

Final

**Final Standards – General Standards –
CIA/CICA Joint Policy Statement,
Subsection 1630**

Actuarial Standards Board

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1630 CIA/CICA JOINT POLICY STATEMENT

The Canadian Institute of Actuaries and the Canadian Institute of Chartered Accountants agreed that each would incorporate the *Joint Policy Statement* in its standards of practice. Accordingly, the Joint Policy Statement is in the *CICA Handbook-Assurance* and in these standards of practice. Any change to the Agreement requires the consent of both Institutes. As a result, the style of this subsection differs somewhat from the style of the rest of the standards of practice.

JOINT POLICY STATEMENT

CONCERNING COMMUNICATIONS BETWEEN ACTUARIES

INVOLVED IN THE PREPARATION OF FINANCIAL STATEMENTS AND AUDITORS

This Joint Policy Statement effective October 1, 2007 has been approved by the Actuarial Standards Board of the Canadian Institute of Actuaries (CIA) and by the Auditing and Assurance Standards Board of The Canadian Institute of Chartered Accountants (CICA).

PURPOSE AND APPLICATION

- 1 The purpose of the Joint Policy Statement is to discuss:
 - a) communications between actuaries involved in the preparation of financial statements, and auditors, regarding their respective responsibilities;
 - b) how those 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 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, are the best examples of when this Statement applies.

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 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 Auditing Standards in the CICA 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 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 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;
 - f) “enquiring professional” means the actuary or the auditor, as the case may be, who is considering the work of the other;

- g) “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;
- 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 any person(s) having authority and responsibility for planning, directing and controlling the activities of an enterprise;
- j) “responding professional” means the actuary or the auditor, as the case may be, whose work is being 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. In determining those amounts, the actuary is responsible for assessing the sufficiency and reliability of the data used in the valuation. The actuary may consider the work of an auditor with respect to data integrity and controls. In such cases, the actuary involved in the preparation of the financial statements acts as the enquiring professional and the auditor acts as the responding professional.
- 6 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 considers the work of the actuary as part of the audit evidence supporting the actuarial valuation. In such cases, the auditor acts as the enquiring professional and the actuary involved in the preparation of the financial statements acts as the responding professional.

CONSIDERING THE RESPONDING PROFESSIONAL'S WORK

- 7 The enquiring professional may consider the work of the responding professional provided that the enquiring professional takes reasonable care to determine that there is a basis for such 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 his or her profession in carrying out the work; and
 - c) the appropriateness of the responding professional's findings and opinion.

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 enquiring professional would:
- a) inform the responding professional of the intended consideration of his or her work in accordance with this Statement;
 - b) request confirmation from the responding professional that he or she has been engaged by the shareholders, policyholders, directors, or management to do the work that the enquiring professional intends to consider;
 - c) request confirmation from the responding professional that he or she is a professional in good standing;
 - d) request confirmation from the responding professional that he or she will carry out the work required in accordance with the applicable professional standards; and

- e) make the responding professional aware of the enquiring professional's needs. This would include a discussion of:
 - i) the application of the concept of materiality to determine that the responding professional will be using a materiality level that is appropriate in relation to the enquiring professional's materiality level in accordance with applicable professional standards;
 - ii) subsequent events, to determine that the responding professional understands how they are to be treated and that he or she will consider the effect of matters that come to his or her attention up to the date of his or her report;
 - iii) the timing of the work to be carried out by the responding professional and the date of his or her report; and
 - iv) any questions relating to the responding professional's work.
- 11 The responding professional would provide a written response to the enquiring professional that would:
 - a) confirm the expectation that he or she is available to perform the work that the enquiring professional intends to consider;
 - b) confirm that he or she has been engaged by the shareholders, policyholders, directors, or management to do the work that the enquiring professional intends to consider;
 - c) confirm that he or she is a professional in good standing;
 - d) confirm that he or she is qualified to perform the work that the enquiring professional intends to consider (including having the certifications or designations, if any, required for particular areas of practice) ;
 - e) confirm that this work will be carried out in accordance with the applicable professional standards;
 - f) confirm awareness of the enquiring professional's intended consideration of his or her work; and
 - g) discuss any problems expected in meeting the needs of the enquiring 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 enquiring professional, the enquiring professional may obtain 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 enquiring 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 enquiring professional intends to consider the work in accordance with this Statement; 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 enquiring 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 his or her work. This does not, however, limit the right of the enquiring professional to any information or explanation that may be required in the performance of 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.