

NAIC Model Audit Rule Amendments

Effective January 1, 2010

Auditor Independence

- Audit Partner Rotation
- Conflicts of Interest
- Prohibited Services

Corporate Responsibility

- Audit Committee Composition
- Improper Influence in the Conduct of Audits

Internal Controls over Financial Reporting

- Management's Report on Internal Controls over Financial Reporting
- Internal Controls Framework and Documentation

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Prohibited Services

- **Bookkeeping services**
- **Financial information system design and implementation**
- **Appraisal or valuation services**
- **Actuarially oriented services; however, the auditor's actuary may issue an actuarial certification on the insurer's reserves provided**
 1. **Auditor/actuary do not perform any management functions**
 2. **Insurer has competent personnel to take responsibility for reserves**
 3. **Auditor's actuary tests the reasonableness of loss reserves after management has determined the amount of the reserves**
- **Internal audit outsourcing**
- **Management functions or Human Resources**

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Prohibited Services (cont.)

- **Broker or dealer, investment advisor or investment banking services**
- **Legal services and expert services related to the audit**
- **Any other services the Commissioner determines to be impermissible**

Corresponds to Section 202 of SOX

Internal Control Requirements

Management's Report on Internal Controls over Financial Reporting

- **Required for all insurance companies with direct premiums >\$500 million.**
- **May be required if insurer falls below any RBC levels or is deemed to be in a hazardous financial condition.**
- **May file SOX Section 404 Report if the preparation of audited statutory financial statements were included in the scope of the Section 404 Report.**

Management's Report on Internal Controls over Financial Reporting should include:

- Management's responsibility for establishing and monitoring adequate internal control over financial reporting
- Management has established an effective system of internal control over financial reporting and an assertion to the best of management's knowledge and belief, after diligent inquiry, as to whether its internal control over financial reporting is effective, to provide reasonable assurance regarding the reliability of financial statements in accordance with statutory principles
- Description of the approach used to evaluate the effectiveness of internal controls
- Describe the scope of work performed by management and whether any internal controls were excluded
- Any unremediated material weaknesses as of December 31
- Inherent limitations in the internal control system
- Signatures of CEO and CFO

Internal Controls Framework and Documentation

Internal Control Framework

The Model Audit Rule does not mandate a specific framework for management's review and evaluation of internal controls. The COSO Internal Control Integrated Framework is currently the only recognized framework.

Documentation

Management should retain documentation and provide to state insurance examiners during a state examination