

**IMPORTANT:** Read Instructions on bottom of Certification Page before completing this form. Failure to comply with instructions may cause disapproval of proposed Regulations.

**REGULATION**  
OF

NAME OF AGENCY

INSURANCE DEPARTMENT

Concerning

SUBJECT MATTER OF REGULATION

**Annual Audited Financial Reports**

SECTION 1

**Sec. 38a-54-1. Purpose and scope**

(a) Sections 38a-54-1 to 38a-54-14, inclusive, are intended to improve the Insurance Department's surveillance of the financial condition of insurance companies, health care centers and fraternal benefit societies doing business in the State of Connecticut by requiring an annual examination by independent [auditors] certified public accountants of the financial statements reporting the financial position and the results of operations of insurers.

(b)(1) Every insurer as defined in Section 38a-54-2 shall be subject to the requirements of Sections 38a-54-1 to 38a-54-14, inclusive. Insurers having direct premiums written in this state of less than \$1,000,000 in any year and having less than 1,000 policyholders or certificateholders of directly written policies nationwide at the end of any year are exempt from Sections 38a-54-1 to 38a-54-14, inclusive, for such year, unless the Commissioner makes a specific finding that compliance is necessary for the Commissioner to carry out statutory responsibilities, except that insurers having assumed premiums pursuant to contracts and/or treaties of reinsurance of \$1,000,000 or more shall not be so exempt.

(2) Foreign and alien insurers filing audited financial reports in another state, pursuant to such other state's requirement of audited financial reports which has been found by the Commissioner to be substantially similar to the requirements herein, are exempt from Sections 38a-54-1 to 38a-54-14, inclusive, if:

(A) a copy of the Audited Financial Report, Report on Significant Deficiencies in Internal Controls, and the [Independent Auditor's] Accountant's Letter of Qualifications, which are filed with such other state, are filed with the Commissioner in accordance with the filing dates specified in Sections 38a-54-3, 38a-54-9a and 38a-54-10, respectively, (Canadian insurers may submit independent auditors' reports as filed with the Canadian Dominion Department of Insurance); and

(B) a copy of any notification of adverse financial condition report filed with such other state is filed with the Commissioner within the time specified in Section 38a-54-9.

(c) Sections 38a-54-1 to 38a-54-14, inclusive, shall not prohibit, preclude or in any way limit the Insurance Commissioner from ordering and/or conducting and/or performing examinations of insurers under the General Statutes, Regulations and procedures of the Connecticut Insurance Department.

**Sec. 38a-54-2. Definitions**

As used in Sections 38a-54-1 to 38a-54-13, inclusive:

(a) "Accountant" or "independent certified public accountant" means an independent certified public accountant or accounting firm in good standing with the American Institute of Certified Public Accountants and in all states in which he or she is licensed to practice; for Canadian and British companies, it means a Canadian-chartered or British-chartered accountant.

[(a)] (b) "Audited financial report" means and includes those items specified in Section 38a-54-4.

[(b)] (c) "Commissioner" means the Insurance Commissioner of the State of Connecticut.

[(c)] (d) "Department" or "Insurance Department" means the Insurance Department of the State of Connecticut.

(e) "Indemnification" means an agreement of indemnity or a release from liability where the intent or effect is to shift or limit in any manner the potential liability of the person or firm for failure to adhere to applicable auditing or professional standards, whether or not resulting in part from other misrepresentations made knowingly or otherwise by the insurer or its representatives.

[(d)] (f) "Insurer" or "Insurance Company" means an insurance company, health care center or fraternal benefit society licensed by the Commissioner to do business in this State.

[(e)] "Independent Auditor" means an independent certified public accountant or accounting firm in good standing with the American Institute of and in all states in which they

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are licensed to practice; for Canadian and British insurers, it means a Canadian or British-chartered accountant.]

(g) "NAIC" means the National Association of Insurance Commissioners.

[(f)] (h) "Workpapers" means the records kept by the independent [auditor] certified public accountant of the procedures followed, the tests performed, the information obtained, and the conclusions reached pertinent to his or her examination of the financial statements of an insurer. Workpapers, accordingly, may include audit planning documentation, summary of unadjusted differences, audit completion memorandum, work programs, analyses, memoranda, letters of confirmation and representation, abstracts of company documents and schedules or commentaries prepared or obtained by the independent [auditor] certified public accountant in the course of his or her examination of the financial statements of an insurer and which support his or her opinion thereof.

