to perform the work that the inquiring professional intends to use consider;

- (b) confirm that they have ~~he or she has~~ been appointed by law or engaged by the shareholders, policyholders, directors, or management to do the work that the inquiring professional intends to use ~~consider~~;
 - (c) confirm that they are ~~he or she is~~ a professional in good standing;
 - (d) confirm that they are ~~he or she is~~ qualified to perform the work that the inquiring professional intends to use ~~consider~~ (including having the certifications or designations, if any, required for particular areas of practice);
 - (e) confirm that this work would ~~will~~ be carried out in accordance with the applicable professional standards;
 - (f) confirm awareness of the inquiring professional's intended use ~~consideration of their~~ ~~his or her~~ work, including, if applicable, the awareness of the inquiring professional's intended use of the responding professional's work or name in communications with third parties; and
 - (g) discuss any problems expected in meeting the needs of the inquiring professional on a timely basis.
- **The Responding Professional's Qualifications, Competence and Integrity**
 - 12. In the case of an auditor, prima facie evidence of professional qualification is membership in good standing in a professional accounting body. In the case of an actuary, prima facie evidence of professional qualification is fellowship in good standing in the Canadian Institute of Actuaries.
 - 13. When the responding professional is not well known to the inquiring professional, the inquiring professional may obtain information regarding ~~assurance as to~~ the responding professional's reputation for competence and integrity by consulting with others who are familiar with the responding professional's work.
 - **The Responding Professional's Findings**
 - 14. The responding professional's written response to the inquiring professional after completion of the work would:
 - (a) identify the purpose of the work;
 - (b) identify the financial statements or data to which it relates;
 - (c) identify the responding professional's relationship to the entity to which the financial statements or data pertain;
 - (d) confirm awareness that the inquiring professional intends to use ~~consider~~ the work in accordance with this Statement, including, if applicable, the awareness of the inquiring professional's intended use of the responding professional's work or name in communications with third parties; and
 - (e) when appropriate, include a copy of the report provided to the party who employed or engaged the responding professional that sets out the findings and, when applicable, opinions of the responding professional, including a representation that the work was performed in accordance with the applicable professional standards.

- 15. When the inquiring professional has a question about an aspect of the responding professional's work, the question would be raised with the responding professional who would provide a reasonable explanation about that aspect of their ~~his or her~~ work. This does not, however, ~~limit~~ restrict the ~~right of the~~ inquiring professional ~~from~~ to ~~obtaining any~~ information or explanation that may be required in the performance of their ~~his or her~~ duties in accordance with the applicable professional standards.

Disclosure of Respective Responsibilities to the Readers of Financial Statements

- 16. When required by law or regulation, a description of the respective responsibilities of the auditor and of the actuary involved in the preparation of the financial statements would accompany the financial statements.