

Audit Implications of IFRS 17 Implementation on Financial Reporting of Social Health Insurance: Evidence from BPJS of Health

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ABSTRACT

This study examines the implementation of Financial Accounting Standards Statement (PSAK) 117, aligned with IFRS 17, in the Social Security Fund managed by the Social Security Agency on Health, focusing on its implications for financial auditing in social insurance. Departing from prior research on accounting policy alignment, the study analyzes how PSAK 117 affects audit risk, judgment, and complexity due to structural differences between social and commercial insurance. Using a qualitative case study based on regulatory analysis, auditing standards, academic literature, and internal documentation, twelve audit-relevant PSAK 117 issues are evaluated, including contract definition, measurement models, actuarial assumptions, risk adjustment, and the Contractual Service Margin (CSM). Findings indicate that while participant relationships meet contractual criteria, the reliance on actuarial estimates and forward-looking cash flows increases inherent risk. PSAK 117 also elevates audit complexity, requiring greater professional scepticism, substantive procedures, and actuarial expertise under ISA 540 (Revised) and ISA 620. Additionally, the CSM's conceptual misalignment with the non-profit nature of social insurance introduces further judgment and disclosure challenges. The study concludes that PSAK 117 improves transparency and accountability but necessitates stronger institutional capacity, data governance, and audit guidance, contributing to the limited literature on IFRS 17 auditing in non-commercial contexts.

Keywords: *Actuarial Estimates, Audit Risk, Contractual Service Margin, IFRS 17, PSAK 117, Social Insurance.*

INTRODUCTION

The implementation of International Financial Reporting Standard 17 (Insurance Contracts), adopted in Indonesia as Financial Accounting Standards Statement (*Pernyataan Standar Akuntansi Keuangan/PSAK*) 117, represents a major reform in insurance financial reporting, replacing transaction-based accounting with a principles-based, liability-driven framework emphasizing expected future cash flows, explicit risk adjustments for non-financial risk, and discounting (Yousuf et al., 2021). This shift transforms both the measurement and auditing of insurance liabilities, increasing reliance on complex estimates, actuarial models, and professional judgment. In Indonesia, PSAK 117 applies not only to commercial insurers but also to social insurance programs, particularly the National Health Insurance (*Jaminan Kesehatan Nasional/JKN*) administered by Social Security Agency on Health (*Badan Penyelenggara Jaminan Sosial Kesehatan/BPJS Kesehatan*), a public legal entity established under Law Number 40 of 2004 on the National Social Security System and Law Number 24 of 2011 on Social Security Administration Agencies, managing the Social Security Fund (*Dana Jaminan Sosial/DJS*) under non-profit, mandatory participation, solidarity-based risk pooling, prudence, transparency, and public accountability principles (Alhawtmeh, 2023).

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These institutional characteristics fundamentally distinguish social insurance from commercial insurance. BPJS Kesehatan does not pursue profit, does not engage in underwriting or risk selection, and operates under government-determined contribution schemes with limited discretion to deny benefits. Consequently, applying PSAK 117 raises challenges beyond accounting policy alignment, introducing auditing implications for audit risk assessment, materiality, reliance on actuarial expertise, and the role of financial audits in public accountability. Prior qualitative research on BPJS Kesehatan has focused on accounting and financial reporting, showing that while participant relationships meet the definition of an insurance contract under PSAK 117, key constructs, particularly the Contractual Service Margin (CSM), are conceptually misaligned with social health insurance objectives, requiring careful interpretation and adaptation in practice (Anjani, 2023).

Existing studies have not examined how PSAK 117's shift to forward-looking, actuarial-based measurement transforms the financial audit process. Moving from a transaction-based to a liability-driven framework based on future cash flows, risk adjustments, and discount rate changes the nature of audit evidence and increases inherent risk, professional judgment, and reliance on actuarial specialists, consistent with audit risk theory and ISA 540 (Revised) and ISA 620. This study extends prior research by framing PSAK 117 implementation within an auditing perspective, analyzing how it reshapes audit risk, complexity, and practices in social insurance, and highlighting the evolving role of audits in supporting public accountability and long-term fund sustainability (Puławska & Strzelczyk, 2025).

While IFRS 17 has been widely studied in commercial insurance, its audit implications in social insurance remain underexplored. The standard's reliance on forward-looking estimates, fulfillment of cash flows, risk adjustments, and discount rates introduces high inherent risk and professional judgment requirements under ISA 540 (Revised) and ISA 620 (Maan & Pabulo, 2024). In social insurance, these challenges are amplified by population-wide risk characteristics, incomplete data, mandatory coverage, and residual benefit protection. Profit-oriented constructs such as the CSM are conceptually misaligned with non-profit schemes, increasing audit judgment and disclosure risks (Ritonga, 2025). Consequently, PSAK 117 adoption shifts audits from transaction verification to evaluating the reasonableness, transparency, and sustainability of long-term social insurance obligations, highlighting the need to study IFRS 17 explicitly through an audit lens rather than merely as an accounting policy exercise.

