

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.

Title	Section	Page
Definitions	3	2
General Requirements Related to Filing and Extensions for Filing of Annual Audited Financial Reports and Audit Committee Appointment	4	4
Qualifications of Independent Certified Public Accountant	7	4
Communication of Internal Control Related Matters Noted in an Audit	11	9
Requirements for Audit Committees	14	10
Management’s Report of Internal Control over Financial Reporting	16	12
Exemptions and Effective Dates	17	16
Appendix 1	16	20

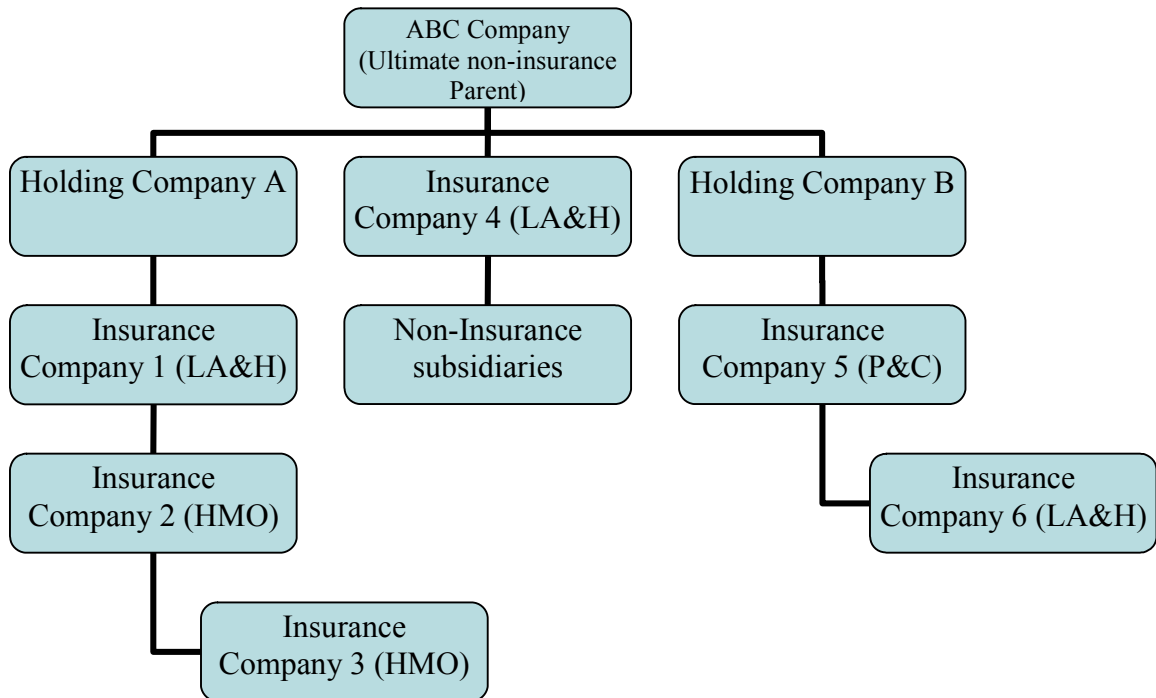
Definitions (Section 3)

Certain terms and definitions contained in the Model need no further explanation. The Guide provides additional information for preparers and users for some definitions to facilitate their understanding.

“**Audited financial report**” (D), differs from the term “financial statements” in that the Audited financial report (see Section 5 of the Model) includes the financial statements plus the report of the independent certified public accountant. “Financial statements,” therefore, excludes the report of the independent certified public accountant.

“**Group of insurers**” (H), as intended for use in the Model is to recognize the variety of structures that may exist. Companies within a holding company structure, or other set of insurers identified by management, may often share common management, systems or processes. Consequently, when management asserts to the effectiveness of their internal controls, it is appropriate to make such an assertion for those companies based upon the organization management determines to be most relevant to meet the reporting requirements. Because holding company structures, and other groups of insurers, can be complex and organized to meet corporate objectives, that structure may not align with the organizations that are responsible for managing and preparing the financial statements of the insurer. The Model provides flexibility to insurers to identify a “Group of insurers” for purposes of evaluating the effectiveness of their internal control over financial reporting. Regardless of the structure deemed most appropriate for the evaluation and reporting of controls, management is required to issue an assertion regarding the effectiveness of internal control over statutory financial reporting. As statutory reporting requires presentation at a legal-entity level, management’s assertion must apply at this level. Therefore, when determining the scope of controls subject to review for the “Group of insurers”, all controls deemed significant to each individual legal entity within the group should be included within the scope of management’s review.

The following example is intended to illustrate various ways that a “Group of insurers” could be determined. The example is not intended to be limiting in any way. Rather, it is intended to show the flexibility to be in compliance with the Model. Insurers are encouraged to notify the Commissioner of its initial “Group of insurers” and any subsequent changes to such group.



1. “Group of insurers” could be established at the ultimate parent level, i.e., one report of the effectiveness of internal controls for all insurers in the group—insurance companies 1-6.
2. Two “Group of insurers” could be established at the holding company level, i.e., holding company A and B. In this case, a separate report would be required for holding company A, holding company B, and if it met the reporting threshold, insurance company 4 since it is not in either group.
3. Two “Group of insurers” could be established based upon the type of insurance company, i.e., LA&H companies 1, 4 and 6 could be one group and HMO companies 2 and 3 in the second group. In this case, a separate report would be required for the LA&H companies, the HMO companies and if it met the reporting threshold, insurance company 5 since it is not in either group.
4. Two “Group of insurers” could be established based upon the way the entities are managed. For example, companies, 1, 2, 3 and 5 have the same management while companies 4 and 5 have common management.
5. If management elects not to identify a “Group of insurers” for purposes of evaluating the effectiveness of internal control over financial reporting then each reporting entity meeting the reporting requirements of Section 16 would prepare such a report.

“**Internal control over financial reporting**” (I), as defined in the Model is intended to have the same meaning as understood in the public sector to comply with the requirements of the Sarbanes-Oxley Act of 2002. Because some terms might not be fully defined and to avoid misunderstanding, this Guide attempts to clarify such terms. For example, the word “reliability” used in the phrase “reliability of financial statements” has the same meaning as that contained in the generally accepted accounting principles (GAAP) framework, Statement of Financial Accounting Concepts Two. This Statement is referenced in the Preamble, Part III, paragraph 24 of the AP&P Manual.