

# MEMBERS' HANDBOOK

## Update No. 244

(Issued 19 August 2020)

### VOLUME III

#### **Document Reference and Title**

#### **Instructions**

#### **Explanations**

[Contents of Volume III](#)

Discard existing pages i and iv and replace with the revised pages i and iv.

Revised contents pages

#### **PRACTICE NOTES**

[PN 810.2 \(Revised\) \*The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance\*](#)

Replace cover page, pages 2, 3 and 17 to 62 with revised cover page, pages 2, 3 and 17 to 65.

Note 1

[PN 860.1 \(Revised\) \*The Audit of Retirement Schemes\*](#)

Discard PN 860.1 (Revised) revised in June 2017 and replace with the attached PN 860.1 (Revised).

Note 2

#### Notes:

1. PN 810.2 (Revised) is updated to incorporate guidance for reporting under paragraph 36(2) of Part 6 of Schedule 3 to the Insurance Ordinance (“the Ordinance”). The key changes made include:
  - (a) Added paragraphs 56 to 60 under a new section “Identification of Long Term Assets and Liabilities”;
  - (b) Added the reporting requirements under Part 6 of Schedule 3 to the Ordinance in Appendix 1;
  - (c) Added Example 6 - Long term insurer/ Composite insurer: an auditor's report to be submitted to the Insurance Authority under Part 6 of Schedule 3 in Appendix 2; and
  - (d) Added a section “Report on matter under Section 16 of the Hong Kong Insurance Ordinance” in Examples 1 and 2 of Appendix 5 if such additional requirement is imposed on foreign authorized life insurers.

The revised PN is effective upon issuance.

2. The Occupational Retirement Schemes Ordinance (“the ORSO”) was amended by the Occupational Retirement Schemes (Amendment) Ordinance 2020 (“Amendment Ordinance”) which came into effect on 26 June 2020. As a result of the Amendment Ordinance, the Mandatory Provident Fund Schemes Authority amended the Registrar’s Guidelines on the preparation of the Statement of the Employer’s Auditor under section 20(7A) of the ORSO (“Guidelines”). PN 860.1 (Revised) is revised to incorporate changes arising from the Amendment Ordinance and revised Guidelines. The key changes made include:
- (a) Added guidance in paragraphs 239-246 on the responsibility and scope of work of the auditor under the new paragraph 1A of Part 1 and paragraph 2A of Part 2 of Schedule 1 to the ORSO;
  - (b) Added Example 11 - auditor's report on an ORSO scheme's membership requirements in connection with the application for registration in Appendix 1; and
  - (c) Amended paragraphs 38, 51, 54, 57 and 60 regarding transfer of benefits.

To align with the effective date of the Amendment Ordinance, the revised PN is effective from 26 June 2020.

In order for readers to easily identify all the changes, the marked-ups to the relevant PNs are posted at: <https://www.hkicpa.org.hk/-/media/Document/SSD/handbookupdate/244mk.pdf>



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PN 810.2 (Revised)  
Issued February 2015; revised February 2016, October 2016,  
September 2017, January 2018, September 2019, August 2020

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Effective upon issue

*Practice Note 810.2 (Revised)*

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# **The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance**



Hong Kong Institute of  
**Certified Public Accountants**  
香港會計師公會

**PRACTICE NOTE  
810.2 (REVISED)  
THE DUTIES OF THE AUDITOR OF AN INSURER AUTHORIZED UNDER  
THE INSURANCE ORDINANCE**

*(Issued February 2015; revised February 2016, October 2016, January 2018, September 2019,  
August 2020  
Effective upon issue)*

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Practice Note (PN) 810.2 (Revised), *The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance* should be read in the context of the *Amended Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* which sets out the application and authority of PNs.

the nature of the contingency, the uncertainties which are expected to affect the ultimate outcome and a prudent estimate of the financial effect.

