

Audit & Assurance Alert

CANADIAN AUDIT STANDARDS (CAS)

FEBRUARY 2023

Joint Policy Statement Concerning Communications between Actuaries Involved in the Preparation of Financial Statements and Auditors (Appendix to Canadian Auditing Standard 500, *Audit Evidence*)

Who Should Read This *Alert*?

Actuaries involved in the preparation of financial statements and auditors. Both auditors and actuaries can be inquiring or responding professionals.

Why Should You Read This *Alert*?

The Joint Policy Statement Concerning Communications between Actuaries Involved in the Preparation of Financial Statements and Auditors (JPS) applies in the following situations:

- 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
- when an actuary uses 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

Common examples of engagements where the JPS applies include audits of the financial statements of a pension plan or post-employment benefits plan and of the sponsor of such plans, and audits of the financial statements of an insurance enterprise.

Discussions between the auditor and the actuary can help the inquiring professional understand what is within or outside the scope of the JPS. As an example, the discussion can help the inquiring professional structure their request so that it is within the scope of the JPS. Consider the following additional practical application scenarios:

- An auditor's follow-up question on matters discussed in the actuarial report would normally be within the scope of the JPS.
- An actuary's request on output on testing specific controls would normally be outside the scope of the JPS if the auditor is not planning to test controls.

The Canadian Auditing and Assurance Standards Board (AASB) and Canadian Actuarial Standards Board (ASB) have developed and updated the JPS to facilitate effective communication between an auditor and an actuary as the two professionals conduct their respective engagement relating to the entity's financial statements. The JPS sets out the process for the following:

- communications between an actuary involved in the preparation of financial statements, and an auditor, regarding their respective responsibilities
- the way an auditor and an actuary might interact in carrying out their respective responsibilities
- the way an auditor's and an actuary's respective responsibilities may be disclosed to readers of the financial statements

When Is the New JPS Effective?

The JPS is effective for communications between an auditor and an actuary initiated on or after March 31, 2023. Early application is permitted. So where discussions started before March 31, 2023, the parties may choose to apply under either the old JPS or the revised JPS.

What Has Changed?

In updating the JPS, significant matters and areas commonly considered to be confusing were identified. To alleviate confusion related to these matters, some additional terms, such as *underlying engagement*, have been added, and specific definitions of certain terminology and other materials have been introduced to clarify the following:

- the scope of the JPS
- the difference between the responding professional's work provided to the inquiring professional and the activities undertaken by the responding professional for the purpose of the underlying engagement
- appropriate and inappropriate use of the responding professional's work
- the required understanding between the two professionals of the applicable financial reporting framework and accounting policy choices and the actuarial valuation choices
- the materiality discussion and its being driven by the needs of the inquiring professional

- the material to be included in the responding professional's written response to the inquiring professional, including an explanation of the auditor's involvement in the work to address the actuary's request and a restriction on use of the responding professional's work

An illustrative example of each respective professional's written response to the inquiring professional in the Appendix of the JPS (These examples are intended to provide clarity and guidance on the responding professional's written response and to promote consistency in practice.)

What Additional Resources Are Being Developed?

1. Basis of Conclusions (March 2023):
 - summary of objectives in revising the JPS
 - summary of due process and approval steps for this project
 - summary of significant matters arising from comments received in response to the exposure draft of the revised JPS
2. Revised Guide: Audits of Financial Statements That Contain Amounts That Have Been Determined Using Actuarial Calculations (March 2023):
 - practical guidance on applying the JPS when conducting an audit of financial statements in accordance with Canadian Auditing Standards
 - examples of possible audit procedures to address the assessed risks of material statement

Feedback

If you have comments on this Audit & Assurance *Alert* or suggestions for future *Alerts*, please send them to:

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