

Title 31 MARYLAND INSURANCE ADMINISTRATION

Subtitle 05 ASSETS, LIABILITIES, RESERVES, AND INVESTMENTS OF INSURERS

Chapter 11 Annual Financial Reporting

Authority: Insurance Article, §§2-109(a)(1), 2-205, 4-116, 14-118, 14-121, 14-413, 15-605, and 24-211; Labor and Employment Article, §10-125; Annotated Code of Maryland

.02 Definitions.

A. In this chapter, the following terms have the meanings indicated.

B. Terms Defined.

(1) – (2) (text unchanged)

(3) Audit Committee.

(a) "Audit committee" means a committee, or equivalent body, established by the board of directors of an entity for the purpose of overseeing the:

(i) Accounting and financial reporting processes of an insurer or group of insurers; [and]

(ii) *Internal audit function of an insurer or group of insurers; and*

[(ii)] (iii) *External [Audits] audits of financial statements of the insurer or group of insurers.*

(b) – (c) (text unchanged)

(4) – (5) (text unchanged)

(6) "*Internal audit function*" means a person or persons that provide independent, objective, and reasonable assurance designed to add value and improve an organization's operations and accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management and control and governance processes.

[(6)] (7) – [(15)] (16) (text unchanged)

.08 Scope of Audit and Report of Independent Certified Public Accountant.

A. – B. (text unchanged)

C. To the extent required by AU 319, for those insurers required to file a Management's Report of Internal Control over Financial Reporting pursuant to Regulation [15] .16 of this chapter, the independent certified public accountant should consider, as that term is defined in Statement on Auditing Standards (SAS) No. 102, Defining Professional Requirements in Statements on Auditing Standards or its replacement, the most recently available report in planning and performing the audit of the statutory financial statements.

D. (text unchanged)

.13 Requirements for Audit Committees.

A. – B. (text unchanged)

C. *The audit committee of an insurer or group of insurers shall be responsible for:*

(1) *Overseeing the insurer's internal audit function; and*

(2) *Granting the person or persons performing the function suitable authority and resources to fulfill their responsibilities if required by Regulation 14 of this chapter.*

[C.] (D.) (text unchanged)

[D.] (E.) A member of the audit committee shall be a member of the board of directors of the insurer or a member of the board of directors of an entity elected pursuant to [§H] §I of this regulation and Regulation .02B(3) of this chapter.

[E.] (F.) – [(J.)] (K.) (text unchanged)

[K.] (L.) Audit Committee Reports.

(1) (text unchanged)

(2) If an insurer is a member of an insurance holding company system, the reports required by [§K(1)] §L(1) of this regulation may be provided to the audit committee on an aggregate basis for insurers in the holding company system, provided that any substantial differences among insurers in the system are identified to the audit committee.

[L.] (M.) – [N.] (O.) (text unchanged)

.14 Internal Audit Function Requirements

A. *An insurer is exempt from the requirements of this section if:*

(1) *The insurer has annual direct written and unaffiliated assumed premium, including international direct and assumed premium but excluding premiums reinsured with the Federal Crop Insurance Corporation and Federal Flood Program, less than \$500,000,000; and*

(2) *The insurer is a member of a group of insurers and the group has annual direct written and unaffiliated assumed premium including international direct and assumed premium, but excluding premiums reinsured with the Federal Crop Insurance Corporation and Federal Flood Program, less than \$1,000,000,000.*

B. *Function.*

(1) *The insurer or group of insurers shall establish an internal audit function providing independent, objective, and reasonable assurance to the audit committee and insurer management regarding the insurers:*

- (a) *Governance;*
- (b) *Risk Management; and*
- (c) *Internal controls.*

(2) *The reasonable assurance shall be provided by performing general and specific audits, reviews and tests and by employing other techniques deemed necessary to:*

- (a) *Protect assets;*
- (b) *Evaluate control effectiveness and efficiency; and*
- (c) *Evaluate compliance with policies and regulations.*

C. Independence.

(1) *In order to ensure that internal auditors remain objective, the internal audit function must be organizationally independent.*

(2) *The internal audit function shall not defer ultimate judgement on audit matters to others and shall appoint an individual to head the internal audit function who will have direct and unrestricted access to the board of directors.*

(3) *Organizational independence does not preclude dual-reporting relationships.*

D. Reporting.

(1) *The head of the internal audit function shall report to the audit committee on:*

- (a) *The periodic audit plan;*
- (b) *Factors that may adversely impact the internal audit function's independence or effectiveness;*
- (c) *Material findings from completed audits; and*
- (d) *The appropriateness of corrective actions implemented by management as a result of audit findings.*

(2) *The reporting shall be done regularly, but on no less than an annual basis.*

E. Additional Requirements.

(1) *If an insurer is a member of an insurance holding company system or included in a group of insurers, the insurer may satisfy the internal audit function requirements set forth in this regulation at the:*

- (a) *Ultimate controlling parent level;*
- (b) *Intermediate holding company level; or*
- (c) *Individual legal entity level.*

[.14] .15 Conduct of Insurer in Connection with the Preparation of Required Reports and Documents.

A. – C. (text unchanged)

[.15] .16 Management's Report on Internal Control over Financial Reporting.

A.- J. (text unchanged)

[.16] .17 Exemptions and Effective Dates.

A.- K. (text unchanged)

L. Reporting Requirements.

(1) *The requirements of Regulation [.15] .16 of this chapter are effective beginning with the reporting period ending December 31, 2010, and each year thereafter.*

(2) – (3) (text unchanged)

M. The requirements of Regulation 14 of this chapter are effective as of January 1, 2019. If an insurer or group of insurers that are exempt from Regulation 14 of this chapter no longer qualifies for that exemption, it shall have one year after the year the threshold is exceeded to comply with the requirements of this chapter.

[.17] .18 Canadian and British Companies.

A.-B. (text unchanged)