Introduction

It is important to address the difference between an inaccuracy, omission and incorrect account estimates versus a judgement or estimate that the auditors considers as unreasonable.

As both of them should be quantified – to the extent possible – and evaluated versus the determined materiality, it is important to note that defining if a judgement or estimate of the management is unreasonable will require the auditors, and potentially also the involved experts, judgement.

Depending of the circumstances, and also often the operational difficulties to precisely quantify the line where a judgment is switching from reasonable to unreasonable, the auditors will use various techniques such as market benchmarks, stress testing, extreme testing to get a better understanding of the impact of the judgement.

The results of these techniques will be confronted by the auditors to the defined materiality. However, in these cases, this is difficult to literally apply a materiality, as this imply judgement of the insurance undertakings versus judgement of the auditors and its experts.

As auditors, we will generally reports these matters to those in charge with governance and they are generally considered in our audit as significant risk or key audit matters.

Reference : ISA 450, section A1:

“A1. Misstatements may result from:

(a) An inaccuracy in gathering or processing data from which the financial statements are prepared;

(b) An omission of an amount or disclosure;

(c) An incorrect accounting estimate arising from overlooking, or clear misinterpretation of, facts; and

(d) Judgments of management concerning accounting estimates that the auditor considers unreasonable or the selection and application of accounting policies that the auditor considers inappropriate.”

Materiality for financial statements

Overall materiality	100
Performance materiality	75
Treshold	10

Minimum required solvency level	**100%**

Scenario 1 (overstatement of BE asset by 11)

Total Own Funds		10 000
Total SII requirements		7 000
SII ratio		142,86%
Error above treshold in SE.02.01.16.01	-	11
Total Own Funds after correction error		9 989
Total SII requirements after correction of error		7 000
Own funds ratio after correction error		142,70%
Impact of correction error on ratio		-0,16%

> Included in the representation letter and reported as an uncorrected item to the NBB

Scenario 2 (understatement of BE liability by 11)

Total Own Funds		10 000
Total SII requirements		7 000
SII ratio		142,86%
Error above treshold in SE.02.01.16.01	-	11
Total Own Funds after correction error		9 989
Total SII requirements after correction of er		7 000
Own funds ratio after correction error		142,70%
Impact of correction error on ratio		-0,16%

> Included in the representation letter and reported as an uncorrected item to the NBB

Scenario 3 (overstatement of BE asset by 100)

Total Own Funds		10 000
Total SII requirements		7 000
SII ratio		142,86%
Error above treshold in SE.02.01.16.01	-	100
Total Own Funds after correction error		9 900
Total SII requirements after correction of er		7 000
Own funds ratio after correction error		141,43%
Impact of correction error on ratio		-1,43%

> Qualified opinion on table SE.02.01.16.01
> Probably - depending of auditor judgement - no qualification on the ratio

Scenario 4 (overstatement of BE asset by 500)

Total Own Funds		10 000
Total SII requirements		7 000
SII ratio		142,86%
Error above treshold in SE.02.01.16.01	-	500
Total Own Funds after correction error		9 500
Total SII requirements after correction of er		7 000
Own funds ratio after correction error		135,71%
Impact of correction error on ratio		-7,14%

> Qualified opinion on table SE.02.01.16.01
> Qualified opinion on the ratio

Materiality for financial statements

Overall materiality	100
Performance materiality	75
Treshold	10

Minimum required solvency level	**100%**

Scenario 1 (understatement of SCR Lapse, with estimated impact on SCR requirements of 11)	
Total Own Funds	10 000
Total SII requirements	7 000
SII ratio	142,86%
Error above treshold in SCR Lapse	11
Total Own Funds after correction error	10 000
Total SII requirements after correction of error	7 011
Own funds ratio after correction error	142,63%
Impact of correction error on ratio	-0,22%

> Included in the representation letter and reported as an uncorrected item to the NBB

To be noted that the impact in Total SCR requirements will most probably be an estimate

Scenario 2 (understatement of SCR Lapse, with estimated impact on SCR requirements of 100)	
Total Own Funds	10 000
Total SII requirements	7 000
SII ratio	142,86%
Error above treshold in SE.02.01.16.01	100
Total Own Funds after correction error	10 000
Total SII requirements after correction of er	7 100
Own funds ratio after correction error	140,85%
Impact of correction error on ratio	-2,01%

> Qualified opinion on table SCR Lapse
> probably - depending of auditor judgement - no qualification on the ratio

To be noted that the impact in Total SCR requirements will most probably be an estimate

Scenario 1 (understatement of SCR Lapse, with estimated impact on SCR requirements of 11)	
Total Own Funds	10 000
Total SII requirements	7 000
SII ratio	142,86%
Error above treshold in SE.02.01.16.01	500
Total Own Funds after correction error	10 000
Total SII requirements after correction of er	7 500
Own funds ratio after correction error	133,33%
Impact of correction error on ratio	-9,52%

> Qualified opinion on SCR Lapse
> Qualified opinion on the ratio

To be noted that the impact in Total SCR requirements will most probably be an estimate

We remind the explanation in the general memorandum about materiality that has been produced by the IREFI that is provided in paragraph 27:

'(2) Insurance companies: the situation is different for the regulatory returns (QRTs) in this sector. There is no profit and loss statement in the QRTs hence it would be expected that in many instances the overall materiality applicable to the financial statements will have to be revised in the context of the regulatory returns, more specifically when that overall materiality has been determined by reference to profit before taxes.

Regarding the regulatory returns for insurance companies the focus is in the end on the validity of the solvency ratio. Following benchmarks are considered appropriate:

- the excess of assets over liabilities of the entity: as for the benchmark of total equity or net assets, a percentage in a range of 1 to 3 percent of the excess could be applied
- the solvency ratio itself: calculating a percentage of variation (upward and downward) that can be tolerated to derive a nominal amount of overall materiality'