

Date: 8/19/20

Conference Call

NAIC/AICPA WORKING GROUP

August 26, 2019

1:00 p.m. CDT (2:00 p.m. EDT)

ROLL CALL

Doug Stolte, Chair	Virginia	Doug Bartlett	New Hampshire
Laura Clements/Susan Bernard	California	Dale Bruggeman	Ohio
Rylynn Brown	Delaware	Ryan Keeling	Oregon
Kevin Clark	Iowa	Joe DiMemmo	Pennsylvania
Judy Weaver	Michigan	Johanna Nickelson	South Dakota
Levi Nwasoria	Missouri	Jake Garn	Utah
Lindsay Crawford	Nebraska		

NAIC Support Staff: Bruce Jenson

AGENDA

1. Annual Review of Model Audit Rule Premium Threshold—*Doug Stolte (VA)* Attachment A
2. Hear Update on Recent Auditing Pronouncements—*Jean Connolly (PwC)* Attachment B
3. Hear Update on Completeness and Accuracy Training Project—*Doug Stolte (VA)* Attachment C
4. Discuss Questions on Audit Awareness & Qualifications Letters—*Doug Stolte (VA)* Attachment D
5. Any Other Matters Brought Before the Working Group—*Doug Stolte (VA)*
6. Adjournment

Attachment A

Annual Review of Model Audit Rule Premium Threshold

2019 Annual - Property, Life, Health, Fraternal, & Title

	# of Co.	Direct Premium (\$ Millions)	# of Co.	Gross Premium (\$ Millions)
Companies in Public Groups	1,439	\$1,189,470	1,439	\$1,629,522
Non-Public Co. with >\$500 Million DWP/GWP	381	\$900,007	447	\$1,203,503
Total	1,820	\$2,089,477	1,886	\$2,833,025
Total All Insurers	4,505	\$2,259,171	4,505	\$3,015,372
% of Total All Insurers	40.4%	92.5%	41.9%	94.0%

2018 Annual - Property, Life, Health, Fraternal, & Title

	# of Co.	Direct Premium (\$ Millions)	# of Co.	Gross Premium (\$ Millions)
Companies in Public Groups	1,442	\$1,120,498	1,442	\$1,550,805
Non-Public Co. with >\$500 Million DWP/GWP	366	\$859,075	430	\$1,139,303
Total	1,808	\$1,979,573	1,872	\$2,690,108
Total All Insurers	4,478	\$2,150,131	4,478	\$2,869,634
% of Total All Insurers	40.4%	92.1%	41.8%	93.7%

2017 Annual - Property, Life, Health, Fraternal, & Title

	# of Co.	Direct Premium (\$ Millions)	# of Co.	Gross Premium (\$ Millions)
Companies in Public Groups	1,427	\$1,027,132	1,427	\$1,375,761
Non-Public Co. with >\$500 Million DWP/GWP	358	\$828,797	425	\$1,098,297
Total	1,785	\$1,855,930	1,852	\$2,474,058
Total All Insurers	4,465	\$2,025,621	4,465	\$2,651,287
% of Total All Insurers	40.0%	91.6%	41.5%	93.3%

Attachment B

Update on Auditing Pronouncements

AICPA Update – August 2020

Deferral of the Effective Dates of SAS Nos. 134 - 140

In May 2020, AICPA Statement on Auditing Standards (SAS) No. 141, *Amendment to the Effective Dates of SAS Nos. 134—140*, was issued to allow for a one-year delay of the effective dates for the following SASs:

- SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, as amended
- No. 135, *Omnibus Statement on Auditing Standards—2019*
- No. 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, as amended
- No. 137, *The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports*
- No. 138, *Amendments to the Description of the Concept of Materiality*
- No. 139, *Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134*
- No. 140, *Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137*

SAS No. 141 changes the effective dates of SAS Nos. 134—140 from December 15, 2020, to December 15, 2021 in order to provide more time for firms to implement these SASs in light of the effect of the coronavirus pandemic. SAS No. 141 also lifts the prohibition against early implementation.