### **Liabilities Rules for companies carrying on long term business**

49. Where the liabilities of an insurer are in respect of long term business, they must be determined in accordance with the Insurance (Determination of Long Term Liabilities) Rules ("Liabilities Rules").
50. The general principles and certain specific factors underlying the determination of long term liabilities are laid down in rule 4 of the Liabilities Rules. Generally, they shall be determined on actuarial principles, having due regard to the reasonable expectations of policyholders. Proper provisions shall be made for liabilities on a prudent basis including an allowance for adverse variations of relevant assumptions, and provisions shall be made for all prospective liabilities as determined by the policy conditions for each contract, taking account of future premiums.
51. Specific requirements of the Liabilities Rules, and the sections of those Rules in which they are covered, are made in respect of options and guarantees (rule 10), expenses (rule 12), valuation of future premiums (rule 14) and acquisition expenses (rule 15). Rule 5 of the Liabilities Rules requires prospective calculations to be used in preference to retrospective calculations where possible.

### **Proper records**

52. The Ordinance requires the auditor to state specifically in the auditor's report whether proper records have been maintained in accordance with section 16.
53. Without prejudice to the Companies Ordinance, section 16 requires the authorized insurer to keep proper books of account which sufficiently exhibit and explain all transactions entered into by the insurer in the course of any business carried on by him. These books can be kept either in a legible form or in a non-legible form capable of being reproduced in a legible form. The Ordinance also requires adequate precautions to be taken to guard against falsification of these records and to facilitate the discovery of any such falsification. In the case of an overseas insurer carrying on insurance business through a branch or an agency, the IA would normally require books to be kept in respect of all its branch or agency business carried on in or from Hong Kong.
54. These books of account must be kept for seven years from the end of the financial year to which the last entry made or matter recorded therein relates.
55. The Insurance Authority may, by serving a notice in writing on an authorized insurer, require the insurer to provide to the Insurance Authority, within the period specified in the notice, any books of account that are required to be kept by section 16 and by the Insurance Authority for performing its functions.

### **Identification of Long Term Assets and Liabilities**

56. Section 22 of the Ordinance sets out the requirements for an authorized insurer carrying on long term business to separate its assets and liabilities attributable to long term business. Part 6 of Schedule 3 to the Ordinance sets out the method of identification of long term assets and liabilities required under section 22.
57. Paragraph 36(1) of Part 6 of Schedule 3 requires every authorized insurer to which this Part of this Schedule applies shall, no later than 6 months after the base date\*, deposit with the IA a certificate that the insurer has in accordance with this Part –
  - a. identified in accordance with the provisions of paragraphs 30 and 31 any assets and liabilities which were not already identified on the base date as attributable to the insurer's long term business;



THE DUTIES OF THE AUDITOR OF AN INSURER AUTHORIZED  
UNDER THE INSURANCE ORDINANCE

- b. identified as assets attributable to the insurer's long term business all those assets which are required to be so identified in accordance with paragraph 32; and
- c. established and maintained those books of account and other records which are required to be established and maintained by section 22 of the Ordinance,

and that certificate shall be signed by at least 2 directors of the insurer and the chief executive thereof or, in the case of an insurer which has no chief executive, by at least 2 directors and the secretary thereof.

\* As stated in paragraph 29 of Part 6 of Schedule 3, all assets and liabilities not identified with its long term business at the end of the financial year of the authorized insurer beginning next after the commencement of the Ordinance shall be so identified at that date (*the base date*).

58. Paragraph 36(2) of Part 6 of Schedule 3 requires that the certificate referred in paragraph 57. above shall be annexed with a report signed by the appointed auditor stating whether –
- a. the insurer has complied with paragraphs 36(1)(a) and (b) of Part 6 of Schedule 3; and
  - b. in his opinion, the insurer has complied with paragraph 36(1)(c) of Part 6 of Schedule 3.

It is anticipated that this is a one-off requirement to fulfill IA's requirements.

59. If an authorized insurer which carries on long term business is incorporated or formed outside Hong Kong, it may submit a written request to the IA for authorization under section 22A of the Ordinance to maintain accounts of long term business carried on in or from Hong Kong in place of the accounts referred in section 22(1). If such an authorization is given, the insurer shall submit to the IA a certificate and an auditor's report as mentioned in paragraphs 57 and 58 above.
60. The appointed auditor of the authorized insurer should conduct a reasonable assurance engagement in accordance with HKSAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and issue the auditor's report as required under paragraph 58. The auditor should agree the terms of the engagement with the insurer in accordance with HKSAE 3000 (Revised). An example auditor's report is set out in Example 6 of Appendix 2.

