

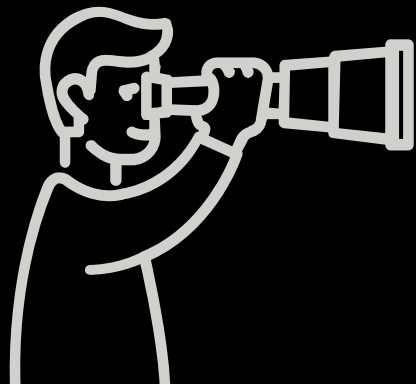
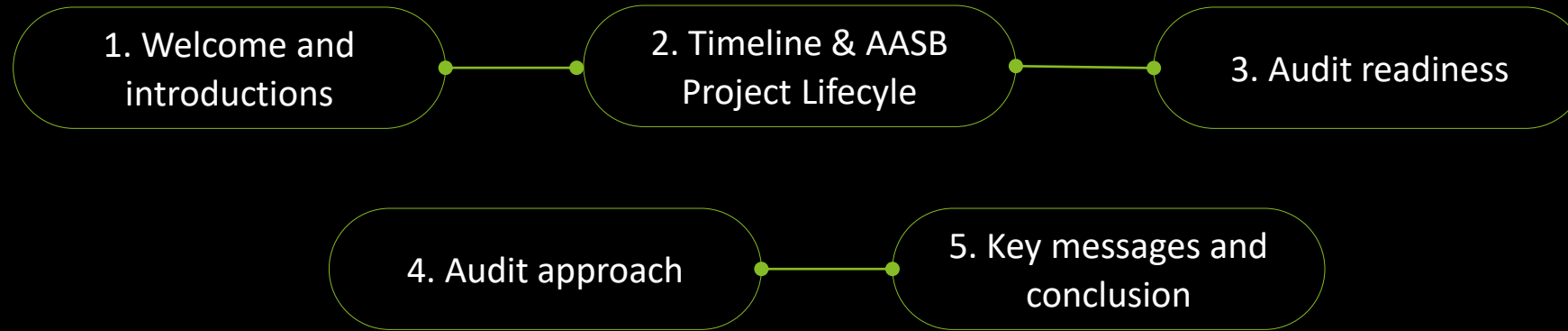
Deloitte.



Audit of AASB 17 – Getting
set up for success



Agenda

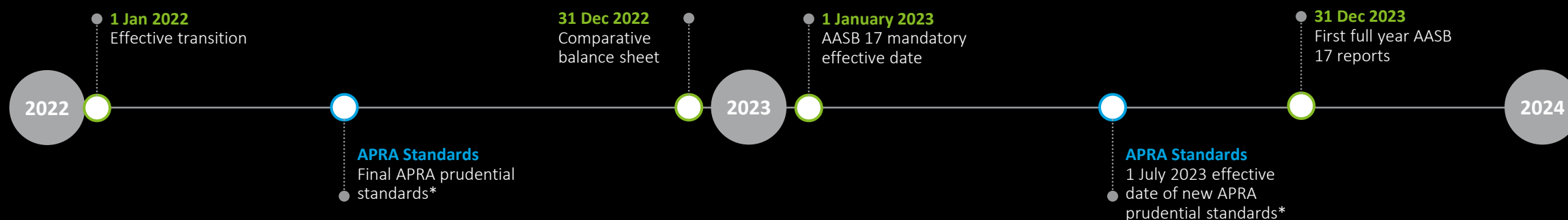


1 | Timeline & Challenges ahead



AASB 17 timeline

The Australian timeline is driven by the requirements of AASB 17 and also by regulator changes and the requirements for disclosure of the impact of AASB 17



Timeline milestones to date

- June 2020: finalisation of AASB 17
- 2020 – 2021: APRA targeted QIS to specific industry participants
- 2021: industry readiness survey from APRA
- 2021: draft APRA prudential standards
- 2021 – 2022: APRA industry wide QIS

IASB / AASB

- IASB issued Amendments to AASB 17 Insurance Contracts in June 2020 (originally issued in May 2017)
- July 2020, the AASB endorsed these amendments through AASB 2020-5 Amendments to Australian Accounting Standards – Insurance Contracts
- Significant interpretation and issues still under discussion

Australian Prudential Regulation Authority (APRA)