SAS Nos. 134 and 136–140 are interrelated as the AICPA Auditing Standards Board (ASB) amended the auditor reporting model adopted in SAS No. 134 with the issuance of the subsequent SASs. The effective dates were aligned so that these SASs would be implemented as a suite, primarily to accommodate the amendments to the auditor reporting model. For example, SAS No. 138 amends SAS No. 134 with regard to the wording in the auditor’s report about when misstatements are considered material. Accordingly, the ASB recommends that all of these SASs be implemented concurrently.

SAS No. 139 – Auditors Reports – Regulatory Basis Financial Statements

In March 2020, the AICPA Auditing Standards Board (ASB) issued Statement on Auditing Standards (SAS) No. 139, *Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134*. As indicated by its title, the SAS amends the following AU-C sections in AICPA Professional Standards:

- Section 800, *Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*

- Section 805, *Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*
- Section 810, *Engagements to Report on Summary Financial Statements*

SAS No. 139 aligns these three AU-C sections (the AUC 800 series) with the relevant auditor reporting standards in SAS No. 134, thereby updating the form and content of auditors' reports addressed in the AU-C 800 series to be more consistent with the standards of the International Auditing and Assurance Standards Board and recent updates to PCAOB standards.

The following summarizes the types of financial statements and auditor reporting addressed in the AU-C 800 series and the changes to the AU-C 800 series included in SAS No. 139:

- Section 800. Requires that a statement be added to the auditor's report indicating that the financial statements may not be suitable for another purpose when a description of the purpose for which the financial statements are prepared or a reference to a note in the special purpose financial statements that contains that information is required. (This description is required when financial statements are prepared on a regulatory or contractual basis of accounting or an other basis of accounting, and the auditor is required to restrict use of the auditor's report by paragraph .06a–b of section 905, *Alert That Restricts the Use of the Auditor's Written Communication*.)
- Section 805. Addresses factors to consider in determining whether a matter included in the auditor's report on the complete set of financial statements is relevant in the context of an engagement to report on a single financial statement or a specific element of a financial statement.
- Section 810. Adds application paragraphs to AU-C 810 indicating that although the auditor is required to include a statement in the auditor's report on the summary financial statements when the auditor's report on the audited financial statements includes communication of one or more key audit matters, the auditor is not required to describe the individual key audit matters or repeat the corresponding text in its entirety in the auditor's report on the summary financial statements

Attachment C

Completeness & Accuracy Course Description

EDU 350-114: Completeness and Accuracy of Liability Data Webinars

September 1, 2020 & September 3, 2020

11:00 AM - 1:00 PM CT

This webinar series will provide regulators with insights on how liability data should be tested for completeness and accuracy during a financial statement audit and how that work may be utilized in support of a financial condition examination. Regulators are encouraged to sign up for both sessions.

This webinar series was developed as a joint project between the NAIC and the AICPA and will involve experienced audit firm representatives in each presentation. The training was developed to meet regulator training needs as identified by the NAIC Accreditation and Peer Review program.

At the completion of this training, regulators will be able to:

Session 1: Risk Assessment and Controls

- Describe regulatory expectations in leveraging the work of the auditors
- Describe how external auditors assess audit risk and how that factors into the audit approach
- Define completeness and accuracy as it relates to the data used in calculating loss reserves and the liability for future policy benefits
- Explain the controls testing approach and related procedures used by external auditors to test the completeness and accuracy of data used in calculating loss reserves and the liability for future policy benefits

Session 2: Substantive Approach

- Explain the substantive test approach and related procedures used by external auditors to test the completeness and accuracy of data used in calculating loss reserves and the liability for future policy benefits
- Describe regulatory expectations regarding completeness and accuracy of data used in calculating loss reserves and the liability for future policy benefits

[Will I receive continuing education credit?](#)

Up to 2 CPEs will be available per webinar. The issuance of credits/certificates will be dependent on attendance and interactivity (poll questions) requirements being met. The amount of credits is based on actual length of webinar.



