



DATE: FEBRUARY 24, 2016

TO: DOMESTIC INSURERS USING THE NAIC FRATERNAL, HEALTH, LIFE, PROPERTY & CASUALTY, OR TITLE BLANK AND INSTRUCTIONS

SUBJECT: **NOTES FOR SECTION IV. AUDIT/INTERNAL CONTROL RELATED REPORTS OF THE ANNUAL STATEMENT FILING CHECKLIST AND INSTRUCTIONS [31 PA Code § 147]**

FROM: FINANCIAL ANALYSIS DIVISION

This memorandum supplements the Annual Statement Filing Checklist and Instructions by providing the detailed notes referenced in Section IV. Audit/Internal Control Related Reports of the checklist. The notes regarding the reporting requirements under 31 PA Code § 147 listed in the checklist are provided below.

**FOREIGN/ALIEN COMPANIES SHOULD ONLY FILE THOSE SPECIFIC ITEMS NOTED AS REQUIRED IN THE FOREIGN COLUMN. PLEASE DO NOT FILE ITEMS NOT SPECIFICALLY REQUIRED.**

2016 NAIC Checklist								
(1) √	(2) Line #	(3) Required Filings For Pennsylvania	(4) Number Of Copies			(5) Due Date	(6) Form Source	(7) Applicable Notes
			Domestic		Foreign			
			State	NAIC	State			
		<b>31 PA Code § 147</b>						***
		<b>IV. AUDIT/INTERNAL CONTROL RELATED REPORTS</b>						
	71	Accountant's "Awareness" Letter	1	N/A	N/A	See Note	Company	A, R
	72	Accountant's Letter of Qualifications	2	EO	N/A	6/1	Company	B
	73	Audit Committee Designation Notification	1	N/A	N/A	4/1 See Note	Company	C, Q, R
	74	Audited Financial Reports	2	EO	xxx	6/1	Company	D, R
	75	Audited Financial Reports Exemption Affidavit	0	N/A	N/A	See Note	Company	E, R
	76	Communication of Internal Control Related Matters Noted in Audit	2	N/A	N/A	8/1 See Note	Company	F, Q
	77	Exemption from Audit Committee Requirements	1	EO	N/A	3/1 See Note	Company	G, Q, R
	78	Exemption from Prohibited Non-Auditing Services	1	EO	N/A	6/1 See Note	Company	H, R
	79	Independent CPA (change)	1	N/A	N/A	See Note	Company	A, I, R
	80	Independent CPA (newly required to file)	1	N/A	N/A	See Note	Company	A, J, R
	81	Management's Report of Internal Control Over Financial Reporting	1	N/A	N/A	8/1 See Note	Company	K, Q, R
	82	Notification of Adverse Financial Condition	2	N/A	N/A	See Note	Company	L

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			Domestic		Foreign			
		<b>31 PA Code § 147</b>	<b>State</b>	<b>NAIC</b>	<b>State</b>			***
	83	Relief from Rotation & Cooling Off Requirements	1	EO	N/A	3/1 See Note	Company	M, Q, R
	84	Request for Exemption to File &	1	N/A	N/A	See Note	Company	N, R
	85	Request for Extension to Filing	1	N/A	N/A	5/21	Company	O, R
	86	Request to File Consolidated Audited Annual Statements	1	N/A	N/A	See Note	Company	P, R