Current

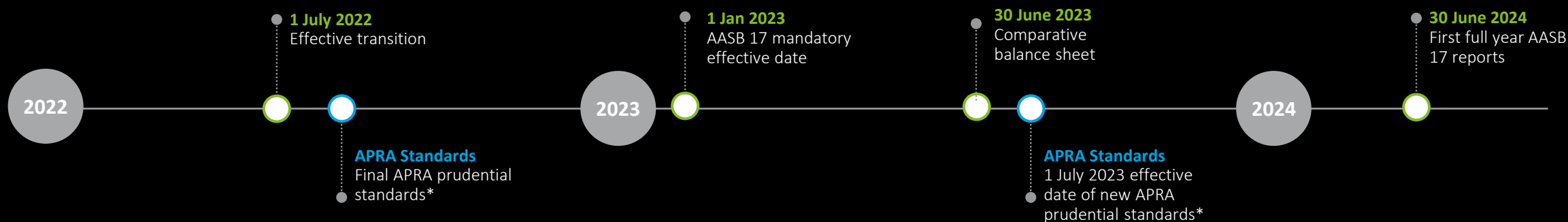
- New APRA forms effective 1 July 2023 – main impact on reporting with more limited impact expected on capital calculations

Past

- Industrywide QIS issued December 2021 (includes QIS and draft proforma forms for capital and reporting to APRA) – completed 31 March 2022
- Readiness survey issued mid-2021 and results showed industry progress but still many entities in early stages
- Quantitative Impact Study (QIS) issued - 11 industry participants selected – completed 31 March 2021
- Discussion paper issued 25 Nov 2020 for industry comment by 31 March 2021 - sets out changes to prudential framework as a result of AASB 17 and other changes (e.g. new product groups)
- Restarted AASB 17 work in September 2020