The NAIC is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors. State boards of accountancy have final authority on the acceptance of individual courses for CPE credit. Complaints regarding registered sponsors may be submitted to the National Registry of CPE Sponsors through its website: www.NASBARegistry.org.

Delivery Method: Group Internet Based

Program Knowledge Level: Basic

Prerequisites: None

Advanced Preparation: None

Recommended Field of Study: Auditing

Recommended CPE Credits: Up to 2.0 CPE Credits per webinar

Partial credit is not awarded.

Attachment D

Excerpts from NAIC Model #205

Excerpts from the Annual Financial Reporting Model Regulation

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Detail Eliminated to Conserve Space

Section 6. Designation of Independent Certified Public Accountant

- A. Each insurer required by this regulation to file an annual audited financial report must within sixty (60) days after becoming subject to the requirement, register with the commissioner in writing the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit set forth in this regulation. Insurers not retaining an independent certified public accountant on the effective date of this regulation shall register the name and address of their retained independent certified public accountant not less than six (6) months before the date when the first audited financial report is to be filed.
- B. The insurer shall obtain a letter from the accountant, and file a copy with the commissioner stating that the accountant is aware of the provisions of the insurance code and the regulations of the Insurance Department of the state of domicile that relate to accounting and financial matters and affirming that the accountant will express his or her opinion on the financial statements in terms of their conformity to the statutory accounting practices prescribed or otherwise permitted by that Insurance Department, specifying such exceptions as he or she may believe appropriate.
- C. If an accountant who was the accountant for the immediately preceding filed audited financial report is dismissed or resigns, the insurer shall within five (5) business days notify the commissioner of this event. The insurer shall also furnish the commissioner with a separate letter within ten (10) business days of the above notification stating whether in the twenty-four (24) months preceding such event there were any disagreements with the former accountant on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure; which disagreements, if not resolved to the satisfaction of the former accountant, would have caused him or her to make reference to the subject matter of the disagreement in connection with his or her opinion. The disagreements required to be reported in response to this section include both those resolved to the former accountant's satisfaction and those not resolved to the former accountant's satisfaction. Disagreements contemplated by this section are those that occur at the decision-making level, i.e., between personnel of the insurer responsible for presentation of its financial statements and personnel of the accounting firm responsible for rendering its report. The insurer shall also in writing request the former accountant to furnish a letter addressed to the insurer stating whether the accountant agrees with the statements contained in the insurer's letter and, if not, stating the

reasons for which he or she does not agree; and the insurer shall furnish the responsive letter from the former accountant to the commissioner together with its own.

Detail Eliminated to Conserve Space

Section 12. Accountant's Letter of Qualifications

The accountant shall furnish the insurer in connection with, and for inclusion in, the filing of the annual audited financial report, a letter stating:

- A. That the accountant is independent with respect to the insurer and conforms to the standards of his or her profession as contained in the Code of Professional Ethics and pronouncements of the AICPA and the Rules of Professional Conduct of the [insert state] Board of Public Accountancy, or similar code;
- B. The background and experience in general, and the experience in audits of insurers of the staff assigned to the engagement and whether each is an independent certified public accountant. Nothing within this regulation shall be construed as prohibiting the accountant from utilizing such staff as he or she deems appropriate where use is consistent with the standards prescribed by generally accepted auditing standards;
- C. That the accountant understands the annual audited financial report and his opinion thereon will be filed in compliance with this regulation and that the commissioner will be relying on this information in the monitoring and regulation of the financial position of insurers;
- D. That the accountant consents to the requirements of Section 13 of this regulation and that the accountant consents and agrees to make available for review by the commissioner, or the commissioner's designee or appointed agent, the workpapers, as defined in Section 13;
- E. A representation that the accountant is properly licensed by an appropriate state licensing authority and is a member in good standing in the AICPA; and
- F. A representation that the accountant is in compliance with the requirements of Section 7 of this regulation.