

December 6, 2013

National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197
Attn: Bruce Jenson, Risk-Focused Surveillance Policy Manager

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Responded via email to: bjenson@naic.org

RE: Proposed Revisions to Incorporate an Internal Audit Function Requirement into NAIC Model #205

Dear Mr. Jenson:

As the globally recognized authority of the internal audit profession with over 180,000 members, one-third of which reside in the United States, The Institute of Internal Auditors (IIA) appreciates the opportunity to respond to the National Association of Insurance Commissioners (NAIC) exposure draft, *Proposed Revisions to Incorporate an Internal Audit Function Requirement into NAIC Model*.

The IIA fully supports the proposed revision to incorporate an internal audit function requirement in the NAIC reporting model. Internal audit functions provide independent, objective assurance and advisory activities designed to add value and improve organization's operations. Our principle comments regarding the proposed changes to the reporting model are:

1. We fully support the proposal to require large insurers to maintain an effective internal audit function.
2. We recommend that the proposed rule change require internal audit functions to follow globally recognized professional standards and other authoritative guidance. The only such globally recognized standards and guidance are The IIA's International Professional Practices Framework, or IPPF. As part of the IPPF, the International Standards for the Professional Practices of Internal Auditing, or *Standards*, have been formally recognized by many national and global bodies including, among others, the U.S. Federal Reserve and the Basel Committee on Banking Supervision.
3. We recommend that the definition for *internal audit function* listed in **Section 31** be revised in the following manner, or something similar, to align with the globally recognized definition of internal auditing:
 - Internal Audit Function means a department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services 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, control, and governance processes.

4. We recommend adding language to **Section 14B, Requirements for Audit Committees** to include the responsibility of audit committees *to appoint, compensate and terminate the chief audit executive*. Audit committees should also be responsible for *overseeing execution of the annual internal audit plan*.

5. We acknowledge the NAIC's efforts to define internal audit functions' scope of work in **Section 15**. For **Section 15B**, since the scope of work will undoubtedly vary based on the type of engagement or project undertaken, it may be more appropriate to broadly define the authority of review internal auditors or the audit committee shall have, since the provided list of topical areas cannot, by design, be adequately or fully comprehensive. We recommend the following, or something similar:

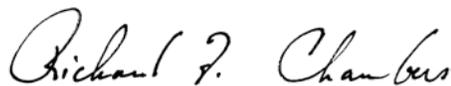
- The internal audit function shall provide independent assurance to the Audit Committee *and management regarding the insurer's corporate governance, risk management, and internal controls* through general and specific audits, reviews, testing and other techniques *deemed necessary to help protect assets, evaluate control effectiveness and efficiency, and evaluate compliance with policies and regulations, among other things*.

6. We fully support the proposed requirement in **Section 15D** for the head of internal audit to regularly report to the Audit Committee on the status of the audit plan. Best practices also suggest that both parties should meet periodically (no less than annually) in a private, or executive, session without other members of management present to foster open and candid communications between internal audit and the audit committee.

The IIA welcomes the opportunity to work with the NAIC in support of any activities that will enhance insurer internal auditing, governance, risk management and control functions. As well, we offer The IIA's resources to help insurers meet the requirements of the proposed rule.

It would be my pleasure to answer any questions you may have, or discuss further our comments, in support of the NAIC's work in this area.

Best regards,



Richard F. Chambers, CIA, CGAP, CCSA, CRMA
President and Chief Executive Officer

About The Institute of Internal Auditors

The IIA is the global voice, acknowledged leader, principal educator, and recognized authority of the internal audit professional, who maintains the *International Standards for the Professional Practice of Internal Auditing (Standards)*. These principles-based standards are recognized globally and are available in 29 languages. The IIA represents more than 180,000 members across the globe and has 109 affiliates in 190 countries that serve members at the local level.