

MAINE STATE LEGISLATURE

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1 SECOND REGULAR SESSION
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3 ONE HUNDRED AND TWELFTH LEGISLATURE
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5 Legislative Document

No. 1918

6 S.P. 754

In Senate, January 21, 1986

7 Submitted by the Department of Business, Occupational and Professional
8 Regulation pursuant to Joint Rule 24.

9 Reference to the Committee on Business and Commerce suggested and
ordered printed.

10 JOY J. O'BRIEN, Secretary of the Senate

Presented by Senator Bustin of Kennebec.

Cosponsored by Representative Mayo of Thomaston, Representative
Erwin of Rumford and Representative Armstrong of Wilton.

11
12 STATE OF MAINE
13

14 IN THE YEAR OF OUR LORD
15 NINETEEN HUNDRED AND EIGHTY-SIX
16

17 AN ACT to Amend Financial Reporting
18 Requirements of Insurers.
19

20 Be it enacted by the People of the State of Maine as
21 follows:

22 24-A MRSA §221-A, sub-§§8 and 9 are enacted to
23 read:

24 8. Required notice concerning adverse financial
25 condition. Each insurer retaining an independent
26 certified public accountant to represent it with re-
27 spect to the report which the insurer is required to
28 file pursuant to this section shall, as a condition
29 of its written terms of engagement of the accountant,
30 require that:

31 A. The accountant immediately notify in writing
32 all members of the board of directors of the in-
33 surer and the superintendent upon any determina-
34 tion by the independent certified public account-
35 ant that the insurer has materially misstated

its financial condition as reported in the annual statement required under section 423 for the year ending December 31st preceding; and

B. If the accountant, subsequent to the date of the audited financial report required by this section, becomes aware of material subsequent facts which would have affected his report, the accountant shall provide the pertinent information upon his determination to the parties identified in this subsection.

9. Access to and maintenance of working papers of independent certified public accountant. Any insurer subject to the filing requirements of this section shall require all retained independent certified public accountants to make available, to the superintendent for review, workpapers prepared in the conduct of the audit of the insurer upon such schedule as is reasonable and timely for the needs of the superintendent and the accountant. Workpapers prepared by the accountant to the extent those papers comprehend transactions with affiliates, parents or subsidiary corporations and affecting the final equity determination of the insurer shall be deemed working papers of the accountant applicable to the insurer's annual financial audit. The insurer shall require that the retained accountants retain the workpapers for a period of not less than 5 years after the close of the period reported upon.

STATEMENT OF FACT

Insurance entities, regulated by the Maine Revised Statutes, Title 24-A, the Maine Insurance Code, are required to file annual statements of financial condition with the Superintendent of Insurance. Audits of certified public accountants are generally annually required as well.

In some instances, parties failing to agree with auditors, discharge their certified public accountant firms. Often this occurs over disputes of fact and disclosure concerning earnings or condition of the insurer. This bill lessens the reliance on manage-

1 ment of insurers and puts the certified public ac-
2 countants in direct touch with the board of direc-
3 tors, thereby increasing independence of the certi-
4 fied public accountant firm.

5 The bill will impose a duty upon insurers to re-
6 quire auditors to provide notice to the Superintend-
7 ent of Insurance of deteriorating condition of li-
8 censed insurers and strengthens the position of inde-
9 pendent certified public accountants by discouraging
10 the dismissal of accountants when shopping for more
11 favorable accounting treatment occurs by regulated
12 parties.

13 The bill also augments the bureau's financial
14 surveillance program, cuts costs and time of insurers
15 and avoids duplicative rote work efforts of examiners
16 and outside accountants.

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