

*This Bulletin reflects the views of the
Hong Kong Institute of Certified Public Accountants' (HKICPA)
Auditing and Assurance Standards Committee*

**INSURANCE COMPANIES ORDINANCE
AUDITORS' REPORTS ISSUED PURSUANT TO
THE THIRD SCHEDULE**

(Issued May 1997; revised September 2004 (name change))

Introduction

As a result of the introduction of the Insurance Companies (General Business) (Valuation) Regulation ("Valuation Regulation"), consequential amendments to the Third Schedule ("the Third Schedule") to the Insurance Companies Ordinance ("the Ordinance") were made by the Insurance Companies Ordinance (Amendment of Third Schedule) Regulation 1995 ("Amendment Regulation") such that separate requirements (including auditors' reports thereon) now apply in respect of the financial information, forms and statements for different categories of insurers to be submitted to the Insurance Authority, namely insurers writing general business only ("general business insurers"), insurers writing long term business only ("long term business insurers") and insurers writing both general and long term business ("composite insurers").

The Valuation Regulation only applies to general business and therefore affects general business insurers and composite insurers. The Valuation Regulation applies to the financial information and statements submitted to the Insurance Authority by general business insurers and composite insurers and does not apply to these insurers' statutory accounts prepared under the Companies Ordinance. The Valuation Regulation was gazetted on 29th December 1995 and commenced operation immediately. However, the Valuation Regulation does not apply to general business insurers and composite insurers authorized before 29th December 1995 in preparing their financial information and statements until years ended on or after 29th December 1996.

The Amendment Regulation was also gazetted on 29th December 1995 and commenced operation immediately.

Example unqualified auditors' reports on the implementation of the Valuation Regulation and the Amendment Regulation

The various financial information, forms and statements and auditors' reports thereon required under the Third Schedule are summarised as follows:

1. GENERAL BUSINESS INSURERS

(a) Financial information prepared under Parts 4 and 5 of the Third Schedule

This financial information is submitted to the Insurance Authority by general business insurers. Part 4 deals with general provisions relating to the balance sheet. Part 5 deals with general provisions relating to the revenue account and profit and loss account.

The requirement to audit this financial information including the opinions to be given is set out in Section 4(1AB) of Part 1 of the Third Schedule. An example auditors' report is attached at Appendix 1.

(b) Forms prepared under Part 8 of the Third Schedule

These forms are submitted to the Insurance Authority by general business insurers. These forms are in respect of the Hong Kong insurance business only as defined in Part 1 of the Third Schedule.

The requirement to audit these forms including the opinions to be given is set out in Section 4(1A)(a) of Part 1 of the Third Schedule. It is envisaged that general business insurers will prepare the standard forms to which auditors will annex their report. An example auditors' report is attached at Appendix 4(a).

(c) Statement prepared under Part 9 of the Third Schedule

This statement is submitted to the Insurance Authority by general business insurers. This statement is in respect of the Hong Kong assets and liabilities as defined in Section 25A of the Ordinance.

The requirement to audit this statement including the opinions to be given is set out in Section 4(1A)(b) of Part 1 of the Third Schedule. It is envisaged that general business insurers will prepare the statement under Part 9 and auditors will annex their report. An example auditors' report is attached at Appendix 4(b).

2. LONG TERM BUSINESS INSURERS

(a) Financial information prepared under Parts 3, 4 and 5 of the Third Schedule

This financial information is submitted to the Insurance Authority by long term business insurers. Part 3 deals with additional provisions relating to long term business insurers which are holding companies. Part 4 deals with general provisions relating to the balance sheet. Part 5 deals with general provisions relating to the revenue account and profit and loss account.

The requirement to audit this financial information including the opinions to be given is set out in Section 4(1) and (1AA) of Part 1 of the Third Schedule. An example auditors' report is attached at Appendix 2.

3. COMPOSITE INSURERS

(a) Financial information prepared under Parts 4 and 5 of the Third Schedule

This financial information is submitted to the Insurance Authority by composite insurers. Part 4 deals with general provisions relating to the balance sheet. Part 5 deals with general provisions relating to the revenue account and profit and loss account.

The requirement to audit this financial information including the opinions to be given is set out in Section 4(1AC) of Part 1 of the Third Schedule. An example auditors' report is attached at Appendix 3.

(b) Forms prepared under Part 8 of the Third Schedule

These forms are submitted to the Insurance Authority by composite insurers. They relate only to the general business written in Hong Kong by composite insurers.

The requirement to audit these forms including the opinions to be given is set out in Section 4(1A)(a) of Part 1 of the Third Schedule. It is envisaged that composite insurers will prepare the standard forms to which auditors will annex their report. An example auditors' report is attached at Appendix 4(a).