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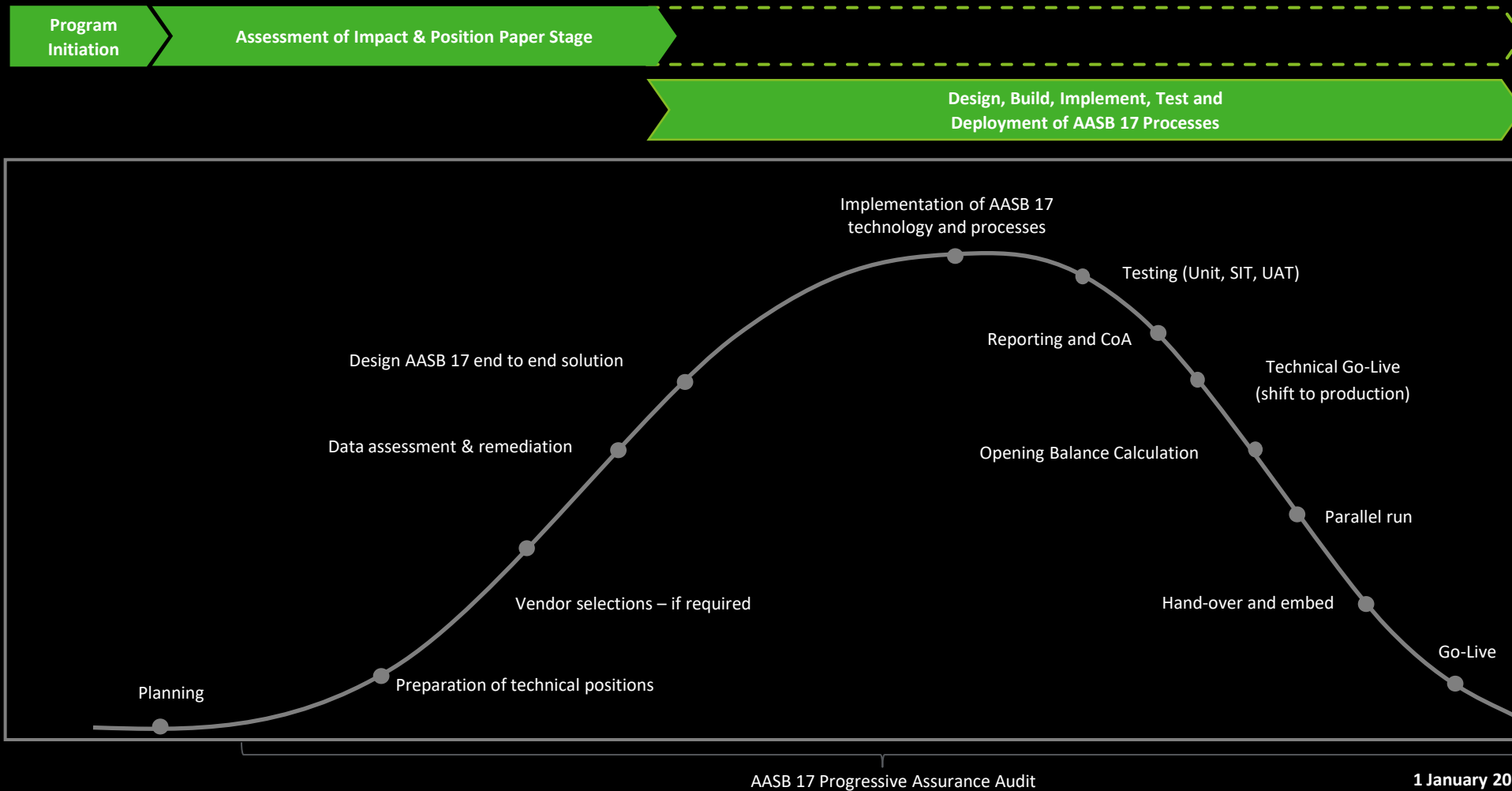
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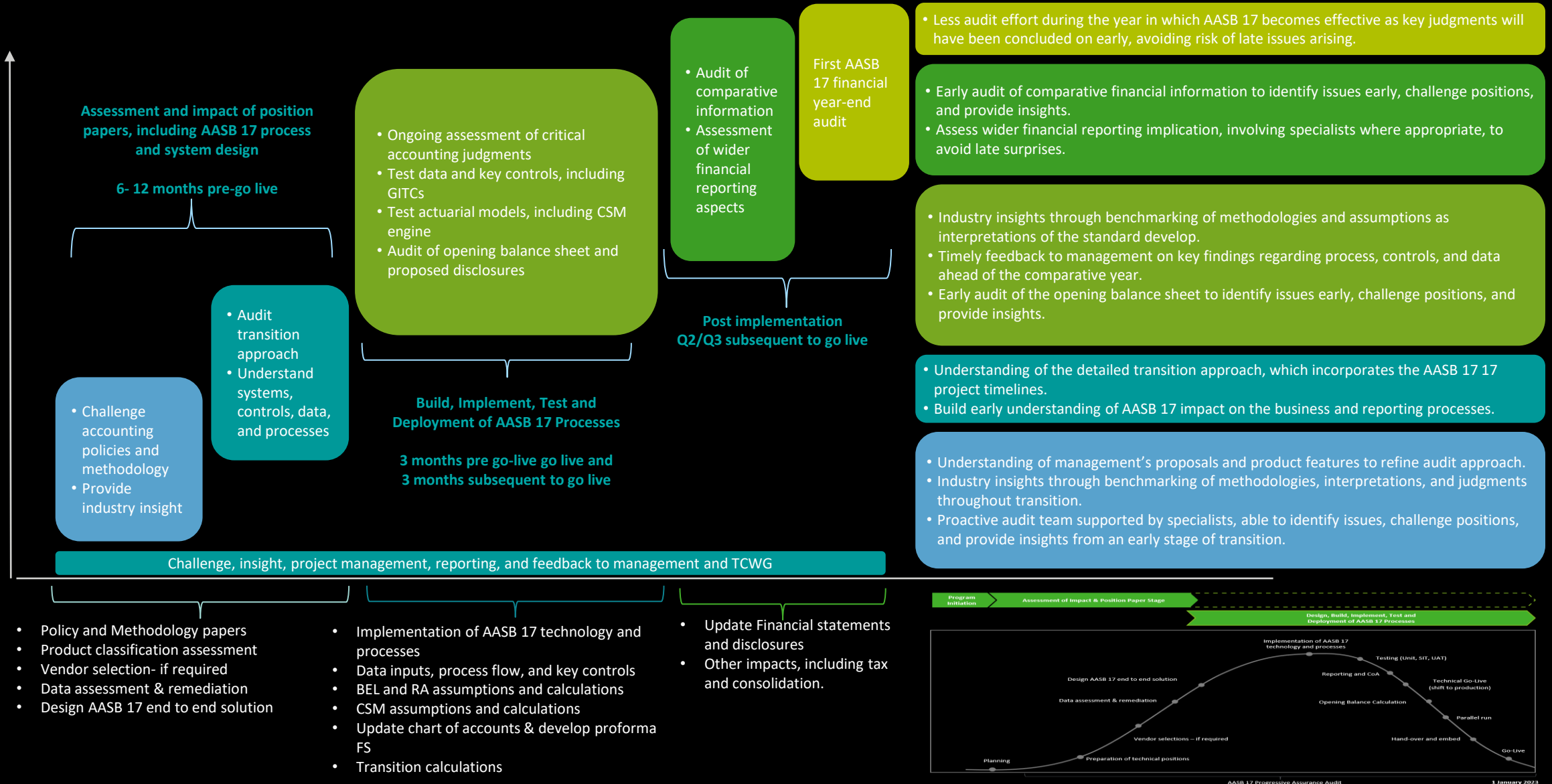
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AASB 17 Project Lifecycle