**Sec. 38a-54-3. Filing and extension for filing of annual audited financial reports**

All insurers shall have an annual audit by an independent [auditor] certified public accountant and shall file an audited financial report with the Commissioner on or before June 1 for the year ended December 31 immediately preceding. The Commissioner may require an insurer to file an audited financial report earlier than June 1 with ninety (90) days advance notice to the insurer.

Extensions of the June 1 filing date may be granted by the Commissioner for thirty (30) day periods upon showing by the insurer and its independent [auditor] certified public accountant the reasons for requesting such extension and determination by the Commissioner of good cause for an extension. The request for extension shall be received in writing not less than ten (10) days prior to the due date in sufficient detail to permit the Commissioner to make an informed decision with respect to the requested extension.

**Sec. 38a-54-4. Contents of annual audited financial report**

(a) The annual audited financial report shall report the financial position of the insurer as of the end of the most recent calendar year and the results of its operations, cash flows and changes in capital and surplus for the year then ended in conformity with statutory accounting practices prescribed, or otherwise permitted, by the department of insurance of the state of domicile.

(b) The annual audited financial report shall include the following:

- (1) report of independent [auditor] certified public accountant;
- (2) balance sheet reporting admitted assets, liabilities, capital and surplus;
- (3) statement of operations;
- (4) statement of changes in capital and surplus;
- (5) statement of cash flows;

(6) notes to financial statements. [These notes shall be those required by the appropriate NAIC Annual Statement Instructions and any other notes required by generally accepted accounting principles and shall also include:

(A) a description identifying, if applicable, insurance subsidiaries and affiliates of the insurer and indicating their relationship to the company;

(B) a reconciliation of differences, if any, between the audited statutory financial statements and the annual statement filed pursuant to Section 38a-53 of the Connecticut General Statutes with a written description of the nature of these differences.] These notes shall be those required by the appropriate NAIC Annual Statement Instructions and the NAIC Accounting Practices and Procedures Manual. The notes shall include a reconciliation of differences, if any, between the audited statutory financial statements and the annual statement filed pursuant to Section 38a-53 of the Connecticut General Statutes with a written description of the nature of these differences.

(c) The financial statements included in the Audited Financial Report shall be prepared in a form and using language and groupings substantially the same as the relevant sections of the annual statement of the insurer filed with the Commissioner; the financial statements shall be comparative, presenting the amounts for the years ended December 31 of the current and

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immediately preceding year. However, in the first year in which an insurer is required to file an audited financial report, the comparative data may be omitted.

**Sec. 38a-54-5. Designation of independent [auditor] certified public accountant**

Each insurer required to file an annual audited financial report pursuant to Section 38a-54-3 shall within sixty (60) days after becoming subject to such requirement, register with the Commissioner in writing the name and address of the independent [auditor] certified public accountant or accounting firm (generally referred to in Sections 38a-54-1 to 38a-54-14, inclusive, as the "accountant") retained to conduct the annual audit required by Section 38a-54-3. Insurers not retaining an independent [auditor] certified public accountant on the effective date of Section 38a-54-3 shall register the name and address of their retained independent [auditor] certified public accountant not less than six (6) months before the date when the first audited financial report is to be filed.