(c) Statement prepared under Part 9 of the Third Schedule

This statement is submitted to the Insurance Authority by composite insurers. The statement reports the Hong Kong assets and liabilities relating to their general business only.

The requirement to audit this statement including the opinions to be given is set out in Section 4(1A)(b) of Part 1 of the Third Schedule. It is envisaged that composite insurers will prepare the statement under Part 9 and auditors will annex their report. An example auditors' report is attached at Appendix 4(b).

APPENDIX

Examples of unqualified auditors' reports issued pursuant to the Third Schedule ("the Third Schedule") to the Insurance Companies Ordinance

1. General business insurers

- auditors' report on financial information to be submitted to the Insurance Authority in accordance with Parts 4 and 5 of the Third Schedule

2. Long term business insurers

- auditors' report on financial information to be submitted to the Insurance Authority in accordance with Parts 4 and 5 of the Third Schedule

3. Composite insurers

- auditors' report on financial information to be submitted to the Insurance Authority in accordance with Parts 4 and 5 of the Third Schedule

4. General business insurers/Composite insurers

- (a) auditors' report on forms to be submitted to the Insurance Authority under Part 8 of the Third Schedule
- (b) auditors' report on statement to be submitted to the Insurance Authority under Part 9 of the Third Schedule

Appendix 1

Example of an unqualified auditors' report for a single company in respect of the financial information to be submitted to the Insurance Authority in accordance with Parts 4 and 5 of the Third Schedule to the Insurance Companies Ordinance (General business insurers)

AUDITORS' REPORT TO THE DIRECTORS OF XYZ INSURANCE COMPANY LIMITED

We have audited the financial information on pages ■ to ■ which has been prepared in accordance with the provisions of the Insurance Companies Ordinance ("the Ordinance").

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial information. In preparing such financial information, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on that financial information and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts in and disclosures of the financial information. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial information, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial information is free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of the financial information. We believe that our audit provides a reasonable basis for our opinion.

Opinion

The relevant premium income [, the relevant claims outstanding]* and the relevant amount applicable, as defined in Section 10 of the Ordinance, amounted to HK\$ _____[, HK\$_____]* and HK\$_____ respectively as at 31st December 199X.

In our opinion:

- (i) proper records have been maintained in accordance with Section 16 of the Ordinance in respect of the year ended 31st December 199X;
- (ii) the financial information set out on pages ■ to ■ has been properly prepared, in all material respects, in accordance with the provisions of the Ordinance; and
- (iii) the value of the assets of the company as stated in the financial information exceeds its liabilities by not less than the relevant amount applicable as at 31st December 199X.

This report is intended for filing with the Insurance Authority and may not be used for any other purpose.

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

- * The Insurance Companies (Amendment) Ordinance 1996 ("the Amendment Ordinance"), inter alia, introduces a "claim liabilities basis", in addition to the existing "premium income basis", in determining the solvency margin (or relevant amount) in respect of general business. Following the introduction of the "claim liabilities basis", the auditors are also required to report the "relevant claims outstanding" (as defined in the Amendment Ordinance) of the insurer (which carries on general business only or both long term and general business) and to give an opinion as to whether the insurer's assets exceed its liabilities by the new solvency margin in their report. The Amendment Ordinance gives existing insurers (authorized before its commencement on 7 June 1996) a transitional period up to **31 October 1997** for compliance with the new solvency margin requirement.

Appendix 2

**Example of an unqualified auditors' report for a single company (*)
in respect of the financial information to be submitted to
the Insurance Authority in accordance with Parts 4 and 5
of the Third Schedule to the Insurance Companies Ordinance
(Long term business insurers)**

**AUDITORS' REPORT TO THE DIRECTORS OF
XYZ INSURANCE COMPANY LIMITED**

We have audited the financial information on pages ■ to ■ which has been prepared in accordance with the provisions of the Insurance Companies Ordinance ("the Ordinance") and with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial information which gives a true and fair view. In preparing financial information which gives a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on that financial information and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts in and disclosures of the financial information. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial information, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial information is free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of the financial information. We believe that our audit provides a reasonable basis for our opinion.

Opinion

The [relevant amount applicable, as defined in Section 10 of the Ordinance]/[required margin of solvency, as determined by the company's appointed actuary in accordance with the Insurance Companies (Margin of Solvency) Regulation]**, being greater than the [required margin of solvency, as determined by the company's appointed actuary in accordance with the Insurance Companies (Margin of Solvency) Regulation]/[relevant amount applicable, as defined in Section 10 of the Ordinance]**, amounted to HK\$ _____*** as at 31st December 199X.

