UNtangling the NAIC Annual Financial Reporting Model Regulation

The revised Model Audit Rule is a self-governance process that promotes transparency, fraud prevention and restored public confidence in the insurance industry.

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Course Outline

1. Bio and Introductions
2. Free Resources from Lord & Benoit
3. Insurance Regulatory Update
4. Background - NAIC
5. Explaining the Annual Financial Reporting Model Regulation
7. Concepts in recent COSO Monitoring Guidance
8. Path to Success
10. What ever happened to AIG?
Biographies and Introductions

Bob Benoit

- COSO Monitoring Project Taskforce.
- AICPA Peer Review Acceptance Board
- Compliance with SOX 404 thru State CPA Societies.
- Lord & Benoit Reports (SEC, PCAOB, Wall Street Journal, Business Week, all Big 4 firms and over 200 news, legal, educational and trade journals)
- First evaluator to use the 2006 COSO Guidance
- **Inventor of Virtual SOX (AICPA Technology)**
- **Research contributor to the SEC Subcommittee, SEC Concept Releases and SEC/PCAOB Internal Control Roundtables**

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Free Resources from Lord & Benoit

- Virtual Technologies to Drive Costs Down

- Ongoingly Lord & Benoit releases ongoing research and white papers...

- Education

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Lord & Benoit releases leading edge internal controls research... by industry

LORD & BENOIT REPORT: NAIC ANNUAL FINANCIAL REPORTING MODEL REGULATION

www.Section404.org
• Current regulatory agencies
• State insurance regulators
• Federal Government
• Federal McCarran-Ferguson Act
• Non-consolidation of regulatory authority
• State insurance regulation works!
• Congress

Source: Lawrence Mirel
Wiley Rein LLP
Former Commissioner of Insurance,
Securities & Banking for the District of Columbia
The NAIC Mission

• Public Interest
• Competitive Markets
• Fair and Equitable Treatment Consumers
• Reliability, Solvency, Solidity
• Support and Improve State Regulation
NAIC Background

- State Insurance Regulators 1871
- Development of uniform financial reporting
- New legislative concepts
- Data collection
- Delivery
- Technological capabilities
1. Annual Audit of Financial Statements by independent Certified Public Accountants
2. Communication of Internal Control in an Audit
Auditor Independence

Corporate Governance

Internal Control over Financial Reporting...

2010
The NAIC requires that an evaluation be done in accordance with an acceptable framework.
What is the Basis of an ICFR Management Report?

- 1992 COSO Framework
- 2006 COSO’s Guidance ICFR
- 2009 COSO Monitoring Guidance
Nature and Purpose of Management Assessment?

- Ongoing evaluations
- Separate evaluations
- Risks change over time
- Monitoring needs to be relevant
- Manage and mitigate meaningful risks to organizational objectives in its entirety
Skill sets Needed in a Management Assessment?

Evaluators

1. Competent
2. Objective
### Skill sets Needed in a Management Assessment?

- **Corporate Governance & Risk**
- **Executive Level IT Controls Specialization**
- **Financial Reporting Expertise**
- **Process Level Controls Compliance Testing**
Overview of NAIC Model Regulation

Establish a Foundation
- Tone from the top
- Organizational structure
- Baseline understanding of internal control effectiveness

Design & Execute
- Prioritize risks
- Identify controls
- Identify persuasive information about controls
- Implement monitoring procedures

Assess & Report
- Prioritize findings
- Report results to the appropriate level
- Follow up on corrective action

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Establishing a Foundation for NAIC Model Regulation

- Tone from the Top
- Organizational Structure
- Roles of Management and the Board
- Characteristics of Evaluators
- Baseline Understanding of Internal Control Effectiveness
Design and Execution of NAIC Model Regulation

- Understand and Prioritize Risks
- Fraud Risk
- Design of Controls
- Identifying Key Controls
- Identify Persuasive Information
- Ongoing/Separate Evaluations
- Outsourced internal controls
- Using technology
More on Design & Execution of NAIC Model Regulation

#1 Prioritize Risks
#2 Identify Controls
#3 Identify Information
#4 Implement Monitoring
Design and Execution of Information Technology

Risk Assessment, IT Mapping to IC Infrastructure for in scope Applications and Operations

IT Control Objectives, ITGC, Design, Key Controls, Assertions

Test Plans, Obtain Sufficient Evidence, Evaluate Deficiencies for Materiality, Compensating Control Identification, Reporting

IT Critical Path

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Assess and Report Results

• Prioritize and communicate
• Reporting internally
• Reporting externally
Incomplete Evaluations…

The Path to Success
Audit Adjustments…
Path to Success – NAIC Model Regulation

Adverse Reports
Path to Success – NAIC Model Regulation

• Training
• Project Management Tools
• Software
Path to Success – NAIC Model Regulation

- Templates

The Path to Success
• Sample Policies
Path to Success – NAIC Model Regulation

• Checklists

The Path to Success
Path to Success – NAIC Model Regulation

Lots of Testing!
Path to Success – NAIC Model Regulation

Board of Directors

Audit Committees
LORD & BENOIT REPORT:
NAIC ANNUAL FINANCIAL REPORTING MODEL REGULATION

(Model Regulation)
(Formerly called: Model Audit Rule)
Findings out of 415 Insurance Companies
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What about American International Group?

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<td>Year Ended</td>
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**Management - Assessments**

*Not Effective - Accounting Rule (GAAP/FASB) Application Failures*

- Acc - Balance sheet classification of asset issues
- Acc - Consolidation, (Fin46r/Off BS) & foreign currency translation issues
- Acc - Financial derivatives/hedging (FAS 133) acctg issues
- Acc - Foreign, related party, affiliated and/or subsidiary issues
- Acc - Tax expense/benefit/deferral/other (FAS 109) issues

*Not Effective - Internal Control Weakness*

- IC - Accounting documentation, policy and/or procedures
- IC - Accounting personnel resources, competency/training
- IC - Ethical or compliance issues with personnel
- IC - **Restatement of previous 404 disclosures**
- IC - Restatement or nonreliance of company filings
- IC - Senior management competency, tone, reliability issues

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~ Bob Benoit  
President Lord & Benoit,
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1. Please email LizK@Lordandbenoit.com today.
2. Be sure to include your full name in the email
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UNtangling the NAIC Annual Financial Reporting Model Regulation Questions?

Contact Information:
Lord & Benoit, LLC
Bob Benoit
(800) 404-7794 x204
BobB@LordandBenoit.com
www.Section404.org

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