The insurer shall obtain a letter from the [independent auditor] accountant, and file a copy with the Commissioner stating that the [independent auditor] accountant is aware of the provisions of the insurance code and the rules and Regulations of the insurance department of its state of domicile that relate to accounting and financial matters and affirming that he or she will express his or her opinion on the financial statements in terms of their conformity to the statutory accounting practices prescribed or otherwise permitted by such department, specifying such exceptions as he or she may believe appropriate. If an [independent auditor] accountant who was the [auditor] accountant for the immediately preceding filed audited financial report is dismissed or resigns, the insurer shall notify the Connecticut Insurance Department within five (5) business days of this event. The insurer shall also furnish the Commissioner with a separate letter within ten (10) business days of the above notification stating whether in the twenty-four (24) months preceding such event there were any disagreements with the former [independent auditor] accountant on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of the former [independent auditor] accountant, would have caused him or her to make reference to the subject matter of the disagreement in connection with his or her opinion. The disagreements required to be reported in response to this section include both those resolved to the former [independent auditor's] accountant's satisfaction and those not resolved to the former independent [auditor's] accountant's satisfaction. Disagreements contemplated by this section are those that occur at the decision-making level, that is, between personnel of the insurer responsible for presentation of its financial statements and personnel of the accounting firm responsible for rendering its report. The insurer shall also in writing request such former [independent auditor] accountant to furnish a letter addressed to the insurer stating whether the [independent auditor] accountant agrees with the statements contained in the insurer's letter and, if not, stating the reasons for which he or she does not agree; and the insurer shall furnish such responsive letter from the former [independent auditor] accountant to the Commissioner together with its own.

**Sec. 38a-54-6. Qualifications of independent [auditor] certified public accountant**

(a) The Commissioner shall not recognize any person or firm as [an independent auditor that is] a qualified independent certified public accountant if the person or firm: (1) is not in good standing with the American Institute of [CPAs] Certified Public Accountants and in all states in which the accountant is licensed to practice, or, for a Canadian or British company, that is not a chartered accountant; or (2) has either directly or indirectly entered into an agreement of indemnity or release from liability (collectively referred to as "indemnification") with respect to the audit of the insurer.

(b) Except as otherwise provided herein, the Commissioner shall recognize an independent [auditor shall be recognized] certified public accountant as qualified in accordance with Sections 38a-54-1 to 38a-54-14, inclusive, as long as he or she conforms to the standards of his or her profession, as contained in the Code of Professional Ethics of the American Institute of Certified Public Accountants and Rules and Regulations and Code of Ethics and Rules of Professional Conduct of the Connecticut Board of Public Accountancy, or similar code.

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(c) A qualified independent certified public accountant may enter into an agreement with an insurer to have disputes relating to an audit resolved by mediation or arbitration. However, in the event of a delinquency proceeding commenced against the insurer under Chapter 704c of the Connecticut General Statutes, the mediation or arbitration provisions shall operate at the option of the statutory successor.

[(c)] (d) No partner or other persons responsible for rendering an independent audit report may act in that capacity for more than seven (7) consecutive years. Following any period of service such person shall be disqualified from acting in that or a similar capacity for the same company or its insurance subsidiaries or affiliates for a period of two (2) years. An insurer may make application to the Commissioner for relief from the above rotation requirement on the basis of unusual circumstances. The Commissioner may consider the following factors in determining if the relief sought should be granted:

- (1) number of partners, expertise of the partners or the number of insurance clients in the currently registered firm;
- (2) premium volume of the insurer; or
- (3) number of jurisdictions in which the insurer transacts business.

The requirements of this subsection shall become effective on July 29, 1996.

[(d)] (e) The Commissioner shall not recognize as a qualified independent [auditor] certified public accountant, nor accept any annual audited financial report prepared in whole or in part by, any person who:

- (1) has been convicted of fraud, bribery, a violation of the Racketeer Influenced and Corrupt Organizations Act, 18 U.S.C. Sections 1961- 1968, or any dishonest conduct or practices under federal or state law;
- (2) has been found to have violated the insurance laws of this State with respect to any previous reports submitted under Sections 38a-54-1 to 38a-54-14, inclusive; or
- (3) has demonstrated a pattern or practice of failing to detect or disclose material information in previous reports filed under the provisions of Sections 38a-54-1 to 38a-54-14, inclusive.

[(e)] (f) The Insurance Commissioner may, as provided in Section 38a-16 of the Connecticut General Statutes and the Rules of Practice of the Insurance Department, hold a hearing to determine whether a certified public accountant is qualified and, considering the evidence presented, may rule that the accountant is not qualified for purposes of expressing his or her opinion on the financial statements in the annual audited financial report made pursuant to Section 38a-54-3 and require the insurer to replace the accountant with another whose relationship with the insurer is qualified within the meaning of this section.

