

**191—113.6(521J) Annual audit.**

**113.6(1)** All companies shall have an annual audit by an independent certified public accountant, approved by the commissioner, and shall file such audited financial report with the commissioner on or before June 1 for the preceding year. Financial statements furnished under this rule shall be prepared in accordance with generally accepted auditing standards as determined by the American Institute of Certified Public Accountants.

**113.6(2)** The annual audit report shall be considered part of the captive company's annual report of financial condition, except with respect to the date by which it must be filed with the commissioner.

**113.6(3)** The annual audit shall consist of the following:

*a.* Opinion of independent certified public accountant.

(1) Financial statements furnished pursuant to this subrule shall be examined by independent certified public accountants in accordance with generally accepted auditing standards as determined by the American Institute of Certified Public Accountants.

(2) The opinion of the independent certified public accountant shall cover all years presented.

(3) The opinion must be addressed to the captive company on stationery of the accountant showing the address of issuance, bear original manual signatures or be executed in conformance with Iowa Code chapter 554D and be dated.

*b.* Report of evaluation of internal controls.

(1) This report shall include an evaluation of the internal controls of the captive company relating to the methods and procedures used in securing of assets and the reliability of the financial records, including but not limited to controls of the system of authorization and approval and the separation of duties.

(2) The review shall be conducted in accordance with generally accepted auditing standards, and the report shall be filed with the commissioner.

*c.* Accountant's letter. The accountant shall furnish to the captive company, for inclusion in the filing of the audited annual report, a letter stating the following:

(1) The accountant is independent with respect to the captive company and conforms to the standards of the profession as contained in the Code of Professional Ethics and pronouncements of the American Institute of Certified Public Accountants and the Financial Accounting Standards Board;

(2) The general background and experience of the staff engaged in the audit, including their experience in auditing captive or other insurance companies;

(3) The accountant understands that the audited annual report and the opinions will be filed in compliance with this rule;

(4) The accountant consents to the requirements of rule 191—113.12(521J);

(5) The accountant consents and agrees to make the work papers as described in rule 191—113.3(521J) available for review by the commissioner, designee, or appointed agent; and

(6) The accountant is properly licensed by an appropriate state licensing authority.

*d.* Financial statements. The following financial statements are required:

(1) Balance sheet;

(2) Statement of gain or loss from operations;

(3) Statement of changes in financial position;

(4) Statement of cash flow;

(5) Statement of changes in capital paid up, gross paid in and contributed surplus and unassigned funds (surplus); and

(6) Notes to financial statements. The notes to financial statements shall be those required by generally accepted accounting principles and shall include:

1. Reconciliation of differences, if any, between the audited financial report and the statement or form filed with the commissioner;

2. Summary of ownership and relationship of the captive company and all affiliated corporations or companies insured by the captive; and

3. Narrative explanation of all material transactions with the captive company. For purposes of this provision, no transaction shall be deemed material unless it involves 3 percent or more of a captive company's admitted assets as of the prior year end.  
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