

## Interpretation of the Emerging Accounting Issues Working Group

### INT 02-10: Statutory Audit Report Notes and the Reporting Requirements Related to Disclosures Containing Multiple Year Information

#### ISSUE NULLIFIED BY SSAP NO. 65

##### INT 02-10 Dates Discussed

March 18, 2002; June 9, 2002

##### INT 02-10 References

Preamble to the NAIC *Accounting Practices and Procedures Manual* (Preamble)

*SSAP No. 65—Property and Casualty Contracts* (SSAP No. 65)

*SSAP No. 84—Certain Health Care Receivables and Receivables Under Government Insured Plans* (SSAP No. 84)

##### INT 02-10 Issue

1. SSAP No. 65 paragraph 42 requires a five-year rollforward for asbestos and environmental reserves on both a gross and net basis. Therefore, in accordance with paragraph 55 of the Preamble, it appears that the notes to the statutory audit report would include a five-year asbestos and environmental disclosure and that the auditor's opinion would also address the five-year disclosure.
2. Paragraph 65 of U.S. Auditing Standards Section 508, *Reports on Audited Financial Statements*, of the Statement on Auditing Standards (AU 508) indicates that when comparative financial statements are presented, an auditor's report must contain either an expression of opinion regarding the financial statements "taken as a whole" or an assertion to the effect that an opinion cannot be expressed. The phrase "taken as a whole" applies to all periods presented on a comparative basis with those of the current period. U.S. Auditing Standards Section 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*, of the Statement on Auditing Standards (AU 551) requires specific reporting on the five-year note if it is considered to be supplemental information to the two-year audited financial statements. As a result, the auditor's opinion may need to be modified to encompass the 5-year footnote disclosure of asbestos and environmental reserves if included in the notes to the audited financial statements. Further, a modification would be required if other auditors previously audited the statutory financial statements during the 5-year disclosure period.
3. The accounting issue is whether the five-year disclosure of asbestos and environmental reserves is required for both the annual statement blank and the audited statutory financial statement, or can the audited statutory financial statement provide only a two-year comparative disclosure regarding the asbestos and environmental reserve rollforward, on both a gross and net basis? Since a five-year footnote disclosure may require an independent auditor to modify the audit opinion to encompass comparative information for all years presented in the footnotes, and possibly having to audit amounts that not previously audited for separate report disclosure, was this the original intent of the disclosure requirement?

**INT 02-10 Discussion**

4. The working group reached a consensus that the SSAP No. 65 disclosure of asbestos and environmental reserves over a five-year period is applicable only to the annual statement blank whereas the two-year disclosure requirement is applicable to the two-year audited statutory financial statement report. This consensus shall be applied to all current and future SSAPs which include disclosure requirements in excess of two years.

5. The working group also reached a consensus that the notes to the audited statutory financial statement shall include certain items not included in the notes to the annual statement blank. This is due to the fact that many of the SSAPs contain disclosures that are only required in the audit report as well as the fact that many of the SSAP disclosures are satisfied by information included in certain annual statement schedules and exhibits<sup>1</sup>. For example, SSAP No. 55 contains 7 different disclosure requirements for property and casualty entities. Annual statement Schedule P satisfies 4 of the SSAP No. 55 disclosures; therefore the annual statement notes only include 3 of the SSAP No. 55 disclosures. The audited financial statements do not contain a Schedule P therefore the audited notes shall include all 7 of the SSAP No. 55 disclosures.

**INT 02-10 Status**

6. No further discussion planned.

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<sup>1</sup> Paragraph 59 of the Preamble states “To the extent that disclosures required by a SSAP are made within specific notes, schedules, or exhibits to the annual statement, those disclosures are not required to be duplicated in a separate note. Annual statutory financial statements which are not accompanied by annual statement exhibits and schedules (e.g., annual audit report) shall include all disclosures required by the SSAPs based on the applicability, materiality and significance of the item to the insurer. Certain disclosures, as noted in individual SSAPs, are required in the annual audited statutory financial statements only”.