**Sec. 38a-54-7. Consolidated or combined audits**

An insurance company may make written application to the Commissioner for approval to file audited consolidated or combined financial statements in lieu of separate annual audited financial statements if the insurer is part of a group of insurance companies which utilizes a pooling or one hundred percent reinsurance agreement that affects the solvency and integrity of the insurer's reserves and such insurer cedes all of its direct and assumed business to the pool. In such cases, a columnar consolidating or combining worksheet shall be filed with the report, as follows:

- (a) Amounts shown on the consolidated or combined Audited Financial Report shall be shown on the worksheet.
- (b) Amount for each insurer subject to this section shall be stated separately.
- (c) Noninsurance operations may be shown on the worksheet on a combined or individual basis.
- (d) Explanations of consolidating and eliminating entries shall be included.
- (e) A reconciliation shall be included of any differences between the amounts shown in the individual insurer columns of the worksheet and comparable amounts shown on the [Annual Statements] annual statements of the insurers.

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**Sec. 38a-54-8. Scope of examination and report of independent [auditor] certified public accountant**

Financial statements furnished pursuant to Section 38a-54-4 shall be examined by an independent [auditor] certified public accountant. The examination of the insurance company's financial statements shall be conducted in accordance with generally accepted auditing standards and consideration should be given to such other procedures illustrated in the Financial Condition Examiner's Handbook promulgated by the National Association of Insurance Commissioners as the [independent auditor] accountant deems necessary.

**Sec. 38a-54-9. Notification of adverse financial condition**

The insurer required to furnish the annual audited financial report shall require the independent [auditor] certified public accountant to notify in writing within five (5) business days the board of directors or its audit committee any determination by that independent [auditor] certified public accountant that the insurer has materially misstated its financial condition as reported to the Commissioner as of the balance sheet date currently under examination or that the insurer does not meet the minimum capital and surplus requirement of Section 38a-72 of the Connecticut General Statutes, as amended, as of that date. The insurer shall furnish such notification to the Commissioner within five (5) business days of receipt thereof and shall provide the independent [auditor] certified public accountant making the report with evidence of the report being furnished to the Commissioner. If the independent [auditor] certified public accountant fails to receive such evidence within the required five (5) business day period, the independent [auditor] certified public accountant shall furnish to the Commissioner a copy of its report within the next five (5) business days.

No independent [auditor] certified public accountant shall be liable in any manner to any person for any statement made in connection with this section if such statement is made in good faith compliance with this section.

If the [independent auditor] accountant, subsequent to the date of the audited financial report filed pursuant to Section 38a-54-3, becomes aware of facts which might have affected his or her report, the [independent auditor] accountant shall fulfill his or her obligation to take such action as prescribed in Volume 1, Section AU 561 of the Professional Standards of the American Institute of Certified Public Accountants.

**Sec. 38a-54-9a. Report on significant deficiencies in internal controls**

In addition to the annual financial statements, each insurer shall furnish the Commissioner with a written report prepared by the [independent auditor] accountant describing significant deficiencies in the insurer's internal control structure noted by the [auditor] accountant during the audit. SAS No. 60, Communication of Internal Control Structure Matters Noted in an Audit (AU Section 325 of the Professional Standards of the American Institute of Certified Public Accountants) requires an [auditor] accountant to communicate significant deficiencies (known as "reportable conditions") noted during a financial statement audit to the appropriate parties within an entity. No report should be issued if the [auditor] accountant does not identify significant deficiencies. If significant deficiencies are noted, the written report shall be filed annually by the insurer with the Department within sixty (60) days after the filing of the annual audited financial statements. The insurer is required to provide a description of remedial actions taken or proposed to correct significant deficiencies, if such actions are not described in the [auditor's] accountant's report.

**Sec. 38a-54-10. [Independent auditor's] Accountant's letter of qualifications**

The [independent auditor] accountant shall furnish the insurer in connection with, and for inclusion in, the filing of the annual audited financial report, a letter stating:

(1) That the [auditor] accountant is independent with respect to the insurer and conforms to the standards or his or her profession as contained in the Code of Professional Ethics and

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Pronouncements of the American Institute of Certified Public Accountants and the Rules of Professional Conduct of the Connecticut Board of Public Accountancy, or similar code.

