



# Memorandum

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

**From:** Edward Gibson, Chair  
Actuarial Standards Board

Jacques Tremblay, Chair  
Designated Group

**Date:** February 2, 2023

**Subject:** **Final Standards of Practice – Subsections 1510 and 1520 CPA Canada/CIA Joint Policy Statement**

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## Background

The Joint Policy Statement (JPS) sets out communication principles between auditors and actuaries to facilitate and promote communications between the two professionals. The JPS was first issued in 2007. Over the years, practices relating to the audit of amounts determined using actuarial calculations have evolved.

In September 2021, the Auditing and Assurance Standards Board (AASB) approved a joint project with the Canadian Actuarial Standards Board (ASB) to consider what changes are necessary for the JPS to continue to be appropriate in the current environment.

On January 25, 2022, the ASB issued a [notice of intent](#). In June 2022, the AASB and the ASB issued a joint [exposure draft](#) of the revised JPS (ED-JPS). The ED-JPS was developed with the assistance of the JPS Joint Task Force, which consists of representatives from the actuarial profession, international public accounting firms, legislative auditor and an AASB member. Three written responses to ED-JPS were submitted to the AASB and two written responses were submitted to the ASB. In addition, the AASB heard from six participants at a virtual roundtable session.

The AASB approved the revised JPS at its meeting in November 2022.

## Key public interest considerations

The key public interest considerations in revising the JPS include:

- clarifying the scope of the JPS;
- 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 overall clarity of the JPS.

### **Clarifying the scope of the JPS**

The JPS 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 ASB recognize that it has become more prevalent for an inquiring professional to request a responding professional to carry out work beyond their existing engagement. To address these issues, the revised JPS added details to explain the scope of the JPS, including what is outside the scope.

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

The extant JPS directed the inquiring professional to "consider" the work of the responding professional. This term may convey a different meaning to different users of the JPS and may be a potential source of confusion. To describe the desired action of the professionals more precisely, the revised JPS replaced the term "consider" with "use". Further, the JPS introduced new material to:

- clarify that the inquiring professional uses, but does not rely on, the responding professional's opinion or their work; and
- direct 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 introduction of IFRS 17, *Insurance Contracts*, has resulted in a possibility that an amount determined using actuarial calculations may be compliant with IFRS 17 but not with actuarial standards. To address potential impacts arising from such differences, the revised JPS directs the two professionals to discuss the applicable financial reporting framework and accounting policy choices and the actuarial valuation choices.

### **Making other enhancements to clarify the JPS**

The revised JPS also included other enhancements to the definitions and other areas to enhance clarity or to conform to the terminology used in other standards.

## **Significant matters**

### **Reporting to Actuaries**

A respondent commented that it is unclear what professional standards would apply for the work performed by the auditor to address the actuary's request and suggested that guidance be provided on how the auditor would communicate with the actuary when the auditor is the responding professional. The respondent also implied that engagement standards such as CSRS 4400<sup>1</sup> may be used for reporting to actuaries.

1. To address the respondent's comment, the joint committee considered:
  - whether there is a need to supplement the JPS with another professional standard;
  - what other changes should be made to the JPS; and
  - how non-authoritative guidance may be used to further clarify the issue of professional standards for reporting to actuaries.
2. The joint committee concluded that it is unnecessary to supplement the JPS with another professional standard. From the perspective of the auditor as the responding professional, the purpose of the JPS is to provide a means for the auditor to share the work that the auditor is already performing as part of the financial statement audit with the actuary. Assuming that the actuary's request is within the scope

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<sup>1</sup> CSRS 4400, *Agreed-upon Procedures Engagements*

of the JPS, little or no incremental work is needed to address the actuary's request. It is not necessary for the auditor to repeat the work that the auditor is performing as part of the audit under a separate professional standard for the purpose of reporting to the actuary.

3. In determining what changes should be made to the JPS, the joint committee considered aspects of the JPS that may drive auditors to seek the use of another professional standard for reporting to actuaries. These aspects include:
  - Paragraphs 7(a), 10(b) and 11(b) of the JPS appear to suggest that the auditor is appointed or engaged to perform a separate engagement on the work requested by the actuary. Following this misunderstanding, paragraphs 7(b), 10(d) and 11(e) seem to suggest that the “separate engagement” is performed in accordance with professional standards, which led auditors to search for a standard such as CSRS 4460<sup>2</sup> or CSRS 4400 to guide the work; and
  - Auditors may be concerned that the actuary and other parties may not understand the auditor's limited involvement with that work. The auditor is providing an opinion (reasonable assurance) on the financial statements as a whole. However, no opinion or assurance is provided on the specific piece of work shared with the actuary. Auditors may feel a need to clarify that no opinion or other assurance conclusion is expressed on the work and to restrict the use of that work.
4. The joint committee made the following changes to address the matters set out above:
  - To clarify that the auditor is appointed or engaged to perform the financial statement audit and that the applicable professional standards such as the Canadian Auditing Standards apply to the audit engagement, the AASB:
    - added a definition of “underlying engagement” in paragraph 4(k);
    - replaced the term “work” with “underlying engagement” in paragraphs 10(b), 10(d), 11(b) and 11(e); and
    - simplified paragraph 7 as discussed in the “Other matters” section.
  - With the new definition of “underlying engagement”, paragraph 14(e) has been clarified to refer to a report on the underlying engagement.
  - To clarify the auditor's limited involvement on the work to address the actuary's request and to restrict the use of that work, the AASB added:
    - paragraph 14(cA), which directs the auditor's written response to state that the work provided to the actuary does not constitute an assurance engagement, and accordingly, the auditor does not express an audit opinion or an assurance conclusion; and
    - paragraph 14(dA), which directs the responding professional's written response to include a restriction of use.
5. In addition, to promote consistency in practice and to provide further clarity and guidance on the responding professional's written response, the joint committee:
  - replaced “purpose of the work” with “description of the work in the context of the underlying engagement” in paragraph 14(a) to better convey the responding professional's work provided to the inquiring professional;