### **Licensed insurance broker companies**

61. Section 64N states that an authorized insurer must not enter into a contract of insurance through another person in Hong Kong or accept a referral of insurance business from another person in Hong Kong unless:
- a. that person is (i) a licensed insurance agency or a licensed individual insurance agent appointed by the insurer; or (ii) a licensed insurance broker company; or
  - b. that person's duties only involve clerical or administrative duties.

Sections 64U, 64W and 64ZA, among others, set out the Insurance Authority's requirements for an insurance agency, individual insurance agent and insurance broker company to obtain the relevant licence.

62. Under section 72, a licensed insurance broker company must appoint an auditor who is:
- a. qualified under the Professional Accountants Ordinance (and not disqualified under section 393(2) of the Companies Ordinance); or
  - b. qualified as an auditor in the country of incorporation, if the licensed insurance broker company is incorporated outside Hong Kong and who holds such qualification as the IA accepts as being of comparable to that of a person referred to in (a) above.

63. The auditor of a licensed insurance broker company is required to report on the company's financial statements to its shareholders. The auditor is also required to report on a licensed insurance broker company's compliance with the requirements stipulated by the Insurance Authority. For further guidance on this area, members may refer to PN 810.1 (Revised), *Licensed Insurance Broker Companies - Compliance with the Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules* issued by the HKICPA.

### **Communications between the auditor and the IA**

64. Section 53D introduces statutory protection for an auditor from liability to the client for breach of confidentiality when he/ she communicates directly with the IA in good faith on matters relevant to any functions of the IA under the Ordinance. Sections 15A(2) (see paragraph 25) and 53E impose a statutory obligation on the auditor to report certain matters directly to the IA. Members may refer to PN 620.2 for further guidance in this area.

## **PART III – OTHER REPORTING**

### **Annual return on employees' compensation gross premium**

65. The Hong Kong Government (the "Government") has entered into an agreement with some authorized insurers for the provision of a facility covering terrorism risk in respect of employees' compensation insurance business. Under the agreement, the insurer is required to pay a monthly charge to the Government based on the gross premium in respect of the employees' compensation business written. An annual return together with a report by the auditor are required to be submitted to the IA within four months after the end of each financial year on the amounts of gross premium for the financial year and the charge payable thereon to the Government. For the IA's easy identification of the annual return which is reported on by the auditor, the auditor should bind the annual return together with the report thereon and stamp the identification chop on each page of the annual return. An auditor should conduct such an engagement in accordance with HKSAR 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*. An example auditor's report is set out in Example 1 in Appendix 4.

### **Report on levies paid to the insolvency scheme for motor compensation insurance**

66. All insurance companies in Hong Kong that are authorized by the Government to write motor vehicle insurance are required to be members of the Motor Insurers' Bureau of Hong Kong ("MIB"). Each member has entered into an agreement with the MIB to contribute such funds as may be required by the MIB to meet its objectives, and furnish particulars of motor premium income and submit such report as the MIB may from time to time deem necessary. A practitioner should conduct such an engagement in accordance with HKSRS 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information". An example report is set out in Example 2 in Appendix 4.

### **Report on levies paid to the insolvency scheme for employees' compensation insurance**

67. All insurance companies in Hong Kong who are authorized by the Government to write direct employees compensation insurance business are required to be members of the Employees Compensation Insurer Insolvency Bureau ("ECIIB"). Each member has entered into an agreement with the ECIIB to contribute such funds as may be required by the ECIIB to meet its objectives, and furnish particulars of employees' compensation premium income and submit such report as the ECIIB may from time to time deem necessary. A practitioner should conduct such an engagement in accordance with HKSRS 4400. An example report is set out in Example 3 in Appendix 4.

## **Annual remittance report on levy to the IA**

68. On 6 June 2017, the Insurance (Levy) Order ("Order") and the Insurance (Levy) Regulation ("Regulation") were issued. The Order specifies the prescribed classes of insurance business and types of insurance contract that a levy is payable by policy holders and the rates of such levy. The Regulation sets out the manner in which the payment of levies must be made. The Order and the Regulation come into operation on 1 January 2018. According to the Regulation, an authorized insurer must lodge with the IA an annual remittance report. The annual remittance report must cover the remittances made in respect of the two remittance periods immediately preceding the date of the report unless otherwise approved by the IA. The annual remittance report is subject to examination by an auditor appointed by the insurer at its expense.
69. The auditor is required to opine on whether the insurer has maintained proper records in accordance with section 16 of the Ordinance for the purpose of preparing the annual remittance report and whether such report has been properly prepared, in all material respects, from the records of the insurer. A practitioner should conduct such an engagement in accordance with HKSAE 3000 (Revised). An example report is set out in Example 4 in Appendix 4.

