

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

March 2023

This Basis for Conclusions has been prepared by staffs of the Auditing and Assurance Standards Board (AASB) and the Canadian Actuarial Standards Board (ASB). It relates to, but does not form part of, the Joint Policy Statement Concerning Communications between Actuaries Involved in the Preparation of Financial Statements and Auditors (“JPS”).

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

### Purpose of this Basis for Conclusions

This Basis for Conclusions summarizes:

- the AASB and the ASB’s objectives in revising the JPS;
- the public exposure and approval steps for this project; and
- how the AASB and the ASB dealt with any significant matters arising from comments received in response to the Exposure Draft, “Joint Policy Statement Concerning Communications between Actuaries Involved in the Preparation of Financial Statements and Auditors,” (ED-JPS).

This information is set out below.

### Background

In June 2022, the AASB and the ASB issued ED-JPS, proposing that the revised JPS replace the existing JPS, with the same title. 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. There were five written responses to ED-JPS (see [List of Respondents to the Exposure Draft](#)). In addition to the written responses, feedback was received through roundtable sessions.

The AASB approved the revised JPS in November 2022. The Auditing and Assurance Standards Oversight Council confirmed that the AASB followed due process in developing the revised JPS prior to its issuance in the CPA Canada Handbook – Assurance. The ASB approved the revised JPS in December 2022.

### Key Public Interest Considerations

The key public interest considerations in revising the JPS include:

- clarifying the scope of the JPS, including additional details to explain what is within and outside 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, including guidance on a responding professional’s written response to the inquiring professional; and
- making other enhancements to improve the overall clarity of the JPS.

### Significant Matters

#### Distinguishing between Underlying Engagement and the Work Provided to the Inquiring Professional

1. A respondent commented that it is unclear what professional standards are being referred to in various paragraphs in the ED-JPS in connection with the work performed by the auditor to address the actuary’s request.
2. The AASB and the ASB noted that the confusion regarding the references to professional standards is likely a result of paragraphs 7(a), 10(b) and 11(b) of ED-JPS appearing 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) of ED-JPS seemed to suggest that the “separate engagement” is performed in accordance with a separate engagement standard such as Canadian Standards on Related Services (CSRS) 4400.1 or CSRS 4460.2
3. To address the misunderstanding, the AASB and the ASB made the following changes to better differentiate the responding professional’s work provided to the inquiring professional, from the activities undertaken by the responding professional for the purpose of the underlying engagement:

- defined “underlying engagement” in paragraph 7(l);
- replaced the term “work” with “underlying engagement” in paragraphs 14(b) and 15(b) (paragraphs 10(b) and 11(b) in ED-JPS) to clarify that the responding professional is appointed or engaged to perform the underlying engagement;
- replaced the term “work” with “underlying engagement” in paragraphs 14(d) and 15(e) (paragraphs 10(d) and 11(e) in ED-JPS) to clarify that the applicable professional standards such as the CAs apply to the underlying engagement; and
- clarified paragraph 10 (paragraph 7 in ED-JPS) as discussed in the Other Matters section below.

#### **Responding professional’s written response to the inquiring professional**

- A respondent indicated that there are inconsistencies in practice in the auditor’s communication as a responding professional to the actuary and suggested that guidance be provided on reporting for each professional.
- The AASB and the ASB believe that the reasons for the divergent practices include the following:
  - (a) 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 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; and
  - (b) There is a lack of clarity and guidance on how to draft a written response as set out in paragraph 14 of ED-JPS.
- 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 and the ASB added:
  - Paragraph 18(e), 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 specifically on the data to which the work pertains; and
  - Paragraph 18(f), which directs the responding professional’s written response to include a restriction of use.
- To provide further clarity and guidance on the responding professional’s written response and to promote consistency in practice, the AASB and the ASB revised the written response as follows:
  - replaced “identify the purpose of the work” with “describe the work in the context of the underlying engagement” in paragraph 18(c) (paragraph 14(a) in ED-JPS) to better convey the responding professional’s work provided to the inquiring professional;
  - added paragraph 18(d) for the responding professional to describe the inquiring professional’s request and to include, or refer to, the work performed as agreed with the inquiring professional in the written response;
  - removed paragraph 14(d) in ED-JPS as it repeated what was in paragraph 15(f); and
  - clarified that the “report to the party who employed or engaged the professional...” in paragraph 18(g) (paragraph 14(e) in ED-JPS) is a report on the underlying engagement.
- In addition, the AASB and ASB developed an illustrative example of each respective professional’s written response to the inquiring professional in the [Appendix](#) of the JPS.
- In making the above changes, the AASB and the ASB recognize that there is nothing within the revised JPS that would preclude the auditor from using another engagement standard such as CSRS 4400 or CSRS 4460 for reporting to the actuary, even if the actuary’s request falls within the scope of the JPS. This may be the case, for example, when:
  - the actuary’s requests consist of matters both within and outside the scope of the JPS. The auditor may find it more efficient to address all requests, including those that are within the scope of the JPS, under an engagement standard; or
  - management, the auditor and the actuary agree to address the actuary’s requests through a separate engagement.
 In such cases, the auditor may wish to request that management engage them to perform an engagement under the relevant applicable professional standard.

#### **Scope**

- A written response and some participants at the roundtable session suggested that further guidance and examples be provided to assist readers to better determine what requests are within or outside the scope of the JPS.
- The AASB and ASB noted that some of the changes to distinguish between the underlying engagement and the work provided to the inquiring professional would also help to clarify the scope. For example, the new definition of “underlying engagement” and the changes to paragraphs 14 and 15 help to emphasize that the JPS deals with work that is performed as part of the underlying engagement.
- Regarding examples of requests that are within or outside the scope of the JPS, the AASB and ASB noted that they are dependent on the circumstances surrounding the requests and the underlying engagement. Such examples would be better positioned in non-authoritative guidance.

