

Prise de position conjointe concernant la communication entre les actuaires participant à l'établissement des états financiers et les auditeurs

Réponses à l'exposé-sondage

Septembre 2022

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Karen DeGiobbi, CPA, CA
Director, Auditing and Assurance Standards Board
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September 19, 2022

Re: Exposure Draft - Joint Policy Statement Concerning Communications between Actuaries Involved in the Preparation of Financial Statements and Auditors

Dear Ms. DeGiobbi,

We have read the above-mentioned Exposure Draft that was issued in June 2022 and are pleased to have the opportunity to provide responses to your specific questions as outlined below.

1. *Do you agree with the proposed changes as set out in the proposed Statement?*

We agree with the proposed changes as set out in the proposed Statement except as noted below.

2. *Do you agree that the proposed revised Statement is capable of being clearly understood and consistently interpreted and applied?*

We agree that the proposed revised Statement is capable of being clearly understood and consistently interpreted and applied except for the following proposed paragraphs:

- 3A: While we agree with the intent of this proposed paragraph, we believe that more guidance is needed to understand what each professional is responsible for. As an auditor, how would I know whether or not I am requesting something that is not part of the actuarial valuation - what guidance can I look at to make this assessment?
- 4(a): The definition of an actuary involved in the preparation of financial statements refers to “amounts to be included in financial statements prepared by management”. There are other paragraphs where there is a reference only to “amounts”: 3A second bullet; 6(a). However, there may be disclosures of qualitative information in the financial statements which are considered part of the actuary’s work/report. Should the Statement include reference to qualitative information as well as amounts?
- 10(e)(ii): Although this paragraph has not been amended, there is confusion in practice as to what a discussion of “the application of the concept of material” would require. Does this mean that each professional would need to indicate what their materiality level is or just discuss how materiality is determined? To make the paragraph clearer, should it note that the discussion should be related to the determination of materiality including the amount used?



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.*

We agree that the proposed changes address the key public interest issues.

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.*

We believe that having an effective date based on the initiation of communications could be confusing without a definition of what this means. Could the effective date simply be March 31, 2023?

Thank you for your consideration of the above-noted responses. We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me at 905-633-4913 or via email at pgonsalves@bdo.ca.

Yours sincerely,

Patricia Gonsalves, CPA
Private Companies Quality and A&A Standards Partner
BDO Canada LLP

September 19, 2022

Karen DeGiobbi, CPA, CA
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Auditing and Assurance Standards Board
277 Wellington Street West
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Dear Ms. DeGiobbi:

Subject: Exposure Draft: Joint Policy Statement Concerning Communications between Actuaries Involved in the Preparation of Financial Statements and Auditors (the “Statement”)

We are pleased to have the opportunity to comment on the Statement proposed by the Audit and Assurance Standards Board (the “AASB”) and the Canadian Actuarial Standards Board (the “ASB”). Overall, we agree with the proposed changes, including those required to reflect the updates to and issuance of professional standards, one of the most important being the implementation of International Financial Reporting Standard (IFRS), *Insurance Contracts*. As outlined below, we believe that the proposed changes will result in the Statement meeting the needs of auditors, reflecting the evolution of the environment, and promoting improvements to how auditors and actuaries interact.

Comments requested by the AASB and ASB:

1. Do you agree with the proposed changes as set out in the Proposed Statement?

Other than as noted below in Question 4, we agree with the changes as set out in the proposed Statement.

2. Do you agree that the proposed revised Statement is capable of being clearly understood and consistently interpreted and applied?

The proposed revised Statement is capable of being clearly understood and consistently interpreted and applied; refer to our comments in Question 3 below regarding a specific area where we believe the changes to the Statement will improve interpretation.

Furthermore, the additional wording added to paragraph 6 to include the initial step in facilitating discussion between the inquiring professional and the responding professional will promote consistency in communications regardless of what auditing firm or actuarial firm is initiating these discussions.

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.

The proposed changes do address the four key public interest considerations. It is clear what is included in the scope of the Statement. The proposed changes modernize the Statement to allow for better communication between the professionals, including the new requirement in paragraph 10(e)(i) to discuss the applicable financial reporting framework and accounting policy choices and the actuarial valuation choices to evaluate any differences arising from such policies and choices.

We believe the clarification in paragraph 7 of “the use of the responding professional’s work” will prevent “consider the work of the responding professional” being misunderstood to imply reliance on the responding professional’s work. The addition of paragraph 7A will further prevent this misinterpretation and makes it clear

that, if auditors obtain the work of the responding actuary, this is not sufficient on its own to conclude that the amounts in the financial statements calculated by actuarial valuations are not materially misstated.

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.

We believe that the effective date could be an issue. Requiring the changes to be adopted for communications between the auditor and the actuary initiated on or after March 31, 2023 will provide implementation challenges for two reasons:

- 1) If the Statement is only available in February 2023, and in the Handbook in March 2023 as outlined in the exposure draft, this provides only a short period for auditing firms to update their templates and bring awareness to auditors of the change.
- 2) With the proposed effective date being for communications initiated on or after March 31, 2023, auditors will need to use two different communication templates within the same peak audit season. Adjusting to a new template part-way through a busy time of year adds undue burden.