## Appendix 1

### What does the insurer need to submit to the IA?

The following summary lists out the references to different Parts of Schedule 3 to the Insurance Ordinance and also includes the paragraph references in Part 1 of that Schedule that set out the reporting requirements.

	Parts 3 <sup>2</sup> , 4 and 5: Financial Information		Part 6: Long term assets and liabilities	Part 8 <sup>3</sup> : Return on Hong Kong business		Part 9 <sup>3</sup> : Statement on Hong Kong assets and liabilities under Hong Kong business	Notes
	Part 3	Parts 4, 5		Forms 1-9	Form HKL1		
General insurer	-	√ Para.4.(1AB)		√ Para.4.(1A)(a)	-	√ Para.4.(1A)(b)	a)
Long term insurer (including pure reinsurer)	√ Para.4.(1)*	√ Para.4.(1)*	√ Para.36(2)	-	√ Para.4.(1A)(aa)	-	b)
Composite insurer	-	√ Para.4.(1AC)^	√ Para.36(2)	√ Para.4.(1A)(a)	√ Para.4.(1A)(aa)	√ Para.4.(1A)(b)	c)
Captive insurer	√ Para.4.(1AD)*	√ Para.4.(1AD)*		√ Para.4.(1A)(a)			
Pure reinsurer (General)		√ Para.4.(1AB)		√ Para.4.(1A)(a)			
Pure reinsurer (Composite)		√ Para.4.(1AC)^	√ Para.36(2)	√ Para.4.(1A)(a)	√ Para.4.(1A)(aa)		
Lloyd's				√ Para.4.(1A)(a)		√ Para.4.(1A)(b)	

\* True and fair opinion required

^ True and fair opinion required in respect of the life insurance business only

<sup>2</sup> Part 3 of Schedule 3 deals with additional provisions relating to an insurer which is a holding company. It applies to an insurer carrying on long term business only or a captive insurer, which is a holding company preparing consolidated financial statements.

<sup>3</sup> Part 8 return and Part 9 statement should be prepared in respect of the insurer's Hong Kong Insurance Business and Hong Kong Long Term Insurance Business.

## Notes

### a) General Insurer

#### i) ***Financial information prepared under Parts 4 and 5 of Schedule 3***

This financial information is submitted to the Insurance Authority by a general insurer. 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 paragraph 4(1AB) of Part 1 of Schedule 3. An example auditor's report is set out as Example 1 in Appendix 2.

#### ii) ***Forms prepared under Part 8 of Schedule 3***

These forms are submitted to the Insurance Authority by a general insurer. These forms are in respect of the Hong Kong insurance business only as defined in Part 1 of Schedule 3.

The requirement to report on these forms including the opinions to be given is set out in paragraph 4(1A)(a) of Part 1 of Schedule 3. The general insurer prepares the standard forms to which the auditor will annex the auditor's report. Example auditor's reports are set out as Example 4(a) and 4(b) in Appendix 2.

#### iii) ***Statement prepared under Part 9 of Schedule 3***

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

The requirement to report on this statement including the opinions to be given is set out in paragraph 4(1A)(b) of Part 1 of Schedule 3. The general insurer prepares the statement under Part 9 and auditor will annex the auditor's report. Example auditor's reports are set out as Example 4(c) and 4(d) in Appendix 2.

### b) Long term insurer

#### i) ***Financial information prepared under Parts 3, 4 and 5 of Schedule 3***

This financial information is submitted to the Insurance Authority by a long term insurer. Part 3 deals with additional provisions relating to a long term insurer which is a holding company. 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 paragraphs 4(1) and (1AA) of Part 1 of Schedule 3. An example auditor's report is set out as Example 2 in Appendix 2.

#### ii) ***Long term assets and liabilities requirements under Part 6 of Schedule 3***

Paragraph 36(1) of Part 6 of Schedule 3 requires every authorized insurer carrying on long term business shall, no later than 6 months after the base date, deposit with the Insurance Authority a certificate in accordance with this paragraph.