#### **Financial statement disclosures**

13. A participant at the roundtable commented that the actuary might also assist management in preparing disclosures and suggested that references to disclosures be added throughout the JPS.
14. The AASB and the ASB decided not to add references to disclosures as actuaries are responsible for determining or providing an actuarial opinion on the amounts on the financial statements only. However, the AASB and ASB recognize that the actuarial “amounts to be included in the financial statements” also include those amounts included in the financial statement disclosures. To highlight that fact, the AASB and the ASB added a definition of “financial statements”, which includes an explanation of financial statement disclosures.

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

15. To address potential inappropriate use of the other professional’s work, paragraph 11 (paragraph 7A in ED-JPS) explains the auditor’s and actuary’s existing professional responsibilities regarding the use of the work of others. Some respondents suggested that the sentence “use of a responding professional’s opinion or their work does not constitute reliance” be removed as it did not seem necessary and could be misunderstood as the term “reliance” is not defined.
16. Inappropriate use of the other professional’s work is a key public interest consideration to be addressed in the revised JPS. Accordingly, the AASB and ASB decided not to remove this sentence as it appropriately emphasizes that an inquiring professional can use, but not rely on, the responding professional’s work.

#### **Discussion of materiality**

17. ED-JPS indicated that the inquiring professional would make the responding professional aware of its needs, which would include a discussion of the application of the concept of materiality. A respondent indicated that it is unclear what the discussion of the application of the concept of materiality would entail.
18. The AASB and the ASB agreed that the wording can be enhanced. Accordingly, the AASB and the ASB removed the wording relating to “concept of materiality” and clarified that the materiality discussion is driven by the inquiring professional’s needs.

#### **Effective date**

19. ED-JPS proposed that the JPS be effective for communications between the auditor and the actuary initiated on or after March 31, 2023. While most respondents agreed with the proposed effective date, some respondents raised the following:
  - The effective date might pose implementation challenges as it is shortly after the expected issuance date of the JPS in the Handbook.
  - The phrase “initiated on or after” is unnecessary. The respondent suggested that the effective date simply be “March 31, 2023.”
20. The AASB and the ASB decided not to amend the effective date for the following reasons:
  - The March 31, 2023, effective date is driven by the effective date of IFRS 17, *Insurance Contracts*, which is effective for annual reporting periods beginning on or after January 1, 2023. The JPS, together with a non-authoritative guide, *Audits of Financial Statements That Contain Amounts That Have Been Determined Using Actuarial Calculations*, which is currently being updated by CPA Canada and the Canadian Institute of Actuaries, are intended to address, among other things, impacts arising from IFRS 17. The guide is expected to be issued in early 2023. A March 2023 effective date for the JPS would be helpful to auditors and actuaries as they would only need to update their work process and methodologies once to address changes in the JPS and the guide.
  - Communications between auditors and actuaries under the revised JPS would likely begin in early 2023 as auditors start planning for the 2023 year-end audits and interim reviews. Given the public interest benefits of the revised JPS such as enhanced communications between auditors and actuaries, the AASB and the ASB are of the view that it is in the public interest for the JPS to be effective as soon as practicable.
  - As the roundtable participants indicated, the changes to the JPS are not expected to require substantial time to implement. For example, the most substantial changes are to the responding professional’s written response to the inquiring professional. The revised JPS provides an illustrative example of the written response for each respective professional.
  - According to the *Preface to the Handbook*, Guidelines are effective as of the first day of the month of issue unless otherwise stated. As part of application and other explanatory material, the JPS is similar in nature to Guidelines. A March 31, 2023, effective date is consistent with this premise.
  - An effective date for communications initiated on or after March 31, 2023, allows for communications between auditors and actuaries who have started before March 31 to continue under the superseded JPS. Alternatively, the professionals may also choose to early apply the revised JPS. The effective date is sufficiently flexible to address audits of entities with different year-ends.

#### **Early application**

21. The revised JPS was posted on the AASB’s and the Canadian Institute of Actuaries’ websites on or before February 2023 and issued in the Handbook on March 1, 2023. Some roundtable participants asked whether the revised JPS can be applied earlier, before its effective date of March 31, 2023.

22. While early application of standards in the Handbook is permitted unless otherwise stated, the AASB and the ASB decided to include an explicit statement in the revised JPS to make it clear to both professions.

**Other matters**

23. In addition to the changes described above, the AASB and the ASB simplified paragraph [10](#) (paragraph 7 in ED-JPS) to improve the overall clarity of the JPS. Paragraphs 7(a)-(c) of ED-JPS repeated what was already in other paragraphs of the JPS. Accordingly, the AASB and the ASB removed paragraphs 7(a)-(c) of ED-JPS and clarified 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.

**List of Respondents to the Exposure Draft**

Written submissions to the AASB

- BDO Canada LLP
- Grant Thornton LLP
- PricewaterhouseCoopers LLP

Written submissions to the ASB

- Provincial Auditor of Saskatchewan
- Sarah Chevalier

Summary of Roundtable Consultation Participants

Date of consultation	International public accounting firms	Legislative auditor	Individual
September 2022	4	1	1

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## Footnotes

1. CSRS [4400](#), *Agreed-upon Procedures Engagements*

2. CSRS [4460](#), *Reports on Supplementary Matters Arising from an Audit or a Review Engagement*

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