In our opinion:

- (i) proper records have been maintained in accordance with Section 16 of the Ordinance in respect of the year ended 31st December 199X;
- (ii) the value of the assets of the company as stated in the financial information exceeds its liabilities by not less than HK\$ _____*** as at 31st December 199X; and

- (iii) the financial information set out on pages ■ to ■ has been properly prepared, in all material respects, in accordance with the provisions of the Ordinance and, on that basis, gives a true and fair view of the state of the company's affairs as at 31st December 199X and of its profit [loss] [and cash flows] for the year then ended#.

This report is intended for filing with the Insurance Authority and may not be used for any other purpose.

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

- * Part 3 of the Third Schedule to the Ordinance deals with additional provisions relating to an insurer which is a holding company. It applies to a long term business insurer only which is a holding company preparing consolidated accounts.
- ** Delete where appropriate.
- *** The amount stated should be the same.
- # May be qualified where the valuation of any asset or liability is in accordance with any statutory provision which does not give a true and fair view, indicating the items affected by such valuation and the statutory provisions in question.

Appendix 3

Example of an unqualified auditors' report for a single company in respect of the financial information to be submitted to the Insurance Authority in accordance with Parts 4 and 5 of the Third Schedule to the Insurance Companies Ordinance (Composite insurers)

AUDITORS' REPORT TO THE DIRECTORS OF XYZ INSURANCE COMPANY LIMITED

We have audited the financial information on pages ■ to ■ which has been prepared in accordance with the provisions of the Insurance Companies Ordinance ("the Ordinance").

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial information which includes a long term business balance sheet which, when read in conjunction with the notes and supplementary schedules to the financial information, gives a true and fair view of the financial position of the company's long term business. In preparing such financial information, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on that financial information and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts in and disclosures of the financial information. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial information, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial information is free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of the financial information. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In respect of the company's general business, the relevant premium income [, the relevant claims outstanding]* and the relevant amount applicable and attributable to general business, as defined in Section 10 of the Ordinance, amounted to HK\$ _____ [, HK\$] _____ * and HK\$ respectively as at 31st December 199X.

In respect of the company's long term business, the [relevant amount applicable, as defined in Section 10 of the Ordinance]/[required margin of solvency, as determined by the company's appointed actuary in accordance with the Insurance Companies (Margin of Solvency) Regulation]**, being greater than the [required margin of solvency, as determined by the company's appointed actuary in accordance with the Insurance Companies (Margin of Solvency) Regulation]/[relevant amount applicable, as defined in Section 10 of the Ordinance]**, amounted to HK\$ _____ as at 31st December 199X.

In our opinion:

- (i) proper records have been maintained in accordance with Section 16 of the Ordinance in respect of the year ended 31st December 199X;

- (ii) the financial information set out on pages ■ to ■ has been properly prepared, in all material respects, in accordance with the provisions of the Ordinance and, on that basis, the long term business balance sheet on page ■, when read in conjunction with the notes on pages ■ to ■ and the supplementary schedules on pages ■ to ■ , gives a true and fair view of the financial position of the company's long term business as at 31st December 199X#; and
- (iii) the value of the assets of the company as stated in the financial information exceeds its liabilities by not less than HK\$_____ , being the aggregate of the [relevant amount applicable attributable to its general business and the required margin of solvency attributable to its long term business]/[relevant amounts applicable]** as at 31st December 199X.

This report is intended for filing with the Insurance Authority and may not be used for any other purpose.

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

* The Insurance Companies (Amendment) Ordinance 1996 ("the Amendment Ordinance"), inter alia, introduces a "claim liabilities basis", in addition to the existing "premium income basis", in determining the solvency margin (or relevant amount) in respect of general business. Following the introduction of the "claim liabilities basis", the auditors are also required to report the "relevant claims outstanding" (as defined in the Amendment Ordinance) of the insurer (which carries on general business only or both long term and general business) and to give an opinion as to whether the insurer's assets exceed its liabilities by the new solvency margin in their report. The Amendment Ordinance gives existing insurers (authorized before its commencement on 7 June 1996) a transitional period up to **31 October 1997** for compliance with the new solvency margin requirement.

** Delete where appropriate.

May be qualified where the valuation of any asset or liability is in accordance with any statutory provision which does not give a true and fair view, indicating the items affected by such valuation and the statutory provisions in question.

