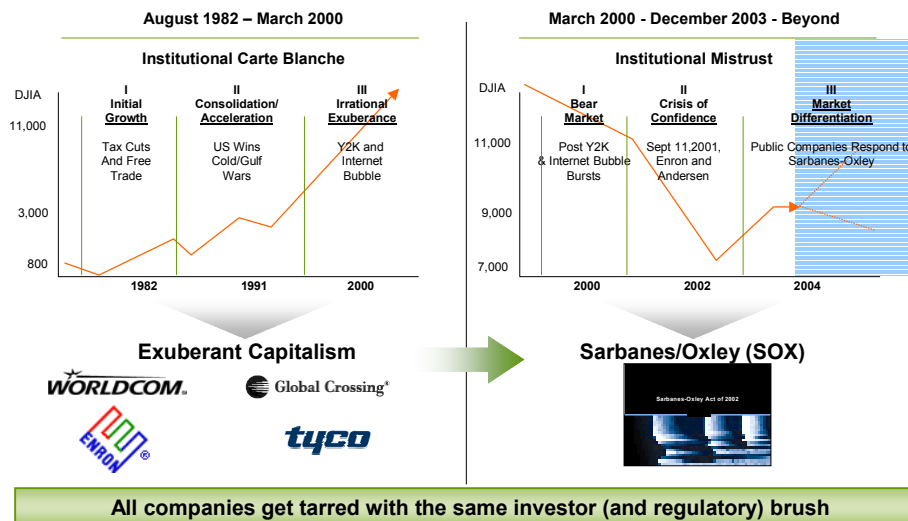


SARBANES OXLEY & NAIC MODEL AUDIT RULE UPDATE

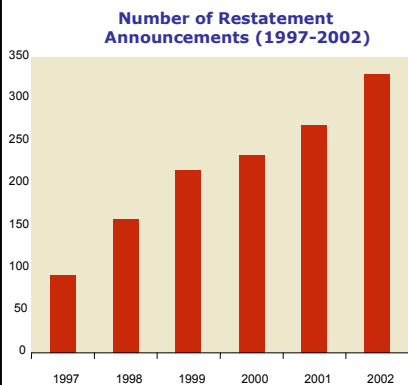
Presented by: Ray Gonzalez
Director
Deloitte & Touche LLP

Key Events Have Severely Damaged Investor Confidence



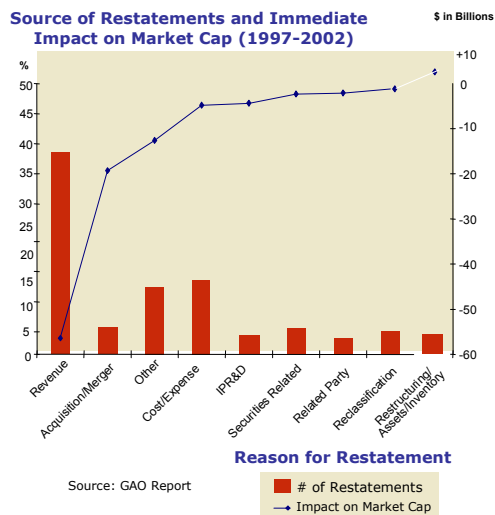
TREND OF FINANCIAL RESTATEMENTS

The number and frequency of financial restatements increased steadily in over the six years leading up to SOX



Source: An Analysis of Restatement Matters - Huron Consulting Group

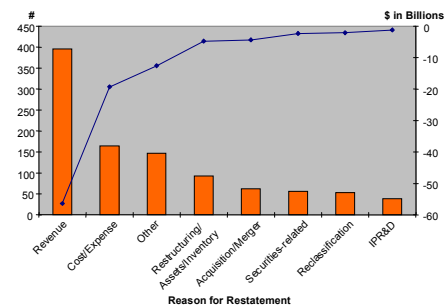
These restatements have had a significant impact on the market capitalization of these companies



Source: GAO Report

The Market Could Not Distinguish Between Malfeasance and Information Quality Problems

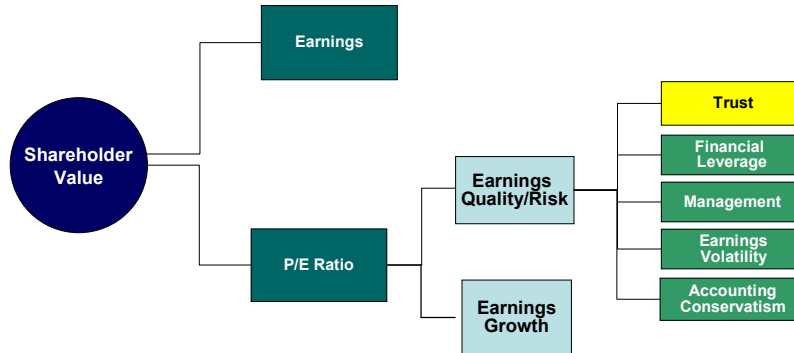
Impact on Market Cap from Earnings Restatement



