Evaluating the auditors’ response to risks of material misstatement related to estimates

Highlights
– Increased risk of material misstatement arising from estimates
– Find out more

IFRS 17 Insurance Contracts becomes effective on 1 January 2023. Audit committees need to be active now if they are to provide the strong governance needed to help ensure a robust implementation.

As part of their oversight role during the adoption of IFRS 17, insurers’ audit committees need to assess and monitor the effectiveness of their external auditors’ response to the risks of material misstatements – particularly the auditors’ approach to auditing estimates and associated judgements made in the application of the standard.

The Global Public Policy Committee (GPPC) – which comprises representatives from the six largest global accounting networks BDO, Deloitte, EY, Grant Thornton, KPMG and PwC – has published a paper (PDF 580 KB) to help audit committees evaluate the effectiveness of their auditors’ approach.

This paper builds on the two previous papers published by the GPPC in 2020 on guidance for audit committees relating to IFRS 17 implementation.

Increased risks of material misstatement arising from estimates

For most insurers, IFRS 17 represents a major transformation in the way that insurance contracts are accounted for and introduces new accounting estimates and associated judgements – which may increase the risks of material misstatement.

Additionally, the standard for auditing accounting estimates and related disclosures was recently enhanced with the release of ISA 540 (Revised) Auditing Accounting Estimates and Related Disclosures. The enhanced audit requirements will impact the auditors’ effort to identify and assess the risks of material misstatement and consequently plan their audit response to the identified risks. This includes the degree to which they plan to evaluate and rely on controls as part of the testing strategy.

Audit committees of insurers will play a crucial role during the implementation of IFRS 17, and the GPPC paper is designed to help them in understanding, assessing,
and challenging their auditors’ approach to auditing estimates and associated judgements under IFRS 17.

Therefore, audit committees need to refresh their understanding of the risks of material misstatement relating to estimation – to move ahead and get ready for implementation of IFRS 17.

**Find out more**

If you are an audit committee member and haven’t had discussions with your auditor yet on IFRS 17, it’s time to engage.

We encourage insurance executives and audit committee members to read the GPPC paper and assess how to incorporate the recommendations into their IFRS 17 implementation plans.

Visit our **Insurance contracts** hot topic page for an overview of the standard, and the latest details on how implementation challenges regarding the new standard are being addressed.