Appendix 4(a)

**Example of an unqualified auditors' report in respect of the forms
to be submitted to the Insurance Authority under Part 8
of the Third Schedule to the Insurance Companies Ordinance
(General business insurers/Composite insurers)**

**AUDITORS' REPORT TO THE DIRECTORS OF
XYZ INSURANCE COMPANY LIMITED**

We have audited the forms on pages ■ to ■ which have been prepared in accordance with the provisions of Part 8 of the Third Schedule to the Insurance Companies Ordinance ("the Ordinance") and with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of forms which present fairly the underwriting results pertaining to the Hong Kong insurance business. In preparing forms which present fairly these underwriting results it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those forms and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the forms. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the forms, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the forms are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the forms. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, in respect of the year ended 31st December 199X :

- (i) proper records have been maintained in accordance with Section 16 of the Ordinance for the purpose of preparing the forms;
- (ii) the forms have been properly prepared in accordance with those records; and
- (iii) the information supplied in the forms presents fairly, in all material respects, the underwriting results pertaining to the Hong Kong insurance business.

This report is intended for filing with the Insurance Authority and may not be used for any other purpose.

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

Appendix 4(b)

**Example of an unqualified auditors' report in respect of the statement
to be submitted to the Insurance Authority under Part 9
of the Third Schedule to the Insurance Companies Ordinance
(General business insurers/Composite insurers)**

**AUDITORS' REPORT TO THE DIRECTORS OF
XYZ INSURANCE COMPANY LIMITED ("the Insurer")**

We have examined the statement on pages ■ to ■ ("the Statement") prepared under Part 9 of the Third Schedule ("the Third Schedule") to the Insurance Companies Ordinance ("the Ordinance") and have examined such records of the Insurer as are necessary for the purpose of our opinion given below.

Respective responsibilities of directors and auditors

The directors have a responsibility to prepare the Statement in accordance with Part 9 of the Third Schedule and to maintain at all times assets in Hong Kong which enable the Insurer to comply with the requirement of Section 25A of the Ordinance. The directors are also responsible for ensuring that the Insurer maintains proper records at all times in accordance with Section 16 of the Ordinance.

It is our responsibility to form an independent opinion in accordance with the requirements of Section 4(1A)(b) of Part 1 of the Third Schedule, based on the procedures set out below, and to report our opinion to you.

Basis of opinion

We conducted such procedures as we consider are necessary for the purpose of our report, which include:

- (i) on the basis of the work we performed in connection with the audit of the Insurer's financial information prepared under Parts 4 and 5 of the Third Schedule for the year ended 31st December 199X, assessing whether records have been properly maintained in accordance with Section 16 of the Ordinance for the purpose of preparing the Statement;
- (ii) comparing the Statement with the Insurer's records, and assessing whether the Statement has been properly prepared in accordance with those records and the requirements of Part 9 of the Third Schedule and whether the assets held by the Insurer, as shown in the Statement, enable it to comply with the requirement of Section 25A of the Ordinance; and
- (iii) comparing the assets held by the Insurer at two other dates during the year ended 31st December 199X, as reflected in the Insurer's records, with the liabilities at the preceding financial year end date for the purpose of determining whether such assets enable it to comply with the requirement of Section 25A of the Ordinance.

We believe that our procedures provide a reasonable basis for our opinion.

Opinion

In our opinion:

- (i) the Insurer maintained proper records in accordance with Section 16 of the Ordinance in respect of the year ended 31st December 199X for the purpose of preparing the Statement;
- (ii) the Statement has been properly prepared in accordance with those records;
- [(iii)* the value of assets and amount of liabilities, as shown in the Statement, have been determined in accordance with the Insurance Companies (General Business) Valuation Regulation;]

(iii)/(iv)** the relevant amount, as shown in the Statement, has been determined in accordance with Section 25A(1) of the Ordinance; and

(iv)/(v)** the assets held by the Insurer, as shown in the Statement, enable it to comply with the requirement of Section 25A of the Ordinance as at 31st December 199X and, based on the records of the Insurer, the assets held by the Insurer as at [date 2***] and [date 3 ***] enable it to comply with the requirement of Section 25A of the Ordinance as at those dates#.

This report is intended for filing with the Insurance Authority and may not be used for any other purpose.

ABC & Co.
Certified Public Accountants (Practising) [or Certified Public Accountants]
Hong Kong
Date

* Include this paragraph only for accounting periods ended on or after 29th December 1996.

** Delete where appropriate.

*** The two dates selected must be not less than three months apart.

Where the Insurer has received a notice under Section 25B of the Ordinance then the opinion "(iv)/(v)" will need to be amended accordingly as follows:

(iv)/(v)** the assets held by the Insurer, as shown in the Statement, enable it to comply with the requirement stipulated in Section 25B of the Ordinance as at [date##].

The date specified in the notice issued under Section 25B of the Ordinance.