Source: GAO Report

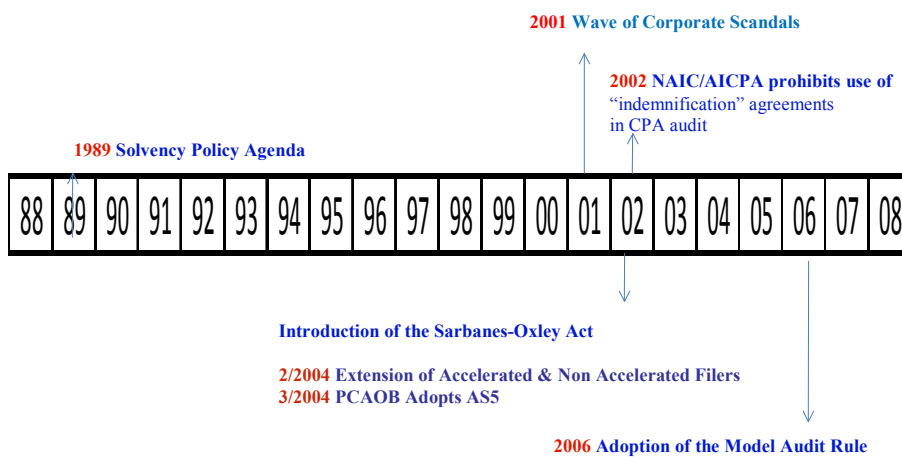
Earnings restatements, lack of transparency and delays in delivering financial information to the Street eroded basic investor trust

Investor Trust and Information Quality



Trust is a Critical Driver of Earnings Quality

Figure 1: The Evolution of Strengthening Regulation Continues



SARBANES OXLEY & NAIC MODEL AUDIT RULE

COMMONALITIES

- Assessment Approach
- Scoping
- Materiality
- Assessment of Controls
- Management Reports on Unremediated Material Weaknesses

SARBANES OXLEY & NAIC MODEL AUDIT RULE

DIFFERENCES

SOX	NAIC MAR
Applies to all public companies	Applies to all insurance companies domiciled in the US with direct & assumed premiums > \$ 500 million
Fiscal year	Reporting Period ending 12/31/2010
External auditor attestation required	External auditor attestation not required
COSO framework prescribed	COSO framework not prescribed
Section 404 Report	Can file SOX 404 Report but must include addendum with a positive statement that there were no material processes related to the preparation of the audited statutory financial statements if not included in the 404 Report or in the case of material internal control deficiencies must file MAR ICFR Report or 404 Addendum.

OVERVIEW OF CHANGES TO MAR

- MANAGEMENT REPORT OF ICFR
- EXTERNAL AUDITOR INDEPENDENCE AND SCOPE OF SERVICES
- ENHANCE TO REQUIREMENTS OF INDEPENDENCE OF AUDIT COMMITTEE MEMBERS

Current Focus of Risk Assessment, Controls Documentation, Testing and Certification

- ORIGINAL APPROACH

Many accelerated filers adopted a bottom-up or process approach to document, test and certify SOX compliance

The result was a significant level of effort and cost in the documentation, remediation, testing and certification of medium and low risk processes and controls that did not require management assertion

- CURRENT APPROACH

Top down, risk-based approach established by the PCAOB'S adoption of Audit Standard #5 (March 9, 2004). Focus on high risk ICFRs.

Risk Assessment Overview

<i>Risk Assessment</i>	
Step 1	Risk Rate Financial Statement Accounts
Step 2	Identify Assertions at Account Balance level
Step 3	Link to Significant Processes and Sub Processes
Step 4	Determine Relevant Control Objectives
Step 5	Map Existing Controls to the Control Objectives Identified in Step 4
Step 6	Identify control gaps (if any)

Risk Ranking of Financial Statement Accounts

- Analyze balances at the account level for relevant entities.
- When deciding whether an account is significant, it is important to evaluate both quantitative and qualitative factors:
 - a) Determine the Quantitative Threshold (Materiality)
 - b) Determine Qualitative Factors based on the likelihood of misstatement
 - The **predictability** or volatility of the account balance,
 - The **subjectivity** in determining the balance,
 - **Susceptibility** to loss or fraud, and
 - **Complexity** as it relates to GAAP.
- Risk rate Accounts based on the magnitude of the accounts and the likelihood of misstatement
 - High – Significant Account
 - Medium – Potentially Significant Account
 - Low – Lower Risk Account

Link A/C to Significant Processes and Sub Processes

Identify significant processes and sub processes affecting significant accounts or groups of accounts.

A) Link Significant Accounts	B) ... to Processes ...	C) ...and sub processes																																																																				
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Example of Control Objectives

- 1 – Appropriate estimates and actuarial determinations for Policy reserves are utilized for determining reserve reasonableness.
- 2 – Appropriate estimates and actuarial determinations for Premium accruals are utilized for determining reserve reasonableness.

Examples of Control Activities

- 1 – Access is appropriately restricted to the SAS Universal Life reserve programs. The program is password protected and maintained in a specific mainframe data set.
- 2 – A reconciliation of the deferred acquisition costs is completed by comparing the costs posted to the ledger to the costs logged into the Deferred Acquisition Cost (DAC) Amortization worksheet to ensure all costs are captured prior to determining DAC. The costs logged into the worksheet are utilized for determining DAC. The reconciliation is signed and dated by management.

Example of Gap and Remediation

Gap:	There is no reconciliation of the month end daily policy count total to the extract record count total
Remediation:	On a monthly basis, a reconciliation of daily policy count total to the extract record count total is performed. Manager reviews the reconciliation report and signs off on it.

Q & A