(2) With respect to the staff assigned to the engagement, their background and experience in general, their experience in audits of insurers, and whether each is an independent certified public accountant. Nothing within Sections 38a-54-1 to 38a-54-14, inclusive, shall be construed as prohibiting the [auditor] accountant from utilizing such staff as he or she deems appropriate where use is consistent with the standards prescribed by generally accepted auditing standards.

(3) That the [independent auditor] accountant understands the annual audited financial report and his or her opinion thereon will be filed in compliance with Sections 38a-54-1 to 38a-54-14, inclusive, and that the Commissioner will be relying on this information in the monitoring and regulation of the financial position of insurers.

(4) That the [independent auditor] accountant consents to the requirements of Section 38a-54-11 and that the [auditor] accountant consents and agrees to make available for review by the Commissioner, his designee or his appointed agent, the workpapers, as defined in Section 38a-54-2.

(5) A representation that the [independent auditor] accountant is properly licensed by an appropriate state licensing authority and is a member in good standing in the American Institute of Certified Public Accountants.

(6) A representation that the [independent auditor] accountant is in compliance with the requirements of Section 38a-54-6.

**Sec. 38a-54-11. Availability and maintenance of [independent auditor] CPA workpapers**

Every insurer required to file an audited financial report pursuant to Section 38a-54-3, shall require the [independent auditor] accountant to make available for review by Insurance Department examiners, all workpapers prepared in the conduct of his or her examination and any communications related to the audit between the [independent auditor] accountant and the insurer, at the offices of the insurer, at the Insurance Department or at any other reasonable place designated by the Commissioner. The insurer shall require that the [independent auditor] accountant retain the audit workpapers and communications until the Insurance Department has filed a report of examination covering the period of the audit but no longer than seven (7) years from the date of the audit report.

In the conduct of the aforementioned periodic review by the Department examiners, it shall be agreed that photocopies of pertinent audit workpapers may be made and retained by the Department. Such reviews by the Department examiners shall be considered investigations and all working papers and communications obtained during the course of such investigations shall be afforded the same confidentiality as other examination workpapers generated by the Department. [All workpapers retained during the course of such reviews shall be considered public records pursuant to the Freedom of Information Act, Chapter 3, of the Connecticut General Statutes.

However, the independent auditor or the officers of the insurer may request in writing that workpapers be held as confidential information and exempted from disclosure to the public pursuant to Section 1-19(b)(5) of the Connecticut General Statutes as constituting commercial or financial information given in confidence under Sections 38a-14(j) and 38a-69a of the Connecticut General Statutes. In the event any workpapers are requested to be held in confidence, the workpapers shall be identified under separate cover or in a sealed envelope or file clearly labeled "CONFIDENTIAL." Attached to the workpapers submitted under confidential cover shall be a brief, typed explanation of why they are to be considered confidential.

Documentation so submitted, if found to be confidential in nature by the Insurance Department, will not be released to the general public for inspection or copying.]

**Sec. 38a-54-12. Exemption**

Upon written application of any insurer, the Commissioner may grant an exemption from compliance with Sections 38a-54-1 to 38a-54-14, inclusive, if the Commissioner finds, upon

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review of the application, that compliance would constitute a financial or organizational hardship upon the insurer. An exemption may be granted at any time and from time to time for a specified period or periods. Within ten (10) days from a denial of an insurer's written request for an exemption, such insurer may request in writing a hearing on its application for an exemption. Such hearing shall be held in accordance with the rules of practice of the [insurance department] Insurance Department, Sections 38a-8-7 to 38a-8-75, inclusive, of the Regulations of Connecticut State Agencies. A request for exemption must be made for each calendar year for which such exemption is sought. Application for exemption must be received on or before December 31 of the year for which such exemption is sought.

**Sec. 38a-54-13. Canadian and British companies**

(a) In the case of Canadian and British insurers, the annual audited financial report shall be defined as the annual statement of total business on the form filed by such companies with their domiciliary supervision authority duly audited by an independent chartered accountant.

(b) For such insurers, the letter required in Section 38a-54-5 shall state that the [independent auditor] accountant is aware of the requirements relating to the annual audited statement filed with the Commissioner pursuant to Section 38a-54-3 and shall affirm that the opinion expressed is in conformity with such requirements.

