

Date: 9/19/23

*Virtual Meeting*

**NAIC/AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (E) WORKING GROUP**

September 28, 2023

2:00 p.m. – 3:00 p.m. ET / 1:00 – 2:00 p.m. CT / 12:00 – 1:00 p.m. MT / 11:00 a.m. – 12:00 p.m. PT

**ROLL CALL**

Doug Stolte, Chair	Virginia	Doug Bartlett	New Hampshire
Laura Clements	California	Dale Bruggeman	Ohio
Rylynn Brown	Delaware	Ryan Keeling	Oregon
Daniel Mathis	Iowa	Diana Sherman	Pennsylvania
Judy Weaver	Michigan	Johanna Nickelson	South Dakota
Shannon Schmoeger	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—*Dave Osborn (Ernst & Young)* Attachment B
3. Any Other Matters—*Doug Stolte (VA)*
4. Adjournment

[https://naiconline.sharepoint.com/teams/FRSSolvencyMonitoring/NAICAICPA WG/2023 Call/NAIC-AICPA Agenda 2023.docx](https://naiconline.sharepoint.com/teams/FRSSolvencyMonitoring/NAICAICPA%20WG/2023%20Call/NAIC-AICPA%20Agenda%202023.docx)

**2022 Annual - Property, Life, Health, Fraternal, & Title**

	# of Co.	Direct Premium (\$ Millions)	# of Co.	Gross Premium (\$ Millions)
Companies in Public Groups	1,453	\$ 1,480,161	1,453	\$ 2,035,112
Non-Public Co. with >\$500 Million DWP/GWP	356	1,137,273	421	\$ 1,394,847
<b>Total</b>	<b>1,809</b>	<b>\$ 2,617,434</b>	<b>1,874</b>	<b>\$3,429,959</b>
<b>Total All Insurers</b>	<b>4,616</b>	<b>\$ 2,811,270</b>	<b>4,616</b>	<b>\$3,771,703</b>
% of Total All Insurers	39.2%	93.1%	40.6%	90.9%

**2021 Annual - Property, Life, Health, Fraternal, & Title**

	# of Co.	Direct Premium (\$ Millions)	# of Co.	Gross Premium (\$ Millions)
Companies in Public Groups	1,646	\$ 1,366,115	1,646	\$ 1,883,133
Non-Public Co. with >\$500 Million DWP/GWP	409	966,466	476	1,377,694
<b>Total</b>	<b>2,055</b>	<b>\$ 2,332,580</b>	<b>2,122</b>	<b>\$3,260,828</b>
<b>Total All Insurers</b>	<b>4,589</b>	<b>\$2,561,635</b>	<b>4,589</b>	<b>\$3,450,509</b>
% of Total All Insurers	44.8%	91.1%	46.2%	94.5%

## AICPA Update – September 2023

### **Auditing Standards Effective for 2023**

#### ***SAS No. 145, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement***

Statement on Auditing Standards (SAS) No. 145 clarifies and enhances certain aspects of the identification and assessment of the risks of material misstatement to drive better risk assessments and, therefore, enhance audit quality. It does not fundamentally change the key concepts underpinning audit risk.

SAS No. 145 enhances the following:

- requirements and guidance related to obtaining an understanding of the entity’s system of internal control and assessing control risk; and
- guidance that addresses the economic, technological, and regulatory aspects of the markets and environment in which entities and audit firms operate.

The revised and new requirements and guidance include the following:

- a revised definition of significant risk;
- revised requirements to evaluate the design of certain controls within the control activities component, including general information technology (IT) controls, and to determine whether such controls have been implemented;
- a new requirement to separately assess inherent risk and control risk;
- a new requirement to assess control risk at the maximum level such that, if the auditor does not plan to test the operating effectiveness of controls, the assessment of the risk of material misstatement is the same as the assessment of inherent risk;
- a new “stand-back” requirement intended to drive an evaluation of the completeness of the auditor’s identification of significant classes of transactions, account balances, and disclosures; and
- revised requirements relating to audit documentation.