AASB 17 Project Lifecycle & Interlink with Audit



2 | Audit Readiness



Areas most likely to increase the risk of material misstatement under the application of AASB 17

Complex & voluminous disclosure prepared within pressured timelines

- AASB 17 requires more extensive qualitative and quantitative disclosures
- The comprehensive requirements drive additional demands on resourcing
- Key considerations for management include Accounting policies, areas of judgement and estimation uncertainty
- Alignment with new APRA regulatory capital and financial reporting requirements

Actuarial models & assumptions underpinning models

- AASB 17 requires models to be calibrated to the requirements of the Standard based on the measurement model applicable and to solve for complex concepts (e.g. NDIC, loss components and loss recovery components).
- Estimates derived from the data, assumption setting processes are susceptible to an inherent lack of precision
- Significant judgement and estimate uncertainty will be pervasive in developing accounting estimates due to the use of multiple assumption which will be layered and combined into the liability models.

Data volume and granularity

- Key drivers impacting data requirements include:
 - Level of aggregation
 - Measurement of the individual components of both insurance and reinsurance contracts held,
- The requirement to source both historical and current data sets, likely from areas outside current financial reporting systems or from outsourced providers, increase risk
- Determination of measurement models available under the Standard will drive different data requirements that need to be mapped and solved for.

Information technology changes

- Key risks emanating from IT changes include:
 - Limitations in automation increase the need for manual processes and human intervention
 - Use of outsourced service providers and lack of oversight of control universe

Interim transition solutions

- Transition calculations performed outside of core architecture.
- Critical for insurers to consider data and process governance

What can management do to prepare for an AASB 17 External Audit – Communicate & Document

- Starting point for an AASB 17 external audit will be to assess policy and methodology papers. These papers are critical for the auditor to obtain an understanding of the key judgements, accounting policy choices, methodologies and interpretations made.
- Sufficient and appropriate documentation is required to substantiate management's decisions
- Discipline of documenting new policy and methodologies should be embedded within business processes

Apply an "if it's not documented it's not done" rule

Engage Deloitte now to enable progressive and continuous assurance

- External audit will be required to re-design their external audit approach to provide assurance on the AASB 17 results.
- Management should provide external audit with a view of project milestones and timelines and schedule frequent touch points to discuss implementation developments as they progress.
- Continuous engagement will allow sufficient time to resolve any differences in opinion and implement remediation plans

- Update existing processes and systems to support additional data and information requirements. Management should ideally leverage system processes and changes in support of AASB 17 compliance to inform the changes required for regulatory reporting.

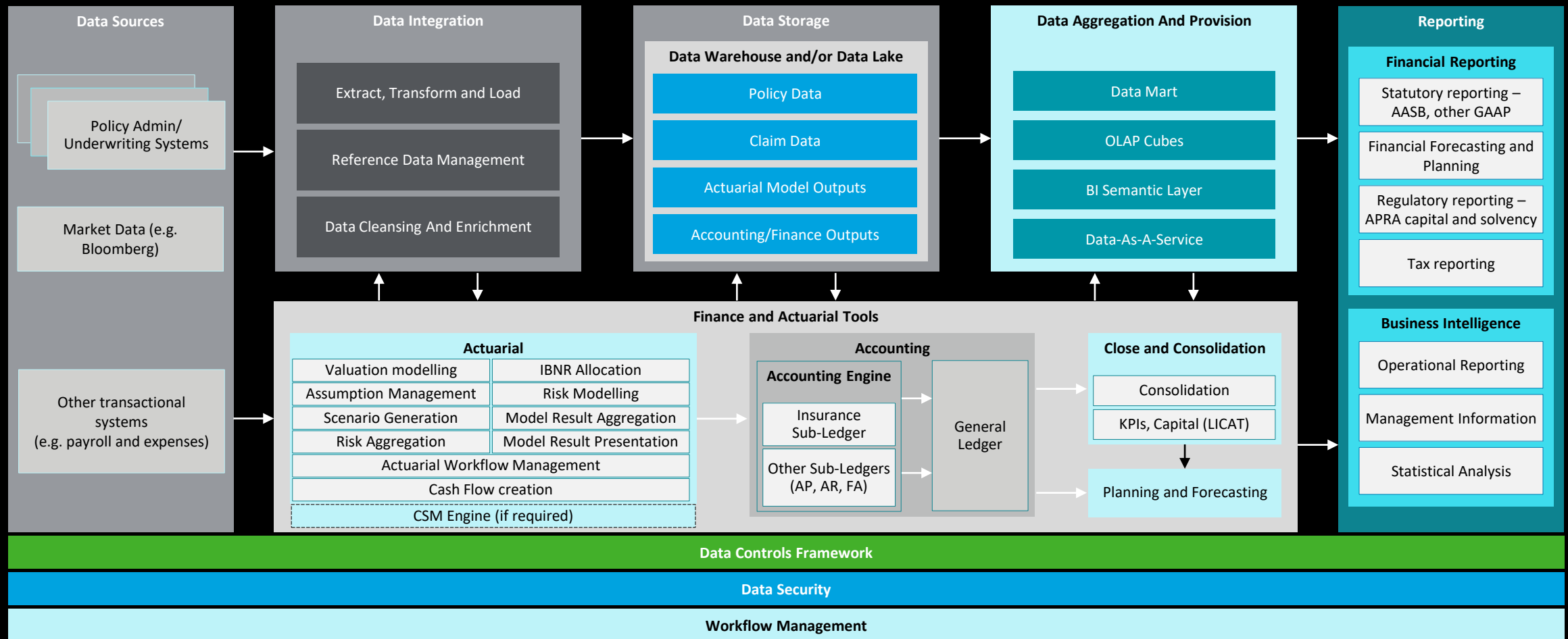
Plan for changes to APRA prudential standards