**Sec. 38a-54-14. Severability**

If any provision of Sections 38a-54-1 to 38a-54-13, inclusive, or the applicability thereof to any person or circumstance is held to be invalid, the remainder of said sections or the applicability of such provision to other persons or circumstances shall not be affected thereby.

**Statement of Purpose:** To update the provisions of regulations concerning annual audited financial reports.

**CERTIFICATION**  
R-39 REV. 1/77

Be it known that the foregoing:

Regulations     Emergency Regulations

Are:

Adopted     Amended as hereinabove stated     Repealed

By the aforesaid agency pursuant to:

Section 38a-54 of the General Statutes.

Section \_\_\_\_\_ of the General Statutes, as amended by Public Act No. \_\_\_\_\_ of the \_\_\_\_\_ Public Acts.

Public Act No. \_\_\_\_\_ of the Public Acts.

After publication in the Connecticut Law Journal on March 18, ~~19~~2003, of the notice of the proposal to:

Adopt     Amend     Repeal    such regulations

(If applicable):     And the holding of an advertised public hearing on \_\_\_\_\_ day of \_\_\_\_\_ 19 \_\_\_\_\_

WHEREFORE, the foregoing regulations are hereby:

Adopted     Amended as hereinabove stated     Repealed

Effective:

When filed with the Secretary of the State.

(OR)

The \_\_\_\_\_ day of \_\_\_\_\_ 19 \_\_\_\_\_.

Witness Whereof:	DATE April 28, 2003	SIGNED (Head of Board, Agency or Commission) <i>Susan F. Lapwood</i>	OFFICIAL TITLE, DULY AUTHORIZED Insurance Commissioner
Approved by the Attorney General as to legal sufficiency in accordance with Sec. 4-169, as amended, C.G.S.:	SIGNED <i>Will B. [unclear]</i>	OFFICIAL TITLE, DULY AUTHORIZED Assoc. Atty. General	

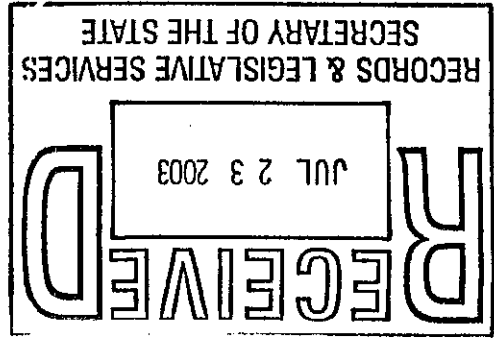
5/9/03

- Approved
- Disapproved
- Disapproved in part, (Indicate Section Numbers disapproved only).
- Rejected without prejudice.

By the Legislative Regulation Review Committee in accordance with Sec. 4-170, as amended, of the General Statutes.	DATE 7/22/03	SIGNED (Clerk of the Legislative Regulation Review Committee) <i>Janet B. Booth</i>
Two certified copies received and filed, and one such copy forwarded to the Commission on Official Legal Publications in accordance with Section 4-172, as amended, of the General Statutes.		
DA 7-23-2003	SIGNED (Secretary of the State) <i>Susan Biquercy</i>	BY <i>Barbara Stadel</i>

INSTRUCTION

1. One copy of all regulations for adoption, amendment or repeal, except emergency regulations, must be presented to the Attorney General for his determination of legal sufficiency. Section 4-169 of the General Statutes.
2. Seventeen copies of all regulations for adoption, amendment or repeal, except emergency regulations, must be presented to the standing Legislative Regulation Review Committee for its approval. Section 4-170 of the General Statutes.
3. Each regulation must be in the form intended for publication and must include the appropriate regulation section number and section heading. Section 4-172 of the General Statutes.
4. Indicate by "(NEW)" in heading if new regulation. Amended regulations must contain new language in capital letters and deleted language in brackets. Section 4-170 of the General Statutes.





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Regulations OF Dept. of Insurance
CONCERNING Annual Audited Financial Reports
Received and filed in the office of the Secretary of the State July 23, 2003 Effective Date: July 23, 2003
Approved by the Attorney General May 9, 2003
Approved by the Legislative Regulation Review Committee or General Assembly July 22, 2003
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