#### ***SAS No. 144, Amendments to AU-C Sections 501, 540, and 620 Related to the Use of Specialists and the Use of Pricing Information Obtained From External Information Sources***

SAS No. 144 amends several sections of the auditing standards and requires the auditor to take into account the relevance and reliability of information to be used as audit evidence, including its source, as well as enhancing guidance about evaluating the work of the management’s specialist.

### **SAS No. 143, *Auditing Accounting Estimates and Related Disclosures***

SAS No. 143 addresses the auditor’s responsibilities relating to accounting estimates, including fair value accounting estimates, and related disclosures in an audit of financial statements. This standard enables auditors to appropriately address the increasingly complex scenarios that arise from new accounting standards that include estimates.

The following are some of the fundamental aspects of SAS No. 143 that enhance the auditing standards relating to auditing accounting estimates and the auditor’s focus on factors driving estimation uncertainty and potential management bias:

- explains the nature of accounting estimates and the concept of estimation uncertainty;
- requires a separate assessment of inherent risk and control risk at the assertion level;
- includes an enhanced risk assessment intended to address (1) the challenges auditors face when auditing accounting estimates by providing risk assessment requirements that are more specific to estimates and (2) the increasingly complex business environment and complexity in financial reporting frameworks;
- emphasizes that the auditor’s further audit procedures need to be responsive to the reasons for the assessed risks of material misstatement at the relevant assertion level;
- provides related guidance to emphasize the importance of the auditor’s decisions about controls relating to accounting estimates; and
- requires the auditor to evaluate, based on the audit procedures performed and the audit evidence obtained, whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework.

### **New Statement on Auditing Standards for Group Audits**

SAS No. 149, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)* is effective for audits of group financial statements for periods ending on or after December 15, 2026.

SAS No. 149 supersedes section 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, of SAS No. 122, as amended, and makes conforming amendments to various other SASs to clarify their interaction with the new standard.

The AICPA Auditing Standards Board (ASB) also issued Statement on Quality Management Standards (SQMS) No. 3, *Amendments to QM Sections 10, A Firm’s System of Quality Management, and 20, Engagement Quality Reviews*. The amendments to QM sections 10 and 20 conform certain terms to language used in SAS No. 149 and provide guidance on differentiating between a resource and an information source.

The most significant change introduced by SAS No. 149 is that it provides a risk-based approach to planning and performing a group audit. The auditing standards previously required the group engagement team to identify significant components at which to perform audit work; whereas SAS No. 149 directs the group auditor to use professional judgment in determining the components at which to perform procedures, based on assessed risks.

SAS No. 149 introduces the term referred-to auditor and defines it as an auditor who performs an audit of the financial statements of a component to which the group engagement partner determines to make reference in the auditor's report on the group financial statements. The definition also indicates that a referred-to auditor is not a component auditor and, accordingly, is not a part of the engagement team for a group audit.

SAS No.149 also revises the definition of the term component auditor to indicate that a component auditor is part of the engagement team. This change is intended to improve audit quality by making the group engagement partner responsible for the direction and supervision of component auditors and review of their work.

Consistent with the requirements of the former AU-C section 600, investments accounted for using the equity method of accounting are considered components and therefore are included in the scope of SAS No. 149. The new standard identifies procedures the group auditor is required to perform to determine whether to use the audited financial statements of the equity method investment, including the accompanying audit report, as audit evidence; matters that may cause the group auditor to conclude that additional audit procedures are necessary; and additional procedures the group auditor may perform to obtain sufficient appropriate audit evidence.

Resources on the new SAS and QM standard can be found at:

[AICPA Statement on Auditing Standards No. 149 | Resources | AICPA & CIMA \(aicpa-cima.com\)](#)

[SAS No. 149 and SQMS No. 3 At a Glance | Resources | AICPA & CIMA \(aicpa-cima.com\)](#)