The requirement to annex the certificate with a report signed by the appointed auditor is set out in paragraph 36(2) of Part 6 of Schedule 3. It is anticipated that this is a one-off requirement to fulfill Insurance Authority's requirements. An example auditor's report is set out as Example 6 in Appendix 2.

#### iii) ***Form HKL1 prepared under Part 8 of Schedule 3***

This form is submitted to the Insurance Authority by a long term insurer. This form is in respect of the Hong Kong long term insurance business only as defined in Part 1 of Schedule 3.

The requirement to report on this form including the opinions to be given is set out in paragraph 4(1A)(aa) of Part 1 of Schedule 3. The long term insurer prepares the standard form to which the auditor will annex the auditor's report. An example auditor's report is set out as Example 5 in Appendix 2.

**c) Composite insurer**

**i) *Financial information prepared under Parts 4 and 5 of Schedule 3***

This financial information is submitted to the Insurance Authority by a composite insurer. 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 paragraph 4(1AC) of Part 1 of Schedule 3. An example auditor's report is set out as Example 3 in Appendix 2.

**ii) *Long term assets and liabilities requirements under Part 6 of Schedule 3***

Paragraph 36(1) of Part 6 of Schedule 3 requires every authorized insurer carrying on long term business shall, no later than 6 months after the base date, deposit with the Insurance Authority a certificate in accordance with this paragraph.

The requirement to annex the certificate with a report signed by the appointed auditor is set out in paragraph 36(2) of Part 6 of Schedule 3. It is anticipated that this is a one-off requirement to fulfill Insurance Authority's requirements. An example auditor's report is set out as Example 6 in Appendix 2.

**iii) *Forms prepared under Part 8 of Schedule 3***

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

The requirement to report on these forms including the opinions to be given is set out in paragraph 4(1A)(a) of Part 1 of Schedule 3. The composite insurer prepares the standard forms to which auditor will annex the auditor's report. Example auditor's reports are set out as Example 4(a) and 4(b) in Appendix 2.

**iv) *Statement prepared under Part 9 of Schedule 3***

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

The requirement to report on this statement including the opinions to be given is set out in paragraph 4(1A)(b) of Part 1 of Schedule 3. The composite insurer prepares the statement under Part 9 and auditor will annex the auditor's report. Example auditor's reports are set out as Example 4(c) and 4(d) in Appendix 2.

**v) *Form HKL1 prepared under Part 8 of Schedule 3***

This form is submitted to the Insurance Authority by a composite insurer. The form is in respect of the Hong Kong long term insurance business only as defined in Part 1 of Schedule 3.

The requirement to report on this form including the opinions to be given is set out in paragraph 4(1A)(aa) of Part 1 of Schedule 3. The composite insurer prepares the standard form to which the auditor will annex the auditor's report. An example auditor's report is set out as Example 5 in Appendix 2.

## Appendix 2

### Example unmodified auditor's reports under Schedule 3 to the Insurance Ordinance

- Example 1 – **General insurer:** an auditor's report on financial information to be submitted to the Insurance Authority in accordance with Parts 4 and 5 of Schedule 3
- Example 2 – **Long term insurer:** an auditor's report on financial information to be submitted to the Insurance Authority in accordance with Parts 4 and 5 of Schedule 3
- Example 3 – **Composite insurer:** an auditor's report on financial information to be submitted to the Insurance Authority in accordance with Parts 4 and 5 of Schedule 3
- Example 4 – **General insurer/ Composite insurer:**
- (a) an auditor's report on forms (except Form HKL1) to be submitted to the Insurance Authority under Part 8 of Schedule 3
  - (b) an auditor's report for Hong Kong branch of an overseas insurance company which has obtained an Accounting Concession under Section 17(2) of the Insurance Ordinance on forms (except Form HKL1) to be submitted to the Insurance Authority under Part 8 of Schedule 3
  - (c) an auditor's report on statement to be submitted to the Insurance Authority under Part 9 of Schedule 3
  - (d) an auditor's report for Hong Kong branch of an overseas insurance company which has obtained an Accounting Concession under Section 17(2) of the Insurance Ordinance on statement to be submitted to the Insurance Authority under Part 9 of Schedule 3
- Example 5 – **Long term insurer/ Composite insurer:** an auditor's report on Form HKL1 to be submitted to the Insurance Authority under Part 8 of Schedule 3
- Example 6 – **Long term insurer/ Composite insurer:** an auditor's report to be submitted to the Insurance Authority under Part 6 of Schedule 3

