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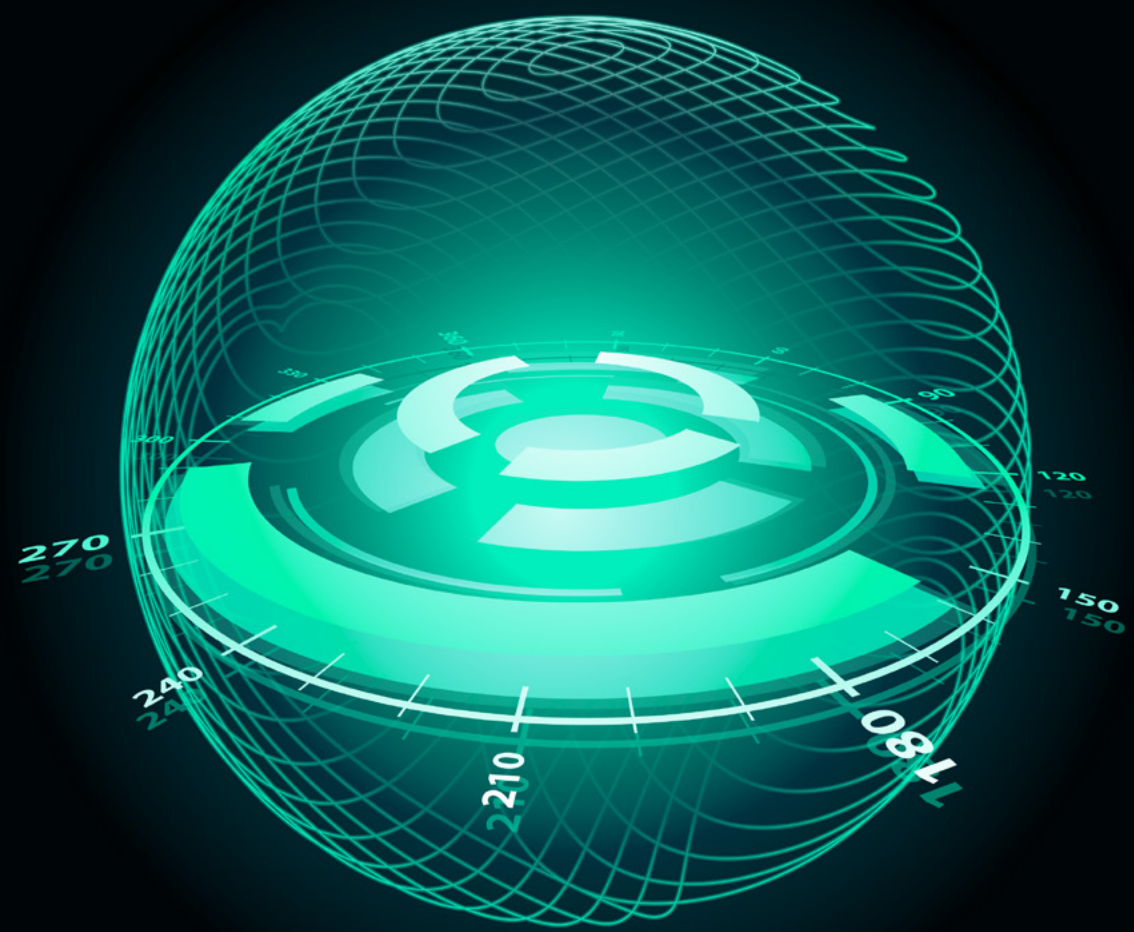
Controls and financial reporting under IFRS 17: What audit committees should know



South African Insurance Outlook 2021 | Navigating the insurance landscape

Controls and financial reporting

What audit committees should know as insurers implement the requirements of IFRS 17.

Following the outbreak of COVID-19, insurers experienced a significant transformation of their operations overnight. Just over a year ago the pandemic shocked the world, adding to the complexities already faced by insurers. Decisions had to be accelerated and digital distribution roll-out plans implemented. Business models changed – significantly impacting governance structures. All this while dealing with the implementation of IFRS 17. A complete overhaul of insurance accounting and related processes are expected … changing the fundamentals of a control environment!

IFRS 17 represents a new era for insurers across the globe. It is the storm before the calm, facilitating the need for a strategic shift in business as usual. Uncertainty is at its peak – with the standard introducing further complexity such as increased data requirements, systems enhancements and builds, process reconfiguration and people alignment. These changes are altering the fundamentals of the control environment, widening the responsibilities for all those involved in the financial reporting ecosystem and requiring governance structures to re-evaluate their responsibilities. The audit committee being an integral part of the governance structure is no exception, with oversight and monitoring remaining the cornerstone of an effective governance structure.

Although IFRS 17 offers many challenges, it also presents insurers with an opportunity to redefine their financial reporting landscape for the better. If implemented correctly, it will yield benefits that will long outlast the price tag that comes with the implementation process. For the audit committee, it requires a rethink of what its oversight of the financial reporting processes at an insurer should look like. For those charged with governance, understanding the key risks inherent and the controls thereof should be a key focus for the implementation of this standard. Continuous engagement with all stakeholders throughout the process, particularly management, is a necessity.

Questions that an audit committee could ask to help it understand the IFRS 17 implementation include: What does the implementation plan look like? What are the key priorities? Have the key processes been mapped and who are the owners? Do the owners demonstrate that they have the appropriate skills and capabilities? Capacity and prioritisation? Because there is a need for greater collaboration between functions – what are the handover points between them? What are the changes required in the internal control environment? Are data considerations of sufficient quality, and granular enough? Is it adequate to facilitate IFRS 17 reporting? Is the current infrastructure adequate for financial reporting or does it require enhancement?

And what do all these considerations mean for the control environment and the overall business impact?

Looking at controls specifically, management should share with the audit committee how it is transitioning the control environment while IFRS 17 is implemented. This includes how controls are designed, implemented, and tested. The majority of the controls relating to significant judgements, inputs in the form of data and the CSM calculation engine will be new and require careful planning. In some instances, insurers have chosen to defer the implementation of IFRS 9 to align to the implementation of IFRS 17. Audit committees should therefore ask that management provides feedback at meetings that also specifically incorporate IFRS 9 judgements and the interplay of the financial instruments' standard with IFRS 17.

Participation in industry forums and consultations with both internal and external auditors should as a minimum underpin the oversight process. This will assist audit committees to benchmark key technical decisions and implementation progress at their insurers with the wider insurance industry. Communication channels outside of committee meetings must be established to facilitate updates with the relevant stakeholders as and when necessitated. More is less when it comes to the implementation of IFRS 17.

To conclude, even though IFRS 17 asks audit committees to delve into a standard that is not simple, it does offer an opportunity to refresh an insurer's financial control environment. As part of the IFRS 17 journey audit committees should ask for control environments that are well designed and documented by management, which in turn should allow for more reliable financial reporting. The key factor being that audit committees need to be involved with the design of controls during the IFRS 17 implementation programme, and not only at the end.

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