Existing literature on IFRS 17 primarily examines commercial insurers, focusing on equity impacts, earnings volatility, disclosure, and solvency, while auditing research on complex estimates assumes profit-oriented, market-based entities. Little attention has been given to non-commercial or public-sector insurance, leaving gaps in understanding how IFRS 17 affects audit risk (inherent, control, detection), auditors' application of ISA 540 (Revised) and ISA 620 when actuarial models drive reporting, adjustments in audit materiality for public accountability, and how conceptual misalignments such as the CSM in non-profit schemes affect audit judgment and disclosures. This study addresses these gaps by examining BPJS Kesehatan as a revelatory case, providing empirical insights into the audit implications of PSAK 117 adoption in social insurance, an area largely underexplored in prior research.

The study aims to investigate how PSAK 117 is implemented in the financial reporting of the Social Security Fund managed by BPJS Kesehatan from a financial auditing perspective, focusing on audit risk assessment, professional judgment, reliance on actuarial expertise, and audit materiality in a non-profit social insurance context. Its novelty lies in extending IFRS 17 and auditing literature beyond commercial settings, highlighting the shift in audit objectives toward sustainability, stewardship, and public accountability. Practically, the research offers guidance for auditors, regulators, and standard-setters, positioning financial audits as critical governance mechanisms that enhance transparency, accountability, and long-term sustainability in public social insurance systems.

LITERATURE REVIEW

Uniqueness of Social Insurance and the Need for Interpretive Application of IFRS 17

IFRS 17 was designed for commercial insurance, where contracts are voluntary, premiums reflect individual risk, and profitability is a central performance measure, with constructs such as the CSM, contract boundaries, and onerous contract assessment explaining profit recognition over the coverage period (IASB, 2017a; IASB, 2017b). While enhancing transparency, comparability, and consistency in commercial reporting, its direct application to social health insurance presents conceptual and practical challenges. Social insurance is mandatory, contributions are community-rated, benefits are social entitlements, and entities operate under a non-profit mandate focused on stewardship, public accountability, and long-term sustainability rather than profit (Suchman, 1995; Beveridge, 2000; Deegan, 2002). Consequently, IFRS 17 constructs cannot be interpreted solely through a commercial lens and must account for collective risk pooling, limited exit options, and government discretion in benefit provision and financing (HM Treasury, 2023).

The interpretive application of IFRS 17 in social insurance shifts reporting from profit recognition to representing social commitments, increasing reliance on management judgment, actuarial assumptions, and policy interpretation. This heightens inherent risk and estimation uncertainty, necessitating enhanced professional scepticism under ISA 540 (Revised) and ISA 620 (IAASB, 2018). Auditors must evaluate whether management interpretations faithfully reflect the economic reality of social insurance and support public accountability (Augustine, 2025). In this context, IFRS 17 auditing extends beyond formal compliance, reinforcing the role of audits as instruments for transparency, stewardship, and safeguarding public trust, rather than merely verifying technical reporting requirements.

IFRS 17 and Audit Complexity in Social Insurance

IFRS 17 (Insurance Contracts) represents a shift from transaction-based accounting to a principles-based, liability-driven framework, where insurance liabilities are measured using expected future cash flows, explicit risk adjustments, and discounted present values (IASB, 2017a, 2017b). While prior literature emphasizes financial reporting impacts such as equity volatility, disclosure extensiveness, and comparability across insurers (Alhawtmeh, 2023), auditing perspectives highlight a substantial increase in audit complexity. Accounting regimes reliant on forward-looking actuarial estimates and complex assumptions heighten professional judgment and exposure to material misstatement (Bratten et al., 2013; DeFond & Zhang, 2014). Unlike historical transactions, actuarial estimates are not directly verifiable and are highly sensitive to assumptions, making them particularly challenging for audit assurance (Griffith et al., 2015).

These challenges are amplified in non-commercial social insurance, where actuarial models must account for population-wide risk pooling, policy-driven benefits, and incomplete historical data. Consequently, estimation uncertainty and inherent audit risk increase significantly. ISA 540 (Revised) recognizes that such accounting estimates demand enhanced professional scepticism, deeper understanding of estimation uncertainty, and robust audit responses, including independent expectations and sensitivity analyses (IAASB, 2018). Under IFRS 17, fulfillment cash flows, risk adjustments, and discount rates require careful audit evaluation, with high sensitivity to assumptions increasing the risk of material misstatement and complicating assessment of management bias (Nelson & Tan, 2005; Griffith et al., 2015; Yryku & Lamani, 2023). Accordingly, the study posits: AP1 – IFRS 17 implementation increases inherent audit risk due to reliance on actuarial estimates and forward-looking assumptions; and AP2 – auditors must apply enhanced audit procedures under ISA 540 (Revised) to ensure reliable evaluation of fulfillment cash flows, risk adjustments, and discount rates. In social insurance, these considerations underscore the elevated audit complexity arising from institutional and population-specific factors.

Audit Risk and Reliance on Actuarial Expertise under IFRS 17

As financial reporting becomes increasingly complex, auditors rely heavily on specialists to evaluate areas beyond traditional accounting expertise. ISA 620 governs the auditor's use of expert work, emphasizing that reliance on specialists does not reduce the auditor's responsibility for forming an opinion (IAASB, 2009c; IAASB, 2009d). Auditing literature notes that reliance on experts can introduce additional detection risk if auditors inadequately assess the expert's competence, objectivity, methodologies, or assumptions (Glover et al., 2017). Under IFRS 17, actuarial modelling is central to liability measurement, particularly in determining risk adjustments and confidence levels (IASB, 2017a). In social insurance, actuarial assumptions also reflect public policy and funding mechanisms, adding further complexity to the auditor's evaluation of expert outputs. Accordingly, auditors must critically assess whether actuarial judgments faithfully represent the economic substance of obligations (AP3).

Audit risk theory frames audit risk as a function of inherent, control, and detection risk (IAASB, 2009a; IAASB, 2009b). First-time adoption of complex standards like IFRS 17 elevates control risk, as entities implement new valuation models, data systems, and internal controls that may not yet be fully effective (Knechel et al., 2007). The transition often involves reconstructing historical information and making retrospective estimates, increasing reliance on assumptions rather than observable data (IASB, 2017b). In social insurance entities, transition risk is compounded by large participant populations, fragmented historical records, and evolving institutional arrangements. These conditions require auditors to expand substantive procedures, particularly concerning opening balances and comparative information, to mitigate heightened control and detection risks (AP4). Together, the reliance on actuarial experts and the transitional challenges under IFRS 17 underscore the increased responsibility of auditors in social insurance contexts. Effective auditing requires not only critical evaluation of expert outputs but also expanded substantive testing and careful consideration of control risks to ensure that financial statements reliably reflect fund obligations and public accountability (Zdyrko et al., 2022).

Public Accountability and Audit Implications in Social Insurance

Auditing literature distinguishes between profit-oriented financial reporting and stewardship-oriented reporting in public and non-profit entities (Deegan, 2002). In the context of social insurance, financial statements primarily aim to demonstrate fund sustainability, adequacy of contributions, and coverage of long-term obligations, rather than profitability. Consequently, audit materiality cannot rely solely on quantitative thresholds but must incorporate qualitative considerations related to legitimacy, public trust, and policy relevance (Messier et al., 2005). The adoption of IFRS 17 reinforces this stewardship orientation by emphasizing liability adequacy and future obligations; however, certain profit-based constructs, such as the CSM, may be conceptually misaligned with the non-profit nature of social insurance schemes. This misalignment heightens disclosure risk and audit judgment risk, as users may interpret reported figures using commercial insurance benchmarks if disclosures are insufficient (AP5).

Moreover, IFRS 17 induces a shift in audit objectives from traditional earnings verification to stewardship assurance and public accountability. In social insurance, auditors focus on the sustainability of funds, adequacy of liabilities, and reliability of long-term obligations, rather than profitability metrics (Power, 1997). Materiality judgments in this setting must therefore account for qualitative implications, as relatively small quantitative misstatements can significantly affect public confidence and policy decisions (Messier et al., 2005; Hegazy & Salama, 2022). By centering financial reporting on future-oriented liabilities, IFRS 17 aligns audit practice with the broader objective of ensuring fund sustainability and safeguarding public trust, rather than simply verifying financial performance (AP6). Together, these factors highlight the unique audit considerations in social insurance: auditors must integrate qualitative judgment, evaluate conceptual alignment between standards and non-profit objectives, and prioritize public accountability over conventional profit verification. This perspective underscores the

evolving role of auditing in non-commercial settings, where assurance focuses on stewardship, transparency, and long-term fund sustainability rather than short-term financial outcomes.

RESEARCH METHODS

This study adopts a qualitative research design using a single embedded case study to examine the audit implications of IFRS 17 (PSAK 117) implementation in the Social Security Fund (*Dana Jaminan Sosial/DJS*) managed by BPJS Kesehatan. A qualitative case study is appropriate because the adoption of principles-based standards such as IFRS 17 involves complex professional judgment, institutional interpretation, and interactions among accounting, actuarial, and audit functions, which cannot be fully captured through quantitative methods. The approach enables an in-depth exploration of how IFRS 17 reshapes audit risk, audit judgment, and audit objectives in a non-commercial insurance context while linking empirical evidence to audit theory and International Standards on Auditing (ISA), particularly ISA 540 (Revised) and ISA 620.

The primary unit of analysis is the financial reporting and audit-relevant implementation of PSAK 117, focusing on accounting estimates, actuarial assumptions, contract recognition and measurement, and disclosures that materially affect audit planning and assurance over fund sustainability. Data were collected from multiple sources to ensure triangulation and analytical depth. Primary data consisted of expert insights from six purposively selected informants directly involved in IFRS 17 implementation and its audit implications, including four internal BPJS management officials responsible for accounting, actuarial, investment, and membership administration, as well as two external experts in auditing and actuarial practice. Secondary data comprised internal implementation studies, transition memoranda, actuarial documentation, relevant accounting and auditing standards, and regulatory guidance. This combination enabled cross-validation of findings and reduced reliance on a single perspective.

To ensure trustworthiness, the study applied the criteria of credibility, dependability, confirmability, and transferability. Credibility was supported through data triangulation across interviews, focus group discussions, and documentary analysis; dependability was reinforced by maintaining a transparent audit trail of coding and analytical decisions; confirmability was achieved by grounding interpretations in empirical evidence and established audit theory, and transferability was facilitated through detailed contextual descriptions. All participants provided informed consent, and anonymity was maintained using alphanumeric identifiers.

Data analysis followed a structured, iterative coding procedure. First-cycle open coding identified audit-relevant concepts such as estimation uncertainty, expert reliance, disclosure risk, and transition challenges. Second-cycle pattern coding grouped these concepts into higher-order categories aligned with the audit propositions (AP1–AP6). Coding was conducted across all data sources, iteratively refined through constant comparison, and triangulated with documentary evidence to mitigate bias (Creswell & Poth, 2018; Yin, 2018). Analytical stages included mapping findings to auditing standards (ISA 540 and ISA 620) and audit risk theory, cross-validating questionnaire and FGD responses with internal documentation, and interpreting results through Audit Risk, Governance, Stakeholder, Legitimacy, and Institutional Theories.

The study focuses specifically on financial reporting and auditing aspects of PSAK 117 implementation during the 2024–2025 transition period, excluding healthcare service delivery or operational performance. By structuring the methodology around audit propositions and professional standards, the research ensures methodological rigor, coherence with an audit-oriented perspective, and practical relevance for auditing practices in non-commercial insurance contexts where IFRS 17 was not originally designed to operate.

RESULTS

Implementation of PSAK 117 in BPJS Kesehatan: Auditing Perspective

The implementation of PSAK 117 in the Social Security Fund (DJS) managed by BPJS Kesehatan shifts key financial statement balances from transaction-based recognition to estimation-based measurement, significantly increasing inherent audit risk (AP1) (Griffith et al., 2015). Respondents consistently highlighted that projected cash flows for claims and operational costs, actuarial modeling for risk adjustments, and discount rate selection are highly sensitive to assumptions, data quality, and modeling choices. Population-wide risk pooling, mandatory participation, and policy-driven benefits amplify uncertainty, confirming that estimation-based measurement introduces heightened susceptibility to material misstatement. Consequently, auditors must apply stronger professional scepticism and plan more extensive substantive procedures on valuation and disclosure areas, consistent with ISA 315 and ISA 540 (Revised).

PSAK 117 also necessitates expanded audit procedures under ISA 540 (Revised), particularly for fulfillment of cash flows, risk adjustments, and discount rates (AP2) (Ritonga, 2025). At BPJS Kesehatan, fulfillment cash flows are projected based on population risk patterns, risk adjustments are determined using a Value at Risk (VaR) approach at a 95% confidence level, and discount rates are applied via a bottom-up methodology reflecting the non-profit social insurance context. These judgmental estimates involve significant management discretion and are highly sensitive to policy assumptions, making them central audit-critical areas. Auditors therefore apply independent expectation development, sensitivity analyses, evaluation of model governance, and explicit bias assessment to ensure estimates faithfully represent liabilities and comply with PSAK 117 measurement objectives.

The embedded use of actuarial methods in financial reporting further increases reliance on actuarial experts under ISA 620 (AP3) (Yousuf et al., 2021). Risk adjustments, contract boundary determinations, and additional reserve calculations require technical actuarial judgment that cannot be assessed solely through accounting expertise. Respondents emphasized that prior approaches were unsuitable or produced impractical results, making actuarial expertise essential in determining VaR parameters, confidence levels, and assumptions. Auditors must critically evaluate expert competence, objectivity, methodological appropriateness, data reliability, and output reasonableness to confirm that actuarial models are fit for financial reporting and aligned with PSAK 117 measurement objectives.

Transitioning from PSAK 104 to PSAK 117 also elevates control risk due to new valuation models, integrated actuarial-accounting processes, data architecture changes, and immature internal controls (AP4) (Bratten et al., 2013). Cross-unit coordination challenges, data segmentation constraints, and reconstruction of historical balances, particularly under the modified retrospective method, reduce control effectiveness. These factors necessitate extensive substantive procedures, IT general control testing, scrutiny of transition adjustments, and evaluation of data completeness and accuracy. Auditors, therefore, anticipate higher control risk and focus on the robustness of new processes and reconciliations. The non-profit nature of social insurance introduces conceptual misalignment with profit-oriented PSAK 117 constructs, notably the CSM, which increases audit judgment and disclosure risk (AP5). BPJS Kesehatan is not designed to generate contractual profit, and the notion of onerous contracts is largely irrelevant due to monthly contract boundaries and government intervention. Financial statement users may interpret outputs using commercial insurance benchmarks, creating disclosure and judgment risk. Auditors must ensure robust policy disclosure, transparent explanation of contract boundaries and residual coverage obligations, and contextual communication of sustainability objectives to prevent misleading interpretations.

PSAK 117 shifts audit objectives from profit verification toward assurance over fund sustainability, liability adequacy, and public accountability (AP6) (Augustine, 2025). Reporting emphasizes liabilities measured from future cash flows, risk adjustments, and discounting, reflecting the long-term resilience of the Social Security Fund. Respondents

highlighted that financial statement users prioritize stewardship, solvency, and program sustainability rather than profitability. Additional reserves for residual coverage and monthly contract boundaries underscore prudence and accountability. Auditors are therefore expected to interpret materiality, risk assessment, and disclosures in a public accountability context, ensuring transparency, adequacy of assumptions, and sufficient disclosure for stakeholders and government oversight.

Based on the above explanation, we conclude collectively that the results indicate that PSAK 117 implementation in BPJS Kesehatan introduces a measurement regime characterized by high estimation uncertainty, heavy reliance on actuarial expertise, and material judgment in applying concepts originally designed for commercial insurance. This increases inherent and control risks (AP1 and AP4) and necessitates enhanced ISA 540 and ISA 620 audit responses (AP2 and AP3). Conceptual misalignment regarding CSM and onerous contracts elevates audit judgment and disclosure risks (AP5), while simultaneously reframing the audit objective as an assurance mechanism over sustainability and public accountability (AP6). Table 1 highlights how the audit implications of IFRS 17 in a social insurance context are shaped not only by technical measurement choices but also by the institution's mandate, governance objectives, and stakeholder expectations.

Table 1. Audit Propositions, Evidence, Audit Risk Effects, and Auditing Implications

Audit Proposition (AP)	Key Evidence (Questionnaire / FGD / Documents)	Audit Risk Effect	ISA Ref	Audit Work Implications
AP1 – Increased Inherent Risk	Respondents confirm reliance on forward-looking fulfillment cash flows, actuarial projections of claims, VaR-based risk adjustment, and bottom-up discount rates; internal PSAK 117 implementation documents show material estimation uncertainty.	Inherent risk increases significantly due to susceptibility to estimation error, assumption bias, and data limitations.	ISA 315; ISA 540 (Revised)	Heightened risk assessment; expanded substantive testing on valuation; increased professional skepticism toward management assumptions.
AP2 – Enhanced Audit of Accounting Estimates	Evidence of complex estimates for BEL, RA, discount rate, and contract boundaries; FGD highlights the sensitivity of results to actuarial assumptions and policy choices.	Estimation risk and judgment risk increase, requiring robust audit responses.	ISA 540 (Revised)	Independent expectation or benchmarking; sensitivity analysis; evaluation of management bias; detailed review of model governance and assumptions.
AP3 – Reliance on Actuarial Experts	Measurement of RA using VaR (95%), selection of statistical distributions, and justification of confidence levels rely on actuarial expertise; respondents acknowledge that actuarial input is central to PSAK 117 figures.	Detection risk increases if expert work is not critically evaluated.	ISA 620	Assess competence and objectivity of actuaries; evaluate appropriateness of methods and data; reconcile actuarial outputs with accounting objectives.
AP4 – Elevated Control Risk During Transition	Transition from PSAK 104 to PSAK 117 involves new processes, cross-unit coordination, data segmentation challenges, and a modified retrospective approach; documentation is still evolving.	Control risk increases, especially in the first-time adoption period.	ISA 315; ISA 330	Reduced reliance on controls; increased substantive procedures; detailed testing of opening balances, transition adjustments, and reconciliations.
AP5 – Audit Judgment and Disclosure Risk	Respondents state that CSM and onerous contract concepts are not aligned	Disclosure risk and judgment risk increase, even if	ISA 540; ISA 700	Enhanced review of accounting policy disclosures;

Audit Proposition (AP)	Key Evidence (Questionnaire / FGD / Documents)	Audit Risk Effect	ISA Ref	Audit Work Implications
(CSM Misalignment)	with non-profit social insurance; disclosures are required to prevent misinterpretation using commercial benchmarks.	the measurement is technically compliant.		assessment of faithful representation; ensure disclosures explain the social insurance context and limitations.
AP6 – Shift in Audit Objective to Sustainability & Accountability	Focus of management and stakeholders on solvency, adequacy of contributions, and long-term sustainability rather than profit; PSAK 117 impacts net assets materially.	Audit objective risk shifts from earnings focus to stewardship and sustainability assurance.	ISA 200	

Audit-Relevant Challenges in Implementing IFRS 17 In Social Insurance

The implementation of PSAK 117 establishes a comprehensive framework for the recognition, measurement, presentation, and disclosure of insurance contracts. In a social insurance setting such as that administered by BPJS Kesehatan, however, the adoption of this standard generates challenges that extend beyond technical accounting adjustments and directly affect audit risk assessment, audit judgment, and audit evidence sufficiency. These challenges arise from regulatory uncertainty, data limitations, transition constraints, and institutional capacity, all of which have material implications for the conduct and reliability of financial audits under PSAK 117 (Alimuddin & Suandi, 2025).

One of the most significant audit-relevant challenges identified in this study is the absence of a clear and binding regulatory mandate explicitly requiring the application of PSAK 117 for social insurance entities. Although PSAK 104 has been formally replaced by PSAK 117, respondents indicated that no specific regulation currently compels its adoption by BPJS Kesehatan, resulting in reliance on internal policy initiatives and pending regulatory harmonization. From an auditing perspective, this condition creates audit legitimacy risk and elevates judgment risk, as auditors must assess compliance with standards whose mandatory status may be interpreted differently by stakeholders (Gao & Zhang, 2019). The lack of explicit regulatory endorsement also complicates the evaluation of accounting policy appropriateness and increases the risk of inconsistent application across reporting periods.

This situation is consistent with Institutional Theory by DiMaggio and Powell (1983), which suggests that in the absence of strong coercive or normative pressures, organizations may adopt standards only partially or pragmatically. For auditors, such partial adoption heightens the risk that financial reporting choices are driven by institutional accommodation rather than clear regulatory obligation, requiring enhanced professional scepticism and documentation of audit judgments (Akininyi, 2025). Under ISA 315 and ISA 540 (Revised), regulatory ambiguity increases inherent risk and disclosure risk, necessitating careful evaluation of accounting policy disclosures and explicit justification of management's application of PSAK 117.

Another critical challenge relates to limitations in data completeness, granularity, and segmentation, particularly in participant and claims data (Anjani, 2023). Respondents consistently highlighted that incomplete identification of participants and limited historical claims segmentation constrain the reliability of actuarial projections used in measuring fulfillment cash flows, risk adjustments, and discount rates. From an audit perspective, data limitations directly increase estimation uncertainty, which is a central risk factor under ISA 540 (Revised). The abnormal distribution of DJS claims, characterized by long-tail behavior, further complicates the application of conventional statistical techniques. As a result, BPJS Kesehatan adopted a Value at Risk (VaR) approach with a 95% confidence level for risk adjustment, reflecting a conservative response to data constraints.

While such conservatism aligns with Positive Accounting Theory by Watts and Zimmerman (1986) as a strategy to mitigate political and reputational costs, it also introduces audit challenges. Auditors must evaluate whether conservative assumptions are methodologically justified, consistently applied, and transparently disclosed, rather than merely precautionary responses to weak data environments. Data quality constraints elevate inherent risk and require auditors to perform extensive data reliability assessments, apply sensitivity analyses on actuarial assumptions, and evaluate whether conservatism introduces systematic bias in liability measurement.

The transition from PSAK 104 to PSAK 117 presents further audit-relevant challenges due to limited historical data availability and evolving internal processes (Parwitasari, 2022). Respondents indicated that incomplete participant identification and historical system limitations necessitated retrospective assumption adjustments, reducing the precision of opening balance measurements. BPJS Kesehatan selected the Modified Retrospective Approach (MRA) as the most feasible transition method, supported by closed-group simulations to approximate initial liabilities. From an audit standpoint, such transition methods inherently increase control risk, as they rely on reconstructed data, assumptions, and judgment-based estimations rather than directly observable historical records. In accordance with ISA 315 and ISA 330, auditors must treat first-time adoption and transition adjustments as high-risk areas, particularly when internal controls over data and models are newly established or still maturing. Transition constraints require auditors to reduce reliance on internal controls, expand substantive testing of opening balances and transition reconciliations, and critically assess the reasonableness and consistency of retrospective assumptions.

The implementation of PSAK 117 also exposes institutional capacity constraints, particularly in integrating accounting, actuarial, and governance functions (Bratten et al., 2013; Ramadhani & Mukarramah, 2025). Respondents emphasized that actuarial expertise plays a central role in PSAK 117 measurements, including risk adjustment modelling, contract boundary determination, and discount rate selection. While reliance on actuarial experts is unavoidable, it introduces expert reliance risk under ISA 620. Auditors cannot simply accept actuarial outputs but must evaluate the competence, objectivity, and methodological appropriateness of expert work. In a social insurance context, where assumptions may be influenced by public policy considerations, this evaluation becomes more complex. Institutional capacity limitations amplify detection risk unless auditors rigorously assess actuarial methodologies, reconcile actuarial outputs with accounting objectives, and ensure that expert judgments are adequately governed and documented.

Overall, the challenges of implementing PSAK 117 in the DJS program managed by BPJS Kesehatan can be summarized as audit-critical constraints rather than purely technical implementation issues (Anjani, 2023). These include regulatory uncertainty affecting audit legitimacy, data quality limitations increasing estimation risk, transition constraints elevating control risk, and institutional capacity limitations heightening reliance on expert judgment. Despite strong institutional commitment, the findings indicate that successful and auditable implementation of PSAK 117 requires clearer regulatory guidance, improved data governance, strengthened internal controls, and close coordination between accounting, actuarial, and audit functions. Without these conditions, the risk of inconsistent application, heightened audit judgment, and disclosure inadequacy remains significant. From an auditing perspective, these challenges confirm that PSAK 117 adoption in social insurance must be evaluated not only for technical compliance but also for its auditability, reliability, and capacity to support public accountability and sustainability assurance.

Audit Implications of PSAK 117 for Financial Reporting and Fund

The implementation of PSAK 117 has implications that extend beyond technical compliance with insurance accounting standards and fundamentally reshape the audit objective, audit materiality assessment, and assurance focus for the Social Security Fund

(DJS) managed by BPJS Kesehatan. In a social insurance environment, where financial statements serve as instruments of public accountability rather than profit measurement, the adoption of PSAK 117 reinforces a shift in audit emphasis from income determination toward the adequacy, sustainability, and transparency of long-term social obligations. Consistent with Audit Proposition 6 (AP6), the findings indicate that PSAK 117 redirects the primary audit objective from verifying earnings performance to providing assurance over the sufficiency of insurance liabilities, the resilience of the DJS fund, and the reliability of assumptions underpinning future cash flows (Ritonga, 2025). The liability-driven measurement framework introduced by PSAK 117 through fulfillment cash flows, risk adjustments, and discounted present values places future-oriented estimates at the center of financial reporting. As a result, auditors must evaluate whether reported liabilities faithfully represent the economic substance of social insurance obligations and whether they support informed oversight by government authorities and stakeholders.

From an audit materiality perspective, PSAK 117 alters both quantitative and qualitative materiality considerations (Hegazy & Salama, 2022). Quantitatively, respondents acknowledged that the transition to PSAK 117 may result in material changes to net assets due to increased recognition of insurance liabilities. Even when precise impact ranges are not yet disclosed, the potential magnitude of adjustments elevates the risk that misstatements could influence user assessments of fund sustainability. Qualitatively, certain disclosures, such as the rationale for constrained application of the CSM, the justification for monthly contract boundaries, and explanations of residual coverage obligations, are material due to their relevance in preventing misinterpretation of financial statements using commercial insurance benchmarks. The findings further suggest that PSAK 117 enhances transparency by compelling BPJS Kesehatan to articulate assumptions, methodologies, and uncertainties more explicitly. However, this transparency also increases audit exposure, as greater reliance on judgment-based estimates expands the scope for management bias and inconsistent interpretation. Auditors must therefore recalibrate materiality thresholds and audit responses to reflect the public interest dimension of social insurance, in which relatively small quantitative misstatements may have significant qualitative implications for trust, legitimacy, and policy decisions.

Importantly, while PSAK 117 does not directly measure fund resilience, it provides a structured framework for identifying and quantifying risks that affect sustainability (Puławska & Strzelczyk, 2025). From an audit standpoint, this reinforces the role of the financial audit as a mechanism of stewardship assurance, ensuring that liabilities are neither understated nor obscured by technical complexity. Auditors are thus required to exercise heightened professional judgment in assessing whether disclosures adequately explain uncertainty, conservatism, and policy constraints inherent in social insurance.

The implications of PSAK 117 implementation confirm that audit quality in social insurance cannot be evaluated solely on compliance with accounting standards. Instead, effective auditing must integrate materiality judgments, disclosure sufficiency, and sustainability considerations to support accountability for the long-term viability of the DJS program. This finding strengthens AP6 by demonstrating that PSAK 117 adoption transforms the audit function into a critical governance tool in social insurance systems.

Table 2 shows that the implementation of PSAK 117 generates multiple audit challenges that predominantly relate to inherent, estimation, disclosure, control, and materiality risks. Most risks are closely associated with complex actuarial judgments and transition adjustments, particularly under ISA 540 (Revised), ISA 315, and ISA 620. The table also demonstrates that auditors are expected to respond through enhanced professional skepticism, expanded substantive procedures, critical evaluation of expert work, strengthened disclosure review, and recalibration of materiality to ensure faithful representation and sustainability transparency.

Table 2. Audit Challenges Mapping: Risk Type, ISA Reference, and Audit Response

Audit Challenge	Primary Audit Risk Type	Relevant ISA	Expected Audit Response
Absence of an explicit regulatory mandate for PSAK 117	Inherent risk; disclosure risk	ISA 315; ISA 540	Enhanced evaluation of accounting policy appropriateness, explicit review of compliance disclosures, and management rationale.
Heavy reliance on actuarial estimates (FCF, RA, discount rate)	Estimation risk; judgment risk	ISA 540 (Revised)	Independent expectation or benchmarking, sensitivity analysis, bias assessment, and detailed review of assumptions.
Limited data quality and segmentation	Inherent risk; detection risk	ISA 540 (Revised)	Data reliability testing, expanded substantive procedures, and use of alternative audit evidence.
Abnormal claim distributions and long-tail risk	Model risk; estimation uncertainty	ISA 540 (Revised)	Evaluation of model selection (e.g., VaR); assessment of distributional assumptions and confidence levels.
Reliance on actuarial experts	Detection risk from expert reliance	ISA 620	Assessment of expert competence and objectivity; evaluation of methodology and consistency with accounting objectives.
Transition from PSAK 104 to PSAK 117 (MRA)	Control risk; opening balance risk	ISA 315; ISA 330	Reduced reliance on controls, extensive testing of transition adjustments, and reconciliations.
Conceptual misalignment of CSM in a non-profit context	Disclosure risk; judgment risk	ISA 540; ISA 700	Enhanced scrutiny of disclosures, assessment of faithful representation, and avoidance of misleading presentation.
Material impact on net assets and perceived fund resilience	Materiality risk (quantitative and qualitative)	ISA 200; ISA 320	Recalibration of materiality threshold, focus on sustainability.

DISCUSSION

The implementation of PSAK 117 in BPJS Kesehatan significantly transforms financial auditing by shifting from transaction-based recognition to estimation-driven measurement (Sudirman et al., 2025). Consistent with AP1, reliance on forward-looking fulfillment cash flows, actuarial projections, and discount rate selection increases inherent audit risk due to sensitivity to assumptions, data quality, and population-wide risk pooling. Compared to commercial insurers, the non-profit, policy-driven nature of social insurance amplifies uncertainty, requiring auditors to exercise heightened professional scepticism and extensive substantive procedures, extending findings by Alhawtmeh (2023) and aligning with Anjani (2023), IFRS 17's effect on estimation risk.

PSAK 117 also necessitates expanded audit procedures under ISA 540 (Revised) (AP2), particularly for fulfillment cash flows, risk adjustments, and discount rates. At BPJS Kesehatan, risk adjustments are calculated using a 95% VaR approach, reflecting long-tail claim distributions and limited historical data. These judgmental estimates increase both estimation and judgment risk, reinforcing prior studies on auditing complex estimates (Nelson & Tan, 2005; Knechel et al., 2007). Auditors respond with independent expectation development, sensitivity analyses, and evaluation of model governance to ensure assumptions are reasonable and aligned with PSAK 117 measurement objectives. The embedded use of actuarial models heightens reliance on experts (AP3). Actuarial judgment is central for risk adjustments, contract boundaries, and additional reserves, consistent with ISA 620 requirements. This supports findings from Bratten et al. (2013) and Griffith et al. (2015) that auditors must critically evaluate expert competence, objectivity, and methodological appropriateness. In social insurance, assumptions influenced by policy considerations add complexity, increasing detection risk if expert outputs are unverified.

Transitioning from PSAK 104 to PSAK 117 elevates control risk (AP4) due to new models, integrated actuarial-accounting processes, and incomplete historical data. Similar to Anjani (2023) and Yin (2018), auditors must expand substantive testing on opening balances, transition adjustments, and reconciliations, with reduced reliance on internal

controls. Data segmentation and reconstruction amplify inherent risk, necessitating careful evaluation of process effectiveness and IT controls. Conceptual misalignment (AP5), particularly regarding the CSM, increases audit judgment and disclosure risk. The non-profit framework renders profit-oriented constructs largely irrelevant, creating potential misinterpretation by financial statement users referencing commercial benchmarks. This aligns with Deegan (2002) and Parwitasari (2022), emphasizing the need for transparent disclosure of policy rationale, contract boundaries, and residual coverage obligations to mitigate judgment and disclosure risks.

PSAK 117 shifts audit objectives from profit verification toward sustainability and public accountability (AP6). Reporting emphasizes future-oriented liabilities, risk adjustments, and discounting, focusing audit attention on fund solvency and stewardship rather than earnings. This finding extends Power (1997) and Freeman and McVea (2001), highlighting that audits in social insurance function as mechanisms of accountability. Auditors must recalibrate materiality judgments, combining quantitative net asset considerations with qualitative disclosure significance, consistent with Messier et al. (2005). PSAK 117 implementation in BPJS Kesehatan introduces high estimation uncertainty, reliance on actuarial expertise, and conceptual judgment challenges, extending IFRS 17 audit discussions from commercial to social insurance contexts. The study confirms that audit implications depend not only on technical measurement choices but also on institutional mandates, governance objectives, and stakeholder expectations, reinforcing that auditing in social insurance must integrate estimation scrutiny, disclosure adequacy, and sustainability assurance to support long-term transparency and accountability.

CONCLUSION

The implementation of PSAK 117 in BPJS Kesehatan fundamentally transforms the financial audit environment in social insurance, extending beyond a technical accounting change. Although originally developed for commercial insurers, PSAK 117 can be applied to social insurance programs provided auditors and preparers acknowledge distinct audit implications. The study confirms that the adoption of PSAK 117 increases inherent, estimation, and control risks (AP1–AP4), particularly due to reliance on forward-looking fulfillment cash flows, actuarial models, discount rate selection, and the challenges of transitioning from PSAK 104. Auditors must enhance professional skepticism, expand substantive procedures, and critically evaluate actuarial expert work under ISA 540 (Revised) and ISA 620.

Conceptual misalignment between profit-oriented constructs such as the CSM and the non-profit, mandatory nature of social insurance, elevates audit judgment and disclosure risk (AP5). Transparent, context-specific disclosures are essential to ensure financial statements faithfully represent economic substance and prevent misinterpretation. Furthermore, PSAK 117 shifts the audit objective from profit verification to assurance over fund sustainability, liability adequacy, and public accountability (AP6). This requires auditors to integrate both quantitative impacts and qualitative considerations related to public trust, legitimacy, and long-term program resilience.

This study has limitations, focusing on a single-case qualitative design of BPJS Kesehatan with data primarily from internal management and actuarial perspectives, limiting generalizability and excluding external auditor insights. It captures the early PSAK 117 transition, leaving long-term audit consequences uncertain, and emphasizes audit risk, judgment, and materiality rather than empirical audit quality outcomes. Future research could expand cross-institutional and cross-country comparisons, incorporate auditor perspectives, empirically assess audit quality effects, and explore the interaction between materiality and public accountability to inform audit-specific guidance for social insurance. The findings highlight that effective auditing under PSAK 117 requires robust data governance, institutional capacity, and coordination among accounting, actuarial, and audit functions, positioning audits as essential for transparency, accountability, and sustainable public social protection.

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