**Example 1 - General insurer: an auditor's report on financial information  
to be submitted to the Insurance Authority  
in accordance with Parts 4 and 5 of Schedule 3**

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of financial information of an entity other than a listed entity<sup>4</sup>, that have been prepared by the directors of the entity in accordance with the provisions of the Hong Kong Insurance Ordinance (that is, a special purpose framework) to meet the requirements of the Insurance Authority. The directors do not have a choice of financial reporting frameworks.
- The applicable financial reporting framework is a compliance framework.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial statements in HKSA 210.<sup>5</sup>
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with HKSA 570 (Revised).<sup>6</sup>
- Use of the auditor's report is restricted.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with HKSA 701.<sup>7</sup>
- The auditor has obtained all of the other information<sup>8</sup> prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Those responsible for oversight of the financial information differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial information, the auditor has other reporting responsibilities required under paragraph 4(1AB) of Part 1 of Schedule 3 to the Hong Kong Insurance Ordinance.

**INDEPENDENT AUDITOR'S REPORT**

To the Directors of XYZ Insurance Company Limited

**Report on the Audit of the Financial Information**

**Opinion**

We have audited the financial information of XYZ Insurance Company Limited ("the Company") set out on pages ..... to ....., which comprises the [balance sheet][statement of financial position] as at 31 December 20X1, and the [income statement][statement of profit or loss and other comprehensive income], [statement of changes in equity], [cash flow statement][statement of cash flows] and the revenue account for the year then ended, and notes to the financial information, including a summary of significant accounting policies.

<sup>4</sup> See HKSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* for illustrations of auditor's reports for listed entities.

<sup>5</sup> HKSA 210, *Agreeing the Terms of Audit Engagements*.

<sup>6</sup> HKSA 570 (Revised), *Going Concern*.

<sup>7</sup> HKSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

<sup>8</sup> HKSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, paragraph 12(c)



In our opinion, the financial information of the Company for the year ended 31 December 20X1 is prepared, in all material respects, in accordance with the provisions of the Hong Kong Insurance Ordinance<sup>9</sup> ("the Ordinance").

### **Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") and with reference to Practice Note 810.2 (Revised), *The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Information* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of Matter - Basis of Accounting and Restriction on Use**

We draw attention to note X to the financial information, which describes the basis of accounting. The financial information is prepared to assist the Company in complying with the provisions of the Ordinance. As a result, the financial information may not be suitable for another purpose. Our report is intended solely for the submissions by the Company to the Hong Kong Insurance Authority and the Registrar of Companies and is not intended to be, and should not be, distributed to or used by anyone for any other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of our report. Our opinion is not modified in respect of this matter.<sup>10</sup>

### **Other Information [or another title if appropriate such as "Information Other than the Financial Information and Auditor's Report Thereon"]**

[Reporting in accordance with the reporting requirements in HKSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information – see Illustration 1 in Appendix 2 of HKSA 720 (Revised)*.]

### **Responsibilities of Directors and Those Charged with Governance for the Financial Information<sup>11</sup>**

The directors are responsible for the preparation of the financial information in accordance with the provisions of the Ordinance and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

In preparing the financial information, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

In addition, the directors are required to maintain proper records in accordance with section 16 of the Ordinance and to maintain the relevant amount applicable as defined in section 10 of the Ordinance.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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<sup>9</sup> Transitional guidance covering the intervening period for a financial period ended on or after 26 June 2017 but before 26 June 2018 (e.g. financial period from 1 January 2017 to 31 December 2017; 1 April 2017 to 31 March 2018): the reference to "Hong Kong Insurance Ordinance" in the report should be amended to "Hong Kong Insurance Ordinance (formerly known as the Hong Kong Insurance Companies Ordinance before being renamed on 26 June 2017)".

<sup>10</sup> The above wording has been agreed with the Insurance Authority. However, auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report". Any deviation from the above wording may not be acceptable to the Insurance Authority.

<sup>11</sup> Throughout the illustrative auditor's reports, the terms directors and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

## Auditor's Responsibilities for the Audit of the Financial Information

Our objectives are to obtain reasonable assurance about whether the financial information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial information. In addition, we express opinion on whether proper records have been maintained in accordance with section 16 of the Ordinance and as to whether the value of the assets of the Company as determined under the Ordinance exceeds its liabilities by not less than the relevant amount applicable as at year end.