To avoid these challenges, we would recommend selecting an effective date that falls outside of peak audit season to allow for appropriate implementation by auditors.

Should you wish to discuss any of our comments, please contact Greg Weber (greg.weber@ca.gt.com).

Yours sincerely,



Greg Weber, CPA, CA
Grant Thornton LLP



September 19, 2022

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

Dear Mrs. DeGiobbi:

RE: AASB Exposure Draft: Joint Policy Statement Concerning Communications between Actuaries Involved in the Preparation of Financial Statements and Auditors (the Statement)

Overview

We appreciate the opportunity to respond to the Exposure Draft (ED) and we commend the Auditing and Assurance Standards Board (AASB) for continuously promoting the relevance of the audit profession in Canada and more specifically for keeping the public interest considerations a priority.

We are supportive of the reasons for the revisions to the Statement, which were to serve 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.

Clarifying the scope of the Statement

We are supportive of the change to limit the scope of the Statement to the work performed with the existing engagement of the responding professional and that the Statement does not apply to communications with an auditor's actuary or an external review actuary and does not supplant the respective professional's responsibilities under the applicable professional standards.

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

We agree that under both the auditing and actuarial standards, the professional is responsible for their own work and that responsibility is not diminished by use the work of others, therefore we are supportive of the replacement of the terms "consider" with "use" and we are supportive of the addition of paragraph 7A, except for the first sentence of this paragraph. We do not believe that this sentence is necessary to support this clarification. We are of the view that the reference to "reliance" could be misunderstood and could be confusing since that term is not defined in the context of using the work of management's experts in CAS 500.

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Enhancing discussions between auditors and actuaries

We agree that the extant Statement could be enhanced with respect to the discussions/communications between auditors and actuaries.

With respect to the communication from the auditor to the actuary, we believe that there are currently divergences in practice. We believe that auditors and actuaries would benefit from more guidance on how to communicate when the actuary is the inquiring professional and the auditor the responding professional (i.e. under what standard should the auditor be reporting on). Also, we believe that the reporting for each professional is fundamentally different and therefore the Statement would benefit from separate guidance when the actuary and the auditor are inquiring professional and responding professional.

Clarifying and updating definitions

No comments

Questions

1. Do you agree with the proposed changes as set out in the proposed Statement?

We agree with most proposed changes, refer to the Overview.

2. Do you agree that the proposed revised Statement is capable of being clearly understood and consistently interpreted and applied?

With respect to the communication when the actuary is the inquiring party and the auditor is the responding party, we believe that there are currently inconsistencies in practice on how the audit work performed by the auditor and used by the actuary is communicated to the actuary and therefore this response to the ED is an opportunity to provide feedback to enhance and clarify prospectively certain elements of the reporting that existed prior to the updates suggested by the ED.

For example, the new paragraph 3A seems to imply that CSAE 4400 would be used only when the work performed is outside of the the scope of the Statement, i.e. for work that is not part of the audit of the financial statements and therefore this would suggest that CSAE 4400 would not be used if the work performed by the auditor was in the scope of this Statement. Paragraph 7 states that the inquiring professional needs to establish an understanding of the work to be carried out by each and by considering whether the responding professional has followed the standards of their profession in carrying out the work (par. 7b)) and the appropriateness of the responding professional's findings and opinion (par. 7c)). It is not clear as to what professional standards and findings and opinion paragraph 7b) and c) are referring to. Similar points are noted with respect to par. 10b) and 11b) where it is not clear how the auditor is engaged to do the work that the actuary intends to use and par. 10d) and 11e) where it is not clear how the auditor can provide a confirmation that the work of the responding professional was carried out in accordance with the applicable professional standards.



Therefore we believe that auditors and actuaries would benefit from more guidance on how to communicate when the actuary is the inquiring professional and the auditor the responding professional (i.e under what standard should the auditor be reporting on). Also, we believe that the reporting for each professional is fundamentally different and therefore the Statement would benefit from separate guidance when the actuary and the auditor are inquiring professional and responding professional.

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.

We believe that paragraph 7 and a portion of paragraphs 10 and 11 are more tailored to when the actuary is the responding professional, and therefore we suggest that different paragraphs be written for when the auditor and actuary are inquiring professionals and responding professionals.

Paragraph 6 has been amended to refer to discussion, although we do not disagree that the process of using the work of the other professional start with the inquiring professional initiating a discussion, we believe that this paragraph would be more impactful, if we added that the basis of using the work of the other professional is based on the requirements of CAS 500.8.

Refer to the Overview.

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.

Refer to the Overview.

If you have any questions about any part of this response, we would be happy to explore this further with you by reaching out to Paul Fitzsimon, at paul.fitzsimon@pwc.com or 416 869 2322 or Sophie Gaudreault, at sophie.gaudreault@pwc.com or 416 816 8407.

/s/PricewaterhouseCoopers LLP

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