Bed down management's view of materiality

- Materiality works as a filter by ensuring that transactions that are sufficiently large and could influence the users of financial statements are identified
- Maintaining a log of all materiality judgements made during the implementation activities will facilitate assessment of the overall aggregate impact of these on the financial statements,

What can management do to prepare for an AASB 17 External Audit – Testing & Controls

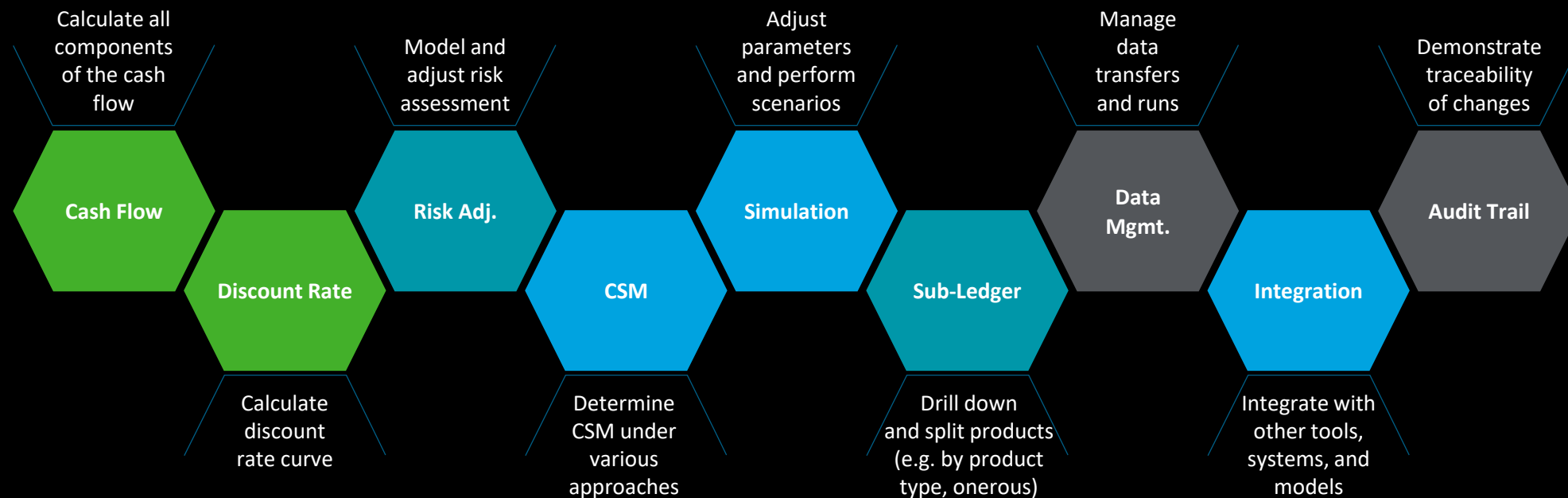
The following diagram illustrates a target system landscape for an AASB 17 reporter.