Paragraph 41(b) of HKSA 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) of HKSA 700 (Revised) explains that when law, regulation or HKSA's expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Report on matters under paragraph 4(1AB) of Part 1 of Schedule 3 to the Hong Kong Insurance Ordinance**

The relevant premium income, the relevant claims outstanding and the relevant amount applicable, as defined in section 10 of the Ordinance and reported in note x to the financial information, amounted to HK\$ \_\_\_\_\_, HK\$ \_\_\_\_\_ and HK\$ \_\_\_\_\_ respectively as at 31 December 20X1.

In our opinion:

- (i) proper records have been maintained in accordance with section 16 of the Ordinance in respect of the year ended 31 December 20X1; and
- (ii) the value of the assets of the Company as determined under the Ordinance and reported in note x to the financial information exceeds its liabilities by not less than the relevant amount applicable as at 31 December 20X1.

ABC & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

[Auditor Address]

[Date]

**Example 2 - Long term insurer: an auditor's report on financial information  
to be submitted to the Insurance Authority  
in accordance with Parts 4 and 5 of Schedule 3**

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of financial information of an entity other than a listed entity<sup>12</sup>, that have been prepared by the directors of the entity in accordance with Hong Kong Financial Reporting Standards (a general purpose framework) and the provisions of the Hong Kong Insurance Ordinance to meet the requirements of the Insurance Authority. The directors do not have a choice of financial reporting frameworks.<sup>13</sup>
- The applicable financial reporting framework is a fair presentation framework.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial statements in HKSA 210.<sup>14</sup>
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the Hong Kong Institute of Certified Public Accountants' Code of Ethics for Professional Accountants.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with HKSA 570 (Revised).<sup>15</sup>
- Use of the auditor's report is restricted.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with HKSA 701.<sup>16</sup>
- The auditor has obtained all of the other information<sup>17</sup> prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Those responsible for oversight of the financial information differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial information, the auditor has other reporting responsibilities required under paragraphs 4(1) and (1AA) of Part 1 of Schedule 3 to the Hong Kong Insurance Ordinance.

**INDEPENDENT AUDITOR'S REPORT**

To the Directors of XYZ Insurance Company Limited

**Report on the Audit of the Financial Information**

**Opinion**

We have audited the financial information of XYZ Insurance Company Limited ("the Company") set out on pages ..... to ....., which comprises the [balance sheet][statement of financial position] as at 31 December 20X1, and the [income statement][statement of profit or loss and other comprehensive income], [statement of changes in equity], [cash flow statement][statement of cash flows] and the

<sup>12</sup> See HKSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* for illustrations of auditor's reports for listed entities.

<sup>13</sup> According to paragraph A14 of HKSA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, the financial statements prepared for a specific purpose may be prepared in accordance with a general purpose framework because the intended users have determined that such general purpose financial statements meet their financial information needs.

<sup>14</sup> HKSA 210, *Agreeing the Terms of Audit Engagements*.

<sup>15</sup> HKSA 570 (Revised), *Going Concern*.

<sup>16</sup> HKSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

<sup>17</sup> HKSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, paragraph 12(c)

revenue account for the year then ended, and notes to the financial information, including a summary of significant accounting policies.

In our opinion, the financial information gives a true and fair view of the state of the Company's affairs as at 31 December 20X1, and of its [profit][loss] and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and is prepared, in all material respects, in accordance with the provisions of the Hong Kong Insurance Ordinance<sup>18</sup> ("the Ordinance").#

### **Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") and with reference to Practice Note 810.2 (Revised), *The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Information* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of Matter - Basis of Accounting and Restriction on Use**

We draw attention to note X to the financial information, which describes the basis of accounting. The financial information is prepared to assist the Company in complying with the provisions of the Ordinance. As a result, the financial information may not be suitable for another purpose. Our report is intended solely for the submissions by the Company to the Hong Kong Insurance Authority and the Registrar of Companies and is not intended to be, and should not be, distributed to or used by anyone for any other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of our report. Our opinion is not modified in respect of this matter.<sup>19</sup>

### **Other Information [or another title if appropriate such as "Information Other than the Financial Information and Auditor's Report Thereon"]**

[Reporting in accordance with the reