

Current Issues in Retirement Benefits (CIRB)

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Emerging Trends in Auditing

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Disclaimer:

All views, thoughts and opinions expressed as part of this presentation are personal and not necessary the presenter's employer/organisation.

Actuarial Valuation



- Role of Actuary
- Key management estimate

Classification of Assumptions

- **Discount Rate**
 - Significant factor
 - Present value of future cash flows
 - Market yield rates
 - Correct way to set discount rate
 - Company / Actuary to set discount rate
 - Rationale to set discount rate
 - Discount rate compliance with Accounting Standard
 - Inverse relationship with retirement obligation
 - Consistency on source data
 - AS15, IndAS19, IAS19 and US GAAP (ASC 715)
 - No impact of organization policies

Classification of Assumptions....contd.



- **Salary Growth Rate**

- The regulatory context
- Average salary increase vs salary escalation rate
- Business performance
- All type of salary increments
- CAGR of existing employees
- One-off instances scoped out

Relationship between discount rate and salary growth rate

- closely linked to the long-term expectation of inflation in the economy
- Business influence over Salary growth rate

Classification of Assumptions....contd.



- **Attrition Rate**

- Most difficult assumption
- Withdrawal other than on account of retirement and death
- Flat rate of attrition versus different rates

Disclosures in the Annual Financial Statements



- Accounting Policy: Gratuity, Pension, Provident Fund, Superannuation, Compensated absences etc.
- Change in benefit obligations
- Change in plan assets
- Disclosure in the Statement of Profit and Loss under employee benefit expense
- Disclosure in the statement of other comprehensive income
- Break up of actuarial (gains) / losses from change in demographic, financial and experience assumptions
- The assumptions used to determine benefit obligations, net periodic benefit cost i.e. discount rate, salary escalation rate, attrition rate
- The details of major plan assets into various categories
- The defined benefit plans expose the Company to actuarial risk w.r.t. interest rate risk, Life expectancy and investment risk, asset volatility
- The sensitivity of significant assumptions used for valuation of defined benefit obligation i.e. discount rate, salary escalation rate with disclosure of % point increase/decrease
- Maturity profile of defined benefit obligation

SA 620 - Using the Work of an Auditor's Expert



- **Attributes of an Expert:** Competence, Capabilities, Objectivity
- **Testing of Attributes:**
 - Personal experience with previous work of that expert
 - Discussions with that expert
 - Discussions with other auditors or others who are familiar with that expert's work
 - Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition
 - Published papers or books written by that expert.
- **Communication:** Effective two-way communication is the key
- **Confidentiality:** Law/Regulations and Company Policy

Data Sanctity

- Employee data
- Salary data
- Salary escalation
- Attrition assumption
- Discount rate
- Actuarial gain or loss
- Reconciliation of employee headcount
- Sensitivity analysis
- Methodology

Common themes in Testing Employee Benefit Provisions



- Over-reliance on actuary's report without sufficient independent testing
- Inadequate assessment of assumptions, e.g.:
 - Discount rate not benchmarked to government bonds
 - Outdated mortality tables
 - Ignoring changes in workforce demographics
- Insufficient challenge of management bias in assumptions
- Lack of communication with actuary
- Mismatch between the nature of client's operations and the frequency set for the actuarial valuation
- Failure to:
 - Reconcile opening to closing balances of obligation
 - Test completeness of plan participant data

Common themes in Testing Employee Benefit Provisions....contd.



Employee Benefits (Ind AS 19)

- Not making disclosures as required under Para 54 and 147.
- Not determining the gratuity liability for defined benefit plan as per actuarial valuation method (*Para 66*).
- Not recognizing the actuarial gains/losses for net defined benefit liability (asset) in the other comprehensive income (*Para 120, 127a*).
- Not making disclosures for defined benefit plans in terms of Para 139-145 for other post employment benefits such as leave encashment.
- Not providing description of the risks (such as investment risk, interest rate risk, longevity risk, etc.) to which the plan exposes the Company for its defined benefit plans (*Para 139*).
- Not giving required disclosures in notes to accounts towards its “Defined Benefit Plan – Provident Fund” (*Para 140, 141, 142, 145, 147*).
- Not making disclosures as required under Para 145 & 147.
- Not disclosing the expected contributions to the plan for the next annual reporting period to provide an indication of the effect of the defined benefit plan on the entity’s future cash flows (*Para 147*).
- Not disclosing: (a) description of any funding arrangements and funding policy that affect future contributions; (b) the expected contributions to the plan for the next annual reporting period; and (c) information about the maturity profile of the defined benefit obligation (*Para 147*).
- Not disclosing the range of significant actuarial assumptions used as also the sensitivity analysis of the various actuarial assumptions relating to employee benefits (*Para 144 and 145(a) & (b)*).

Disclosures by Insurance Companies

Actuarial Valuation of Policy Liabilities

Policy Liabilities	• ₹ XX
Provision for Linked Liabilities	• ₹ XX
Fair value change for Linked Liabilities	• ₹ XX
Funds for Discontinued Policies	• ₹ XX
Funds for Future Appropriations-Linked & Non-Linked Liabilities	₹ XX (including ₹ XX for Linked Liabilities)

Actuarial Assumptions used: March 31, 202X

Interest Rate ranging from x% p.a. to x% p.a.
(x% to x% p.a. for Dec 31, 202X)

Mortality Rates:
Assurance Benefits – IALM (2012-2014) Annuity
Benefits – Annuitant's Mortality table (12-15).

Per Policy maintenance expenses is ranging between
₹ xxx to ₹ xxx depending on the product
(₹ xxx to ₹ xxx for Dec 31, 202X)

Policy termination rates ranges from x% to x% per
annum for the first x years thereafter in the range of
x% to x% per annum
(x% to x% per annum for the first x years thereafter in
the range of x% to x% per annum for dec 31, 202x)

Likely Revival Rate of Discontinued Linked Policies -
X%

We have relied upon Appointed Actuary's certificate in this regard for forming our opinion on the valuation of liabilities for life policies in force and for policies in respect of which premium has been discontinued but liability exists in the condensed interim financial statements of the Company as at / and for the year ended March 31, 2025. The completeness of the data submitted to the Appointed Actuary for the valuation of Policy Liability has been validated by us.

Disclosures by Auditor's of Insurance Companies



Reporting – Other Matter – Statutory Accounts (IRDAI Format)

Other matter The actuarial valuation of liabilities for life policies in force and for policies in respect of which premium has been discontinued but liability exists as at March 31, 202X, is the responsibility of the Company's Appointed Actuary (the "Appointed Actuary").

The actuarial valuation of these liabilities for life policies in force and for policies in respect of which premium has been discontinued but liability exists as at March 31, 2025, has been duly certified by the Appointed Actuary and in his opinion, the assumptions for such valuation are in accordance with the guidelines and norms issued by the IRDAI and the Institute of Actuaries of India in concurrence with the IRDAI.

We have relied upon Appointed Actuary's certificate in forming our opinion on the valuation of liabilities for life policies in force and for policies in respect of which premium has been discontinued but liability exists in standalone financial statements of the Company.

Other reporting by Auditor's of Insurance Companies

Ind AS – Reporting Pack

Classification of Ind AS adjustments relating to Policyholders' Funds

In accordance with its accounting policy on the transfer of actuarial surplus and on the impact of differences arising on applying the recognition and measurement principles of Ind AS to the Policyholders' assets and liabilities, the Company has retained impact of the same within the Policyholder Fund. This is in view of the regulatory restrictions on transfer out of the Policyholders Fund being restricted to the Actuarial Surplus determined as per the IRDA Regulations.

Other matters

- Draft representation letter circulated separately
- Reliance has been placed upon Appointed Actuary's certificate for:
 - Assessment of contractual liabilities based on classification of contracts into Insurance Contracts and Investment Contracts
 - Actuarial valuation of liabilities for life policies in force and for policies in respect of which premium has been discontinued but liability exists
 - Valuation of Deferred Acquisition Cost and Deferred Origination Fees on Investment Contracts
 - Reinsurance Assets (grossing up) and
 - Liability Adequacy test as at the reporting dates

Actuary v/s Auditors – Key differences

Area	Actuary	Auditor
Focus	On assessing and managing financial risks	On verifying financial records and ensuring compliance with regulations
Industry	Insurance industry and to support to pension, retirement benefits and long-term award valuation other industries	various industries, including accounting, finance, and government agencies
Tools	Uses mathematical and statistical methods to analyse data	Uses accounting principles and auditing standards to verify financial records
Scope	work on long-term financial planning and forecasting	verifying past financial records and statements
Governing Body	Institute of Actuaries of India (IAI)	Institute of Chartered Accountants of India (ICAI)

Thank You