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<sup>2</sup> CSRS 4460, *Reports on Supplementary Matters Arising from an Audit or a Review Engagement*

- added paragraph 14(cA) for the responding professional to include, or refer to, the work performed as agreed with the inquiring professional in the written response;
  - removed paragraph 14(d) as the responding professional's confirmation of their awareness of the inquiring professional's intended use of the work is already set out in paragraph 11(f); and
  - added two illustrative examples of a responding professional's written response to the inquiring professional in the Appendix of the JPS.
6. The joint committee recognizes that there may be other circumstances when the auditor may feel that it may be beneficial to use another professional standard for reporting to the actuary. This may be the case, for example, when:
- the actuary's requests consist of both matters within the JPS and matters outside the scope of the JPS. The auditor may find it more efficient to address all requests under a single engagement standard; or
  - the actuary's needs are better met with a different engagement standard. For example, the use of another standard may provide a more structured response to extensive requests.
7. The joint committee concluded that non-authoritative guidance is well-suited to highlight such circumstances and to indicate that the auditor may wish to discuss with management to engage the auditor to perform an engagement under the relevant professional standard.

### **Scope**

8. While supporting the changes to clarify the scope, a written response and some participants at the roundtable session suggested that further guidance on the following may be helpful:
- examples of requests that are within and outside the scope of the JPS; and
  - details of the auditor's and actuary's responsibilities to help the professionals to better determine whether requests are within or outside the scope of the JPS.
9. The joint committee concluded that non-authoritative guidance is well-suited to provide examples of requests that are within and outside the scope of the JPS. With respect to details on the responsibilities of the auditor and the actuary, the AASB concluded that the changes made to paragraphs 5 and 6 of the JPS provide details of the responsibilities of the two professionals at an appropriately granular level. Non-authoritative guidance could remind auditors and actuaries that the discussions between the two professionals can help them to consider what is within, and outside, the scope of the JPS.

### **Financial statement disclosures determined by actuaries**

10. A participant at the roundtable session indicated that the actuary may also assist management in preparing financial statements disclosures.
11. To remind auditors that they are responsible for disclosures of qualitative information based on amounts determined by the actuary, the joint committee added a definition of financial statements, which includes an explanation of disclosures. The joint committee believes it is unnecessary to add references to disclosures throughout the JPS as it is covered by the definition of financial statements.

### **Inappropriate use of the other professional's work**

12. To address potential inappropriate use of the other professional's work, paragraph 7A of ED-JPS explains the auditor's and actuary's existing professional responsibilities regarding the use of work of others. Some respondents suggested that the first sentence of paragraph 7A be removed as it did not seem necessary and could be misunderstood.

13. The joint committee identified inappropriate use of the other professional's work as a key public interest issue, and input from participants at the roundtable session confirmed this view. The joint committee retained the first sentence as it helps to emphasize the point that an inquiring professional can use, but not rely on, the responding professional's work.

#### **Discussion of materiality**

14. A written response indicated that there is confusion as to what the discussion of "the application of the concept of materiality" in paragraph 10(e)(ii) of ED-JPS would entail. The joint committee made changes to that paragraph to clarify the purpose of the discussion.

#### **Effective date**

15. ED-JPS proposed that the JPS be effective for communications initiated on or after March 31, 2023. Some respondents indicated that the proposed effective date may pose implementation challenges for reasons including the following:

- The effective date is shortly after the expected issuance date of the JPS in the CPA Canada Handbook – Assurance; and
- The phrase "initiated on or after" may be confusing. The respondent suggested removing this phrase.

16. The joint committee reaffirmed the effective date for the following reasons:

- The changes to the JPS are mostly clarifications and are unlikely to cause any substantial changes in practice. This view was held by roundtable participants and confirmed in other feedback received on exposure.
- The March 2023 effective date is driven by IFRS 17, *Insurance Contracts*, which is effective for annual reporting periods beginning on or after January 1, 2023. Communications between auditors and actuaries under the revised JPS would likely begin in 2023 as auditors start planning for the 2023 year-end audits. Accordingly, there is a need for the JPS to become effective as soon as practicable.
- According to the Preface Handbook, Guidelines are effective as of the first day of the month of issue unless otherwise stated.<sup>3</sup> As part of application and other explanatory material, the JPS is similar in nature to Guidelines. A March 2023 effective date is consistent with this premise.
- The phrase "on or after" facilitates implementation as it allows for communications between auditors and actuaries that have already started before March 31 to continue under the extant JPS.

#### **Other matters**

17. In addition to the changes described above, the joint committee made the following enhancements to improve the overall clarity of the JPS in response to input received on exposure:

- Paragraph 2(a) – separated the paragraph into bullet points to enhance ease of reading.
- Paragraph 3 – deleted the reference to workers' compensation schemes as it is already included in the definition of an insurance enterprise in paragraph 4(h).
- Paragraph 3B – redrafted and separated the material into paragraphs 3B and 3C for ease of reading.

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<sup>3</sup> Para. 42 of the Preface

- Paragraph 7 – simplified paragraph 7 by removing paragraphs 7(a), (b) and (c) and clarifying that the inquiring professional's communication with the responding professional in accordance with the JPS helps the inquiring professional to determine whether there is a basis for using the responding professional's work.

The Revised Joint Policy Statement was approved by the AASB on November 29, 2022. The Revised Standards of Practice – Subsections 1510 and 1520 were approved by the ASB on December 13, 2022. The Revised Standards are effective March 31, 2023. Early implementation is encouraged.

EG, JT



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