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A	Accountant's "Awareness" Letter	<p>As described by 31 PA Code §147.5(b), stating that the independent CPA is aware of the provisions of PA insurance statutes and regulations that relate to the company's accounting and financial matters as well as the CPA's annual audited report. It affirms that the independent CPA will express an opinion in terms of their conformity to the statutory accounting practices prescribed or otherwise permitted by the Department, specifying the exceptions the independent CPA may believe appropriate.</p> <p><b>This letter is not required to be filed annually.</b> However, if the awareness letter on file with the Department is NOT from the independent CPA or accounting firm signing the current year's CPA report, then a new awareness letter needs filed with the Department:</p> <ol style="list-style-type: none"> <li>a. Within 60 days of notifying the Department of the dismissal, resignation, or replacement of the former CPA, or</li> <li>b. Within 60 business days of the insurer becoming required to file an annual audited report.</li> </ol>
B	Accountant's Letter of Qualifications	As described by 31 PA Code §147.6a; including but not limited to a statement that the independent CPA consents to the requirements of 31 PA Code §147.11 (relating to definitions, availability & maintenance of independent CPA work papers).
C	Audit Committee Designation	<p>Every insurer required to file an annual audited financial report shall establish an audit committee and each member of the audit committee must meet the requirement in § 147.3a(c).</p> <p>Insurers not exempt under 31 PA Code § 147.3a(g)(3), granted exemption under § 147.3a(g)(1), or designating their entire Board of Directors as their Audit Committee, must provide the Department with the following information regarding the designated Audit Committee by April 1, 2014:</p> <ol style="list-style-type: none"> <li>1. If the Insurer designates the Audit Committee - A letter identifying the members of the Audit Committee and how they comply with the requirements in § 147.3a(c).</li> <li>2. If the Ultimate Controlling Person designates the Audit Committee - A letter must be filed by either the insurer or the ultimate controlling person that: <ol style="list-style-type: none"> <li>a. identifies the ultimate controlling person,</li> <li>b. explains the basis for the designation of the Audit Committee,</li> <li>c. lists the names of the Audit Committee members of a controlling person designated by the ultimate controlling person to be the audit committee for one or more controlled insurers, and</li> <li>d. explains how the Audit Committee members comply with the requirements in 31 PA Code § 147.3a(c).</li> </ol> </li> </ol> <p>An Audit Committee designation letter is not required by insurers that designate their entire Board of Directors as their Audit Committee. <b>When an Audit Committee designation letter is required, it is filed once and then remains in effect unless modified or rescinded by a subsequent notice</b> provided by the insurer or ultimate controlling person.</p>

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		Control Related Matters, from their auditor and Management’s Report of Internal Control Over Financial Reporting as long as they are filed as required with their state of domicile.
D	Audited Financial Reports	<p><b>Foreign Insurers:</b> The Department will accept annual audited financial reports filed with the NAIC in accordance with <i>the NAIC Electronic Filing Submission Directive</i> in lieu of filing a hard copy with the Department.</p> <p>Please note that only foreign insurers are not required to file a Communication of Internal Control Related Matters, from their auditor and Management’s Report of Internal Control Over Financial Reporting as long as they are filed as required with their state of domicile.</p>
E	Audited Financial Report Exemption Affidavit	Exemption from filing a CPA report is automatic if a company meets the criteria set forth in 31 PA Code §147.13. Therefore, an exemption affidavit for filing a CPA report will not be issued. Insurers required to file a CPA report may however be granted an exemption to or relief from other requirements in 31 PA Code § 147. If such exemption or relief is granted, a copy must be filed with the audited financial report filed with the NAIC and with the Department.
F	Communication of Internal Control Related Matters	<p><b>Domestic Insurers:</b> A written communication prepared by the independent certified public accountant describing internal control related matters identified in the audit must be filed with the Department <b>within 60 days after the filing of the annual audited financial report</b>. The communication must include a description of any unremediated material weakness in the insurer’s internal control over financial reporting as of the immediately preceding December 31 or a statement that no unremediated material weaknesses were identified in the audit.</p> <p>Additionally, if unremediated material weaknesses are described in the Communication of Internal Control Related Matters, either the independent certified public accountant or the insurer shall provide the Department, <b>within 60 days after the filing of the annual audited financial report</b>, a written description of actions taken or proposed to eliminate the unremediated material weaknesses.</p>
G	Exemption from Audit Committee Requirements	<p>Insurers required to file a CPA report must meet the audit committee requirements from which they are not automatically exempt or have not been granted an exemption. Detailed guidance regarding automatic exemption and requests for exemption from audit committee requirements can be found on any of the licensed company type pages under the heading <b>Audited Financial Reports</b> in the Department’s letter at <a href="#">Requesting Exemption from Filing &amp; Required Related Information</a>.</p> <p>If an exemption is granted, the insurer must file a copy of the exemption with the NAIC and with the Department.</p> <p>Insurers not exempt or granted an exemption to Chapter 147 must, when requested, be able to show compliance with applicable sections, including but not limited to the following audit committee requirements:</p> <ul style="list-style-type: none"> <li>Insurers not exempt under § 147.3a(g)(3) or granted an exemption under §31 PA Code §147.3a(g)(1) must show how they complied with the independence requirements in 31 PA Code §147.3a(e).</li> <li>Insurers not granted an exemption under 31 Pa. Code § 147.3a(g)(1) must show how they complied with the oversight responsibility requirements in § 147.3a(f).</li> </ul>

