## ANNUAL FINANCIAL REPORTING MODEL REGULATION

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Section 1. Authority

This regulation is promulgated by the commissioner of insurance pursuant to Sections [insert applications] of the [insert state] insurance law.

## Section 2. Purpose and Scope

The purpose of this regulation is to image the [insert state] Insurance Departmentsurveillance of the financial condition of insurers by requiring (1) an annual audit of financial statements reporting the financial position and the results of operations of insurers by independent certificablic accountants, (2) Communication of Internal Control Related Matters Noted in an Audit, and (3) Management's Report of InterControl over Financial Reporting.

Every insurer (as defined in Section 3) shall be subject to this regulation. Insuring diaect premiums written in this state of less than \$1,000,000 in any calendar year and less than 1,000 policyholders or chrolidicate of direct written policies nationwide at the end of the calendar year shall be exempt from this regulation for the year (unless the commissioner makes a specific finding that compliance is necessary for the commission carry out statutory responsibilities) except that insurers having assumed premiums pursuant to contracts and

- F. "Independent board member" has the same meaning as described in Section 14C.
- G. "Insurer" means a licensed insurer as defined in Sectionselft applicable sections] of the [insert state] insurance law or an authorized insurer as defined in Sections [insert applicable sections] of the [insert state] insurance law.
- H. "Group of insurers" means those licensed insurers included in the reportiquirements of [insert state law equivalent of the model Insurance Holding Company System Regulatory Act], or a set of insurers as identified by management, for the purpose of assessing the effectiveness of Internal control over financial reporting.
- I. "Internal audit function" means a person or persons that provide independent, objective and reasonable assurance designed to add value and improve an organization's operations and accomplish its objectives by bringing a systematic, disciplined approachatuate and improve the effectiveness of risk management, control and governance processes
- J. "Internal control over financial reporting" means a process effected by an entity's board of directors, management and other personnel designed to provide r

- Section 4. General Requirements Related to Filing and Extensions for Filing of Annual Audited Financial Reports and Audit Committee Appointment
  - A. All insurers shall have an annual audit by an independent certified pabliountant and shall file an audited financial report with the commissioner on or before June 1 for the year ended December 31 immediately preceding. The commissioner may need insurer to file an audited financial report earlier than June 1 with ninety (90) days advance notice to the insurer.
  - B. Extensions of the June 1 filing date may be granted by the commissioner fordaytyperiods upon a showing by the insurer and intelependent certified public accountant of the reasons for requesting an extension and determination by the commissioner of good cause for an extension. The request for extension must be submitted in writing not less than ten (10) days prior to the due date in sufficient detail to permit the commissioner to make an informed decision with respect to the requested extension.
  - C. If an extension is granted in accordance with the provisions in Section 4B, a similar extension of thirty (30) days is granted the filing of Management's Report of Internal Control over Financial Reporting.
- D. Every insurer required to file an annual dited financial report pursuant to this regulation shall designate a group of dividuals as constituting itsualit committee, as defined in Section 3The (n)-5 (3)-)-44u0 Tw d [414un]+5(100)+5(100)+76t6-76f 8n2e(10it)) at Tax copyright (e)-9n18e(10it) (e)-9n18e

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- (1) Has been convicted of fraud, bribery, a violation of the Racketeer Influenced and Corrupt Organizations Act, 18 U.SSetions 1961 to 1968, or any dishonest conduct or practices under federal or state law;
- x(2) Has been found to have violated the insurance laws of this state with respect to any previous reports submitted under this regulation; or
- (3) Has demonstrated apattern or practice of failing to detect or disclose material information in previous reports filed under the provisions of this regulation.
- F. The commissioner of insurance, as provided in Section [insert applicable section] of the insurance code, mayas provided in [insert applicable citation], hold a hearing to determine whether an independent certified public accountant is qualified and, considering the evidence presented, may rule that the accountant is not qualified for purposes of expressing hier or opinion on the financial statements in the annual dited financial report made pursuant to this regulation and require the insurer to replace the accountant with another whose relationship with the insurer is qualified within the meaning of this relation.
- G. (1) The commissioner shall not recognize as a qualified independent certified public accountant, nor accept an annual dited financial report, prepared in whole or in part by an accountant who provides to an insurer, contemporaneously which at dit, the following non-audit services:
  - (a) Bookkeeping or other services related to the accounting records or financial statements of the insurer;
  - (b) Financial information systems design and implementation;
  - (c) Appraisal or valuation services, rfæiss opinions, or contributionin-kind reports;
  - (d) Actuarially oriented advisory services involving the determination of amounts recorded in the financial statements. The accountant may assist an insurer in understanding the methods, assumptions and utspused in the determination of amounts recorded in the financial statement only if it is reasonable to conclude that the services provided will not be subject to audit procedures during an audit of the nisurer's financial statements. An accountant's act may also issue an actuarial opinion or certification ("opinion") on an insurer's reserves if the following conditions have been met:
    - (i) Neither the accountant nor the accountant's actuary has performed any management functions or made any managemetisions;
    - (ii) The insurer has competent personnel (or engages a third party actuary) to estimate the reserves for which management takes responsibility; and
    - (iii) The accountant's actuary tests the reasonableness of the reserves after the insurer's magement has determined the amount of the reserves;

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- accountant in the course of his or her audit of the financial statements of an insurer and which support the accountant's opinion.
- B. Every insurer required tolle an audited financial report pursuant to this regulation, shall require the accountant to make available for review by Insurance Departmental miners, all work papers prepared in the conduct of the accountant's audit and any communications related to the audit betweenthe accountant and the insurer, at the offices of the insurer, at the Insurance Departmentor at any other reasonable place designated by tD(p)-0.60-6.1 (b)-0.6 (y0mm.9 (n)-612)

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If a member of the adit committee ceases to be independent forasens outside the member's reasonable control, that person, with notice by the responsible entity to the state, may remain an audit committee member of the responsible entity until the earlier of the next annual meeting of the responsible entity or one agreerom the occurrence of the event that caused the member to be no longer independent.

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- Section17. Management's Report of Internal Control over Financial Reporting
  - A. Every insurer required to file an addited financial report pursuant to this regulation that has annual direct written and assumed premiums, excluding premiums reinsured with the Federal Crop Insurance Corporation and Federal Flood Program, of \$500,000,000 or more shall prepare a report of the insurer's orgroup of insurers'riternal control over financial reporting, alal 0v7e-1.1.6

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(2) A statement that management has establish eternal control over financial reporting and an assertion, to the best of management's knowledge and belief, after diligent inquiry, as to whether its niternal control over financial reporting is effective to provide

Likewise, an insurer acquired in a business combination shall have two (2) calendar years following the date of acquisition or combination to comply with the reporting requirements.

H. The requirements of Section 15 are to be in effection 1, 2016If an insurer or goup of insurers that is exempt from the Section 15 requirements no longer qualifies for that exemption,

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