



Ready to take the plunge

**Is your internal audit function
ready for IFRS 17?**

August 2020

KPMG Lower Gulf Limited

Overview

In May 2017, the International Accounting Standards Board (IASB) issued IFRS 17: Insurance Contracts, which replaced IFRS 4. It is a new insurance contracts accounting standard, which will be effective from 1 January 2023 and require one year of comparative disclosures.



**Required date of
application for
comparative purposes**

1 January 2023

The commencement of IFRS 17 in 2023 will represent a significant change in terms of the presentation and interpretation of financial statements for many insurance companies. Given its scale, significance and complexity, IFRS 17 implementation is more than just an accounting change.

It is paramount that internal audit functions are proactive in providing assurance over how implementation of IFRS 17 is governed, managed and executed.



Key challenges of IFRS 17 implementation

For most insurers, IFRS 17 represents a major transformation in the way that insurance contracts are accounted for and the extent of change required is significant. Below are some challenges insurers will most likely face while implementing IFRS 17:

Increased complexity

Implementing IFRS 17 will require management to make technical decisions and judgements which may have a material impact on the business and the financial reporting process.

A diverse range of approaches and outcomes

IFRS 17 provides principles-based requirements and therefore it generally does not prescribe specific detailed methods. Selecting appropriate techniques and developing estimates will involve a high degree of management judgement, and methods may vary between preparers. It is important that there is strong governance over the way judgement is exercised.

Implementation of the Contractual Service Margin (CSM) Module

An entirely new solution needs to be deployed to calculate the CSM—not only at inception, but throughout the lifespan of a contract resulting in new data management capabilities.

Time and effort to implement

The new requirements will have a range of consequences for the design and use of technology and systems, and the role of actuaries and other specialists. They will introduce considerably more estimates and judgement into the preparation of financial statements and change the shape and content of financial reporting for insurers. Implementation programs may be large, complex and expensive.

End-to-end finance, actuarial and IT processes will be impacted. Orchestrating a new operating model to deliver IFRS 17 will require significant effort and process redesign.

General ledger and chart of accounts

IFRS 17 triggers significant changes to the chart of accounts in order to capture CSM on the balance sheet and CSM amortization on the profit and loss statement with corresponding posting logic to reflect these changes.

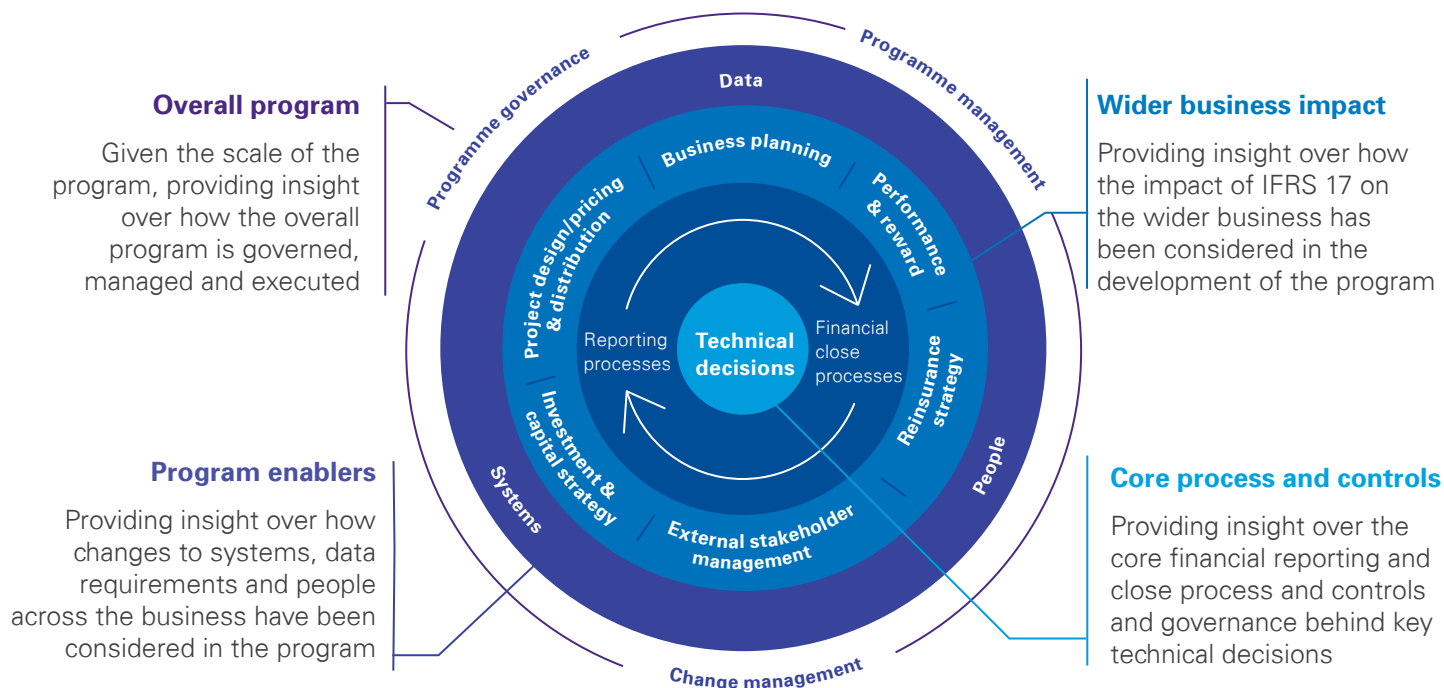
Reporting and disclosure

There will be a significant number of additional reporting requirements including the introduction of new IFRS 17 disclosures to be produced.

KPMG's IFRS 17 Assurance Framework

During the final stretch of IFRS 17 implementation preparations, internal audit functions can use KPMG's IFRS 17 Assurance Framework as a blueprint and checklist to provide assurance and to opine on their organization's IFRS 17 implementation readiness.

This framework is founded in KPMG's extensive experience advising our clients on IFRS 17 implementation. Through this framework, we understand the extent of changes required and the importance of having proper processes and controls in place for ongoing compliance. KPMG has identified four key layers to focus internal audit's work on key risks/areas when providing assurance:



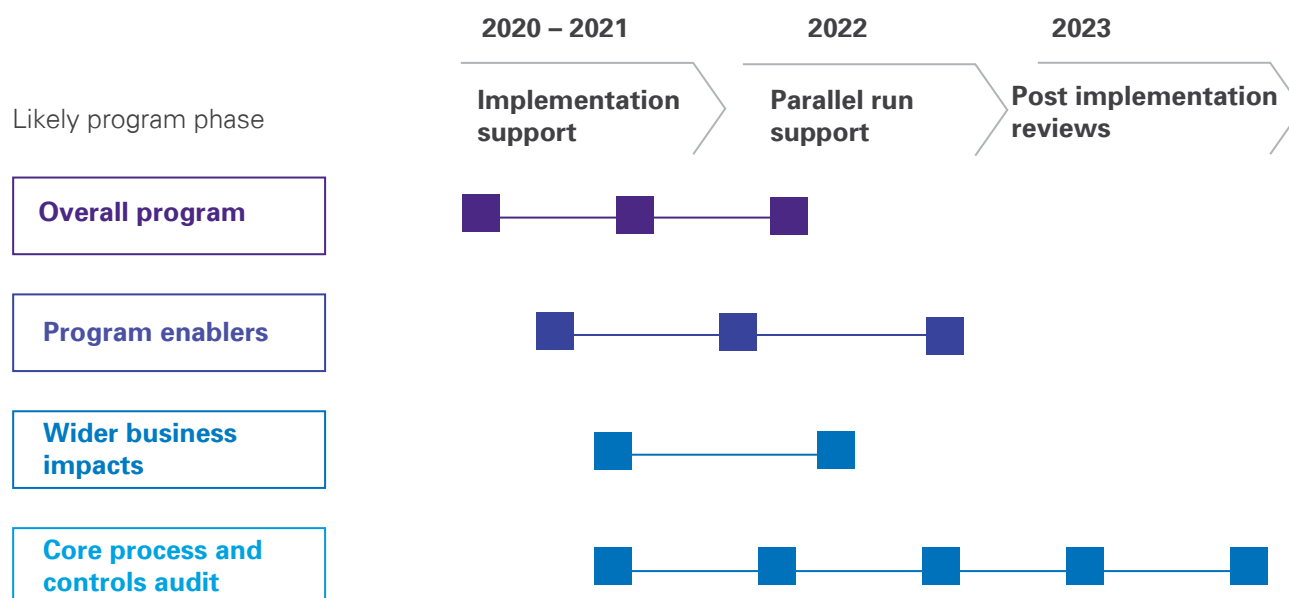
Internal audit scope of work: IFRS 17 implementation

The scope of work undertaken by internal audit will change over time as the methodology is established, and the solution is designed implemented, and fully integrated into the business.

All four layers of KPMG's IFRS 17 Assurance Framework require attention – regardless of the level of coverage internal audit might have provided in earlier program phases.

We recommend covering the current state of overall program governance at the beginning of the transition phase. The wider business impact of IFRS17 should also be a focus point of audits during this phase. While a review of the program enablers continues to generate insight, internal audit's focus will have to shift to core process and control assurance.

The proposed audit sequence, including ongoing assurance coverage after going live is also visualized below:



A high-action photograph of a swimmer in a pool, captured mid-stroke with a large splash of water. The swimmer's head and arms are visible, cutting through the blue water. The background shows the tiled bottom of the pool and lane lines.

Key success factors for internal audit

1

Presence, as observers, at key program governance meetings, such as the steering committee to understand the overall program status

2

Working with key stakeholders to develop a plan to provide regular ongoing insight throughout the remaining program life-cycle

3

Providing insight over the design of the core financial reporting and close process and controls before the program goes live

4

Access to expertise beyond core accounting knowledge into areas such as project management, technology, systems and actuarial knowledge base



How can KPMG help?

KPMG's internal audit professionals specializing in the insurance sector can support your internal audit team in a number of ways:



Work with your internal audit team to develop an audit plan to provide insight over each aspect of the remaining IFRS 17 program



Deliver end-to-end IFRS 17 program as a strategic sourcing partner to your internal audit team



Provide insight on quality over the coverage of activities undertaken by your internal audit team in relation to the IFRS 17 program



Deliver training to your internal audit team to help them successfully execute on IFRS 17 related activities – program assurance and auditing the 'new finance' after implementation

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Publication name and number: 3006 Internal Audit IFRS 17

Publication date: August 2020

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