What can management do to prepare for an AASB 17 External Audit – Testing & Controls



Optimise AASB 17 implementation testing strategies



Calculations and Modelling

- Cash flow
- Simulation
- Risk Adjustment
- Data Management
- CSM

Accounting Engine

- Sub-Ledger
- Risk Adjustment
- Discount Rate
- Data Management

Reporting

- Data Management
- Integration
- Audit Trail

What can management do to prepare for an AASB 17 External Audit – Testing & Controls



Prioritise the enhancement, design and implementation of manual and automated internal controls

Inflight-development and post-implementation risk and control reviews

End-to-end process and control documentation

01

Controls over models

Ensure that the methods, assumptions, and data used are appropriate, judgements made in selecting these are applied consistently and that the calculations are mathematically accurate

02

Controls over data

Embed controls throughout the journey of data from source systems to models to accounting records and financial statements, to ensure validity, accuracy and completeness

03

Information technology controls

Harmonise controls across source, actuarial and finance reporting systems. This includes adequate general and application computer controls such as information access controls, IT change management controls, input and processing controls, software and physical hardware controls, interface and information security controls.

04

Manual controls

Ensure inputs, calculations and all changes in manual processes are appropriately controlled through robust management review controls before amounts are approved.

05

Monitoring controls

Embed entity-level and group-wide controls to ensure that all controls are operating as intended throughout the financial reporting period, including during the transition and determination of opening balances and restated comparative information

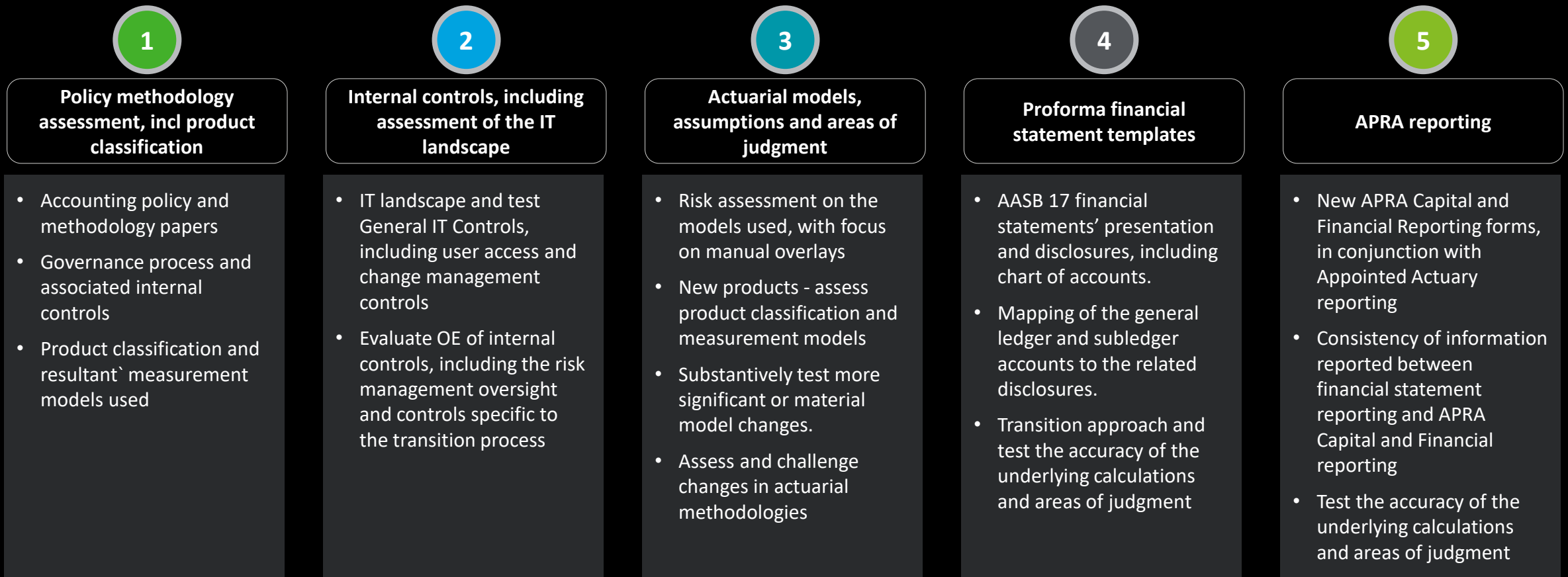
Quality drives efficiency

3 | Audit Approach



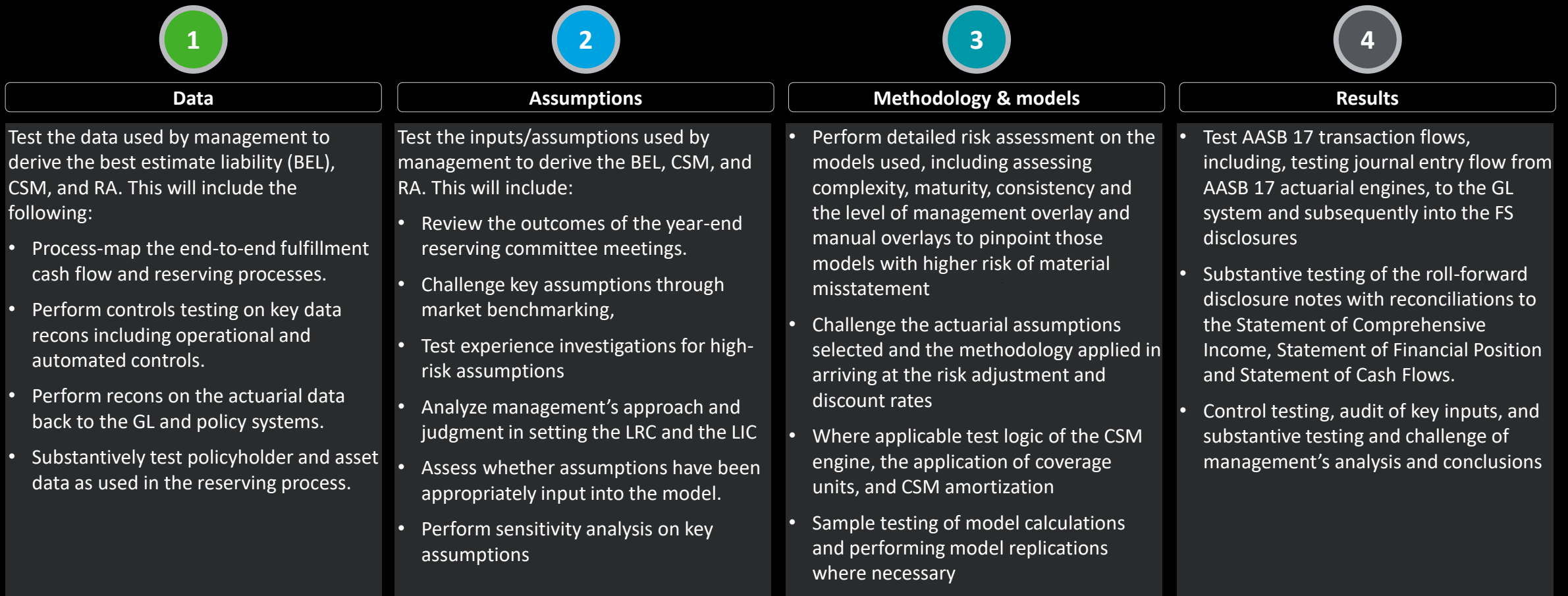
Key focus areas for Implementation & Transition

In assessing Implementation – Deloitte will focus on key pretransition activities while the Transition phase will be targeted on opening balances and comparative results



Key focus areas for beyond Implementation & Transition - BAU

The audit of the BAU financial reporting of an insurer under AASB 17 will be targeted at the following principles underpinning AASB 17 reporting compliance



4 | Key messages



Three key challenges expected

1

Readiness: the last stretch (aligning, systems, data and reporting) is always harder than anticipated

- Some areas of standard still subject to interpretation
- Global impact of different interpretations arising – and timing of awareness
- Locking down systems, process and change management
- Entities need to internally prepare BAU teams as well as educate Boards and senior management
- Change to monetary amounts impacting multi-currency entities – how report comparatives

2

Onerous contract recognition: no one will want to go first

- Potential differences in level of aggregation will drive different onerous contracts amounts
- Different interpretations of “facts and circumstances” will drive different onerous contracts amounts
- If subsidiaries disclose onerous contract amounts – you can’t pretend you don’t know
- APRA product groups vs management reporting could drive additional questions on onerous subsets of results

3

Getting the story right: explaining results, comparatives and expectations to management, investors, analysts and APRA

- Entities need draft results to prepare BAU teams as well as educate Boards, senior management, investors, analysts and regulators
- Aligning performance KPIs and remuneration to AASB 17 results
- Too little interest and too late for some in organisation – APRA and ASIC pushing this along
- What about GWP – new Insurance Contract Revenue is different from GWP due to shorter contract boundaries...
- Reinsurance vs underlying results
- Risk adjustment – Probability of Adequacy disclosure – Now vs Future

Implications of not being ready for AASB 17 External Audit

Quality



The QUALITY of the AASB 17 transition drives the ability to produce financial statements that are free of material misstatements, not getting this right may lead to:

- Incorrect decision-making by internal and external stakeholders based on incorrect results
- New KPIs are determined incorrectly leading to wrong remuneration decisions
- Qualification and restatements of financial statements by the auditors