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H	Exemption from Prohibited Non-Auditing Services	<p>CPA's are not considered independent if they provide the insurer with non-auditing services contemporaneously with the audit.</p> <p>Detailed guidance regarding requests for exemption under 31 PA Code § 147.6(h)(3) on the basis of financial or organizational hardship can be found on any of the licensed company type pages under the heading <b>Audited Financial Reports</b> in the Department's letter at <a href="#">Requesting Exemption from Filing &amp; Required Related Information</a>.</p> <p>If an exemption is granted, the insurer must include a copy of the exemption with the audited financial report filed with the NAIC and with the Department.</p>
I	Independent CPA (change)	<p>Pursuant to 31 PA Code § 147.5(c), <b>five</b> different letters must be filed with the Department when a company engages an independent CPA or accounting firm other than the one responsible for the immediately preceding filed annual audited financial report:</p> <ol style="list-style-type: none"> <li>1. A notification of dismissal, resignation, or replacement letter must be filed within 5 business days of the change in independent CPA or accounting firm,</li> <li>2. A letter stating whether there were disagreements, with the former independent CPA or accounting firm, as described in 31 PA Code § 147.5(c)(1) and (2), during the 24 months prior to the change must be filed within 10 business days of the first notification letter,</li> <li>3. A letter from the former independent CPA or accounting firm stating that they either agree or disagree with the contents of the second letter must be filed concurrently with the second letter,</li> <li>4. A letter with the name and address of the new independent CPA or accounting firm retained to conduct the annual audit must be filed within 60 business days of submitting the notification of dismissal, resignation, or replacement letter, and</li> <li>5. An Awareness Letter from the new CPA must be filed within 60 business days of submitting the notification of dismissal, resignation, or replacement letter (Note A).</li> </ol>
J	Independent CPA	<p>Within 60 days of initially becoming subject to the requirement to file an annual audited report, an insurer must file the following:</p> <ol style="list-style-type: none"> <li>a. a letter with the name and address of the independent CPA or accounting firm retained to conduct the annual audit, and</li> <li>b. an Awareness Letter from the CPA (Note A).</li> </ol>

