**Appendix G**

**Implementation Guide (Guide)**

**for the**

**Annual Financial Reporting Model Regulation (Model)**

**Introduction**

The new requirements within the Annual Financial Reporting Model Regulation related to auditor independence, corporate governance and internal control over financial reporting became effective in 2010. The Implementation Guide is being published to assist companies in planning and preparing for compliance with the new requirements.

The Implementation Guide (Guide) is intended to supplement the Model, not to create additional requirements, by providing interpretive guidance and clarifying the meaning of terms used in the Model. Such guidance is important to ensure common understanding between insurers and regulators and to memorialize the intent of the changes. Because issues and questions will occur from time-to-time, by placing the Guide outside of the Model, maintenance can be achieved in a cost effective way without reopening the Model especially when the issue under consideration is an interpretation of the requirements. The Guide should not be viewed as a requirement of complying with the *Accounting Practices and Procedures Manual*.

**Maintaining the Guide**

The responsibility of developing and maintaining the Guide resides with the NAIC/AICPA (E) Working Group with changes to the Guide following the NAIC regulatory due process. The Guide resides as an informational appendix to the NAIC *Accounting Practices & Procedures Manual* (AP&P Manual). The AP&P Manual was selected as the logical repository since the Guide provides instruction about compliance with the Model, which directly relates to financial reporting and statutory accounting.

The regulatory due process for modifying this Guide requires the NAIC/AICPA (E) Working Group to send adopted proposals to the Accounting Practices and Procedures (E) Task Force for adoption and inclusion in the AP&P Manual. If the Accounting Practices and Procedures (E) Task Force recommends substantive changes to the proposal received from the NAIC/AICPA (E) Working Group, the proposal should be returned to the NAIC/AICPA (E) Working Group for further deliberation.

**Table of Contents**

The Table of Contents for the Guide mirrors that of the Model. However, not all sections of the Model require interpretive guidance. Consequently, only those sections containing guidance are contained in the Guide. The presentation of the Guide is organized by the Section Title with the Section number of the Model appearing after the title.

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*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*TEXT NOT SHOWN TO CONSERVE SPACE\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\**

**Communication of Internal Control Related Matters Noted in an Audit (Section 11)**

In addition to the annual Audited financial report, each insurer must furnish the Commissioner with a written communication as to any unremediated material weakness in its internal control over financial reporting noted during the audit. The communication is prepared by the accountant within 60 days after the filing of the annual Audited financial report and is filed by the insurer. Recognizing it may not always be practical, insurers are encouraged to file the communication concurrently with the filing of the annual Audited financial report for those years in which the insurer is aware that a financial condition examination has been scheduled. The insurer is required to provide a description of remedial actions taken or proposed to correct unremediated material weaknesses, if the actions are not described in the accountant’s communication.

The Model requires that the Commissioner be notified when unremediated material weaknesses in internal control over financial reporting were noted during the audit. Previous versions of the Model required such communication when any significant deficiencies in internal control over financial reporting were noted during the audit, whether remediated or not. This distinction is important because of the level of severity of the internal control deficiency that is applicable to each term. The terms “material weakness” and “significant deficiency” have the same meaning respectively as used in PCAOB or American Institute of Certified Public Accountants (AICPA) auditing literature - PCAOB Auditing Standard No. 5, An Audit of Internal Control over Financial Reporting That is Integrated With an Audit of Financial Statements or AICPA AU Section 325, Communicating Internal Control Matters Identified in an Audit (see Section 17E of this Guide for the definitions of material weakness and significant deficiency that are included in the auditing literature). However, the insurer is expected to maintain information about significant deficiencies that were communicated by its auditors and such information should be available for review during the financial condition examination.

Effective for audits as of 12/31/21 and thereafter, the information required in Section 12 of the MAR required to be communicated by the accountant should be supplemented by providing both the name of the current lead audit partner and the year at which he or she began serving in that capacity. For the purpose of maintaining confidentiality, this information will not be included in the annual letter of qualifications, but instead shall be included in the internal control communication required in Section 11 of the MAR by the accountant as a footer or under the firm signature as follows:

The engagement partner, [name], has served in that capacity with respect to the Company since [year that current term started].

Consistent with the Drafting Note[[1]](#footnote-1) to Section 11 of the MAR, the information provided on the engagement partner shall remain confidential.

The following is an example of the type of communication that an insurer should prepare to communicate the remedial actions taken or proposed to correct a material weakness in its internal control over financial reporting noted during an audit.

*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*TEXT NOT SHOWN TO CONSERVE SPACE\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\**

1. The insurer is expected to maintain information about significant deficiencies communicated by the independent certified public accountant. Such information should be made available to the examiner conducting a financial condition examination for review and kept in such a manner as to remain confidential. [↑](#footnote-ref-1)