Regulatory



The implementation of AASB 17 will be a key REGULATORY focus area for APRA and ASIC who will be scrutinising both financial statement presentation and disclosure as well as Capital and Financial reporting. Not getting the implementation right may lead to:

- Heightened regulatory scrutiny
- Missing regulatory reporting deadlines
- Breach reporting
- Fines



Cost

The COST of implementation is significant due to the pervasive nature of the impact on all areas of the business. Getting it as close as possible to the bullseye the first time will ensure not having to spend additional resources. Not getting the implementation right may lead to:

- Incurring additional consulting fees to rework areas impacted by the implementation
- Taking up time of internal resources to update and correct areas where required, rather than focusing on business-as-usual task or other upcoming focus areas such as ESG reporting
- Increased audit effort and corresponding fees

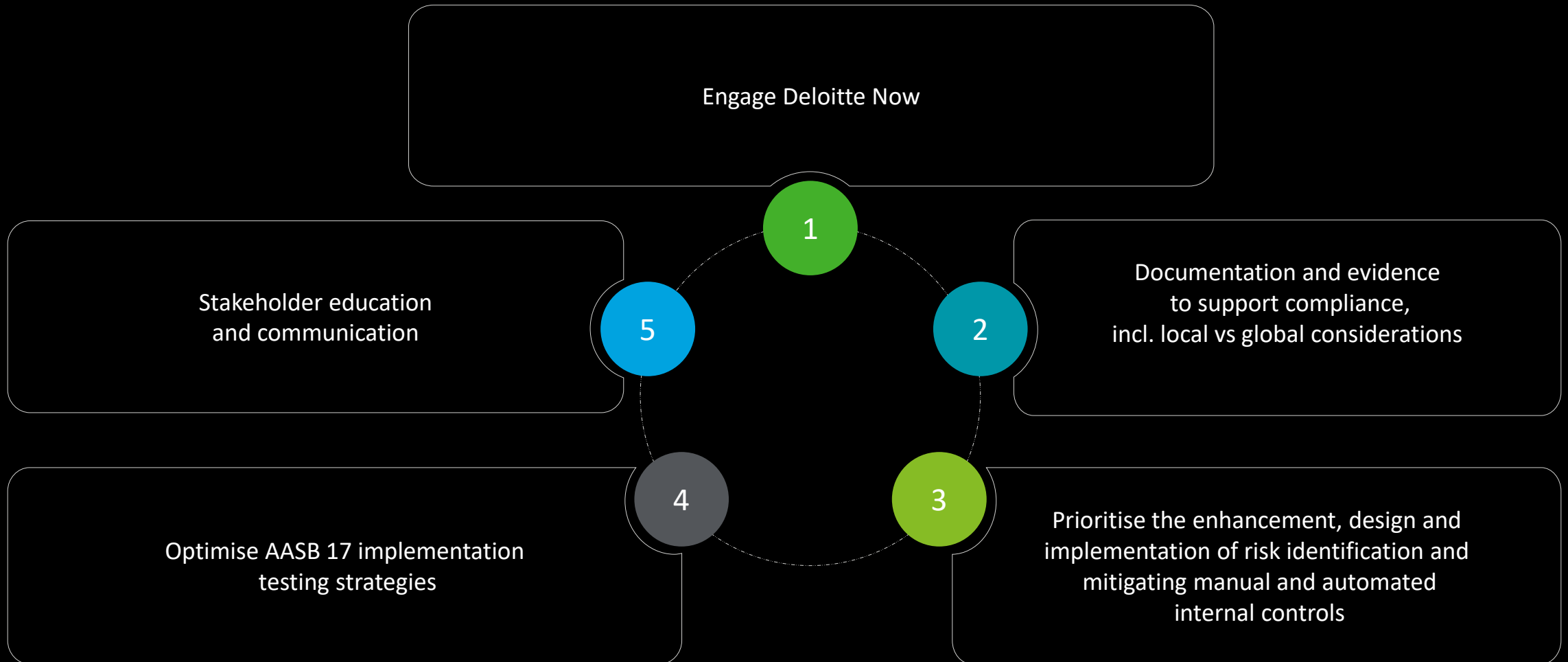


Reputation

AASB 17 has been a long time coming and one of the key outcomes of the new Standard is to drive comparability which may enhance or hurt your REPUTATION. Not getting the implementation right may lead to:

- Not being comparable to peers in the market
- Placing strain on finance, actuarial and IT teams to play catch-up which may lead to increased attrition

AASB 17 External Audit Preparation





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