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K	Management's Report of Internal Control	<p>Domestic Insurers: Any insurer with direct and assumed premiums equal to or greater than \$500 million, excluding premiums reinsured with the Federal Crop Insurance Corporation and Federal Flood Program, or any group of insurers, with at least one insurer meeting the same threshold, must file Management's Report of Internal Control with the Communication of Internal Control Related Matters required in 31 PA Code § 147.9a (Note F), within 60 days after the filing of the annual audited financial report.</p> <p>Under 31 PA Code § 147.9b(c), an insurer may choose instead to file its or its parent's Sarbanes-Oxley Act Section 404 report. In order to satisfy the filing requirement, an addendum meeting the requirements in 31 PA Code § 147.9b(c)(3) must be filed with the Section 404 report. If the scope of the Section 404 report does not meet the 31 PA Code § 147.9b(c)(3) requirements, then an insurer may satisfy the requirements by complying with 31 PA Code § 147.9b(d).</p> <p>If the insurer group or group of insurers is not established at the ultimate parent level, i.e. one report of the effectiveness of internal controls for all insurers in the holding company system, then Management's Report of Internal Control must be supplemented with a letter identifying the initial insurer group or group of insurers for purposes of evaluating the effectiveness of their internal control over financial reporting. Subsequently, a letter is only required when changes to such group occur.</p> <p>An insurer or insurer group previously not required to file because it did not meet the \$500 million threshold, has 2 years following the year their premiums equal or exceed the threshold, to start filing the report.</p>
L	Notification of Adverse Financial Condition	<p>An insurer required to file an annual audited financial report receiving a Notification of Adverse Financial Condition must forward a copy of the report to the Department within 5 business days of receipt of the report and shall provide the independent CPA making the report with evidence of the report being filed with the Department. If within the required 5 business day period, the CPA does not receive evidence that the report was filed with the Department, the CPA must file a copy of the report directly with the Department within the next 5 business days.</p>
M	Relief from Rotation & Cooling-Off Requirements	<p>Insurers may apply for relief from one or both of the following situations in which a CPA is not considered independent:</p> <p>A. A person involved in the previous year's audit who is currently holding one of several positions with the insurer described in 31 PA Code § 147.6(b)(5) (rotation requirement).</p> <p>B. A CPA's lead partner or other person responsible for an insurer's audit that has acted in that capacity for more than 5 consecutive years (cooling-off requirement).</p> <p>Detailed guidance regarding relief from the independence requirements can be found on any of the licensed company type pages under the heading Audited Financial Reports in the Department's letter at <a href="#">Requesting Exemption from Filing &amp; Required Related Information</a>.</p> <p>If relief is granted, the insurer must file a copy of the relief with the NAIC and with the Department.</p>

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N	Request for Exemption to File & from Other Requirements	<p>Exemption from filing a CPA report is automatic if an insurer meets the criteria set forth in 31 PA Code §147.13. Therefore, a request for exemption should not be filed.</p> <p>However, insurers required to file a CPA report may request exemption and/or relief from one or more of the other requirements in Chapter 147. Detailed guidance regarding automatic exemption and requests for exemption and/or relief from Chapter 147 requirements, other than the filing of the CPA report itself, can be found on any of the licensed company type pages under the heading Audited Financial Reports in the Department’s letter at <a href="#">Requesting Exemption from Filing &amp; Required Related Information</a>.</p>
O	Request for Extensions to Filing	<p>Extensions of the filing date may be granted for 15-day periods upon showing, by the insurer and its independent certified public accountant, the reasons for requesting an extension. The request for extension shall be submitted in writing at least 10 days prior to the due date in sufficient detail to permit the Department to make an informed decision with respect to the requested extension.</p> <p>Due to the unusually high number of requests in recent years for extensions from the June 1 filing date for audited financial reports under 31 PA Code § 147.3(b), the Department intends to limit the number of these extensions to one 15-day request, if any such extensions are warranted.</p> <p>Extensions granted for the annual audited financial report provide the same extension to the filing dates for Communication of Internal Control Related Matters (Note F) and Management’s Report of Internal Control (Note K).</p>
P	Request to file Consolidated Audited Annual Report	Applies only to companies filing on the yellow Property & Casualty blank.
Q	Implementation Guidance	<p><a href="#">31 PA Code, § 147</a> (Pennsylvania’s CPA audit rule) was updated effective January 1, 2010, consistent with the 2006 version of the NAIC Annual Financial Reporting Model Regulation. The NAIC Implementation Guide, referenced in §147.3(a), supplements and provides guidance on limited sections of the Model.</p> <p>The Model Audit Rule Implementation Guide is published as Appendix G in the NAIC’s Accounting Practices and Procedures Manual and is available from the right hand column of the NAIC’s website - Financial Condition (E) Committee/ <a href="#">NAIC/AICPA Working Group</a>.</p>
R	Bound	Any items bound with the Audited Financial Report and filed with the Department will be kept intact and as part of the records available for public inspection. Loose documents filed with the Department clearly marked “confidential” will be maintained as confidential.