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Auditing property/casualty insurance entities'
statutory financial statements : applying certain
requirements of the NAIC annual statement
instructions; Statement of position 92-8;

American Institute of Certified Public Accountants. Insurance Companies Committee

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**Statement of
Position**

92-8

**Auditing Property/Casualty
Insurance Entities' Statutory
Financial Statements—
Applying Certain Requirements
of the NAIC Annual
Statement Instructions**

October 26, 1992

Prepared by the Insurance Companies Committee

Auditing Standards Division

**American Institute of
Certified Public Accountants**

AICPA

NOTE

This statement of position presents the recommendations of the Insurance Companies Committee regarding the audit of property/casualty insurance entities' statutory financial statements in applying certain requirements of the National Association of Insurance Commissioners' (NAIC's) Annual Statement Instructions. It has been reviewed by the chairman of the Auditing Standards Board for consistency with auditing standards. AICPA members may have to justify departures from the recommendations in this statement of position if their work is challenged.

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Auditing Property/Casualty Insurance Entities' Statutory Financial Statements—Applying Certain Requirements of the NAIC Annual Statement Instructions

Applicability

1. This statement of position (SOP) provides guidance on the impact of certain requirements of the National Association of Insurance Commissioners' (NAIC's) Annual Statement Instructions—Property and Casualty on the auditor's procedures in the audit of statutory financial statements of property/casualty insurance entities.

Introduction

2. The NAIC's Annual Statement Instructions direct property/casualty insurers to require their independent certified public accountants to subject the current Schedule P–Part 1 (excluding those amounts related to bulk and incurred-but-not-reported [IBNR] reserves and claim counts) to the auditing procedures applied in the audit of the current statutory financial statements to determine whether Schedule P–Part 1 is fairly stated in all material respects in relation to the basic statutory financial statements taken as a whole. Schedule P–Part 1 includes Part 1–Summary and Part 1A–1R.

3. Although no separate report on Schedule P–Part 1 is required by the NAIC, the auditor should consider the provisions of AU section 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents* (AICPA, *Professional Standards*, vol. 1), and the provisions of this SOP. However, the requirements of this SOP do not preclude an auditor from issuing a report similar to that illustrated in AU section 551.12.

Auditing Procedures

4. Certain of the information in Schedule P–Part 1 is typically subjected to auditing procedures applied in the audit of the basic statutory financial statements (for example, premiums earned and losses paid). Other information not directly related to the basic statutory financial statements is also presented (for example, lines of business classifications for immaterial lines). Although such information may not have been subjected to auditing procedures applied in the audit of the basic statutory financial statements in all instances, such information may have been derived from accounting records that have been tested by the auditor.

5. AU section 551.07 states that although an auditor is not required by generally accepted auditing standards to apply auditing procedures to information presented outside of the basic financial statements, he or she may choose to modify or redirect certain of the procedures to be applied in the audit of the basic financial statements.

6. In applying auditing procedures to the information presented in Schedule P–Part 1, the guidance about auditing the claims data base in paragraphs 4.1 and 4.2 of AICPA's SOP 92-4, *Auditing Insurance Entities' Loss Reserves*, applies. The auditor should also refer to chapter 4 and exhibit B-2 in appendix B of the AICPA Audit and Accounting Guide *Audits of Property and Liability Insurance Companies*.

7. As stated in paragraph 4.2 of SOP 92-4, because claim data and characteristics such as dates and types of loss can significantly influence reserve estimation, the auditor should test the completeness, reliability, and classification of the claim loss and loss expense data during the audit of the statutory financial statements. In extending those procedures to Schedule P–Part 1, the auditor should determine that—

- a. The data presented on Schedule P–Part 1 is properly reconciled to the statistical records of the company.
- b. Changes between the prior-year and current-year Schedule P–Part 1 are properly reconciled to the current-year audited statutory financial statements.
- c. The source of the data for the auditing procedures applied to the claim loss and loss adjustment expense data during the current

calendar year (for example, tests of payments on claims for all accident years that were paid during the current calendar year) is the same as (or reconciles to) the statistical records that support the data presented on Schedule P-Part 1.

8. If, as a result of the procedures performed during the audit of the statutory financial statements, the auditor becomes aware that Schedule P-Part 1 is not fairly stated in relation to the financial statements taken as a whole, the auditor should communicate to the company's management and the opining actuary that Schedule P-Part 1 is not fairly stated and should describe the misstatement. If the company will not agree to revise Schedule P-Part 1, the auditor should issue a report on Schedule P-Part 1 and should include a description of the misstatement in that report. (The auditor should refer to AU section 551 when a report will be issued.) The auditor should consider the impact of a misstatement in Schedule P-Part 1 on the auditor's report on the statutory financial statements.

Effective Date

9. This SOP is effective for audits of statutory-basis financial statements of property/casualty insurance entities for periods ending after December 15, 1992.

Insurance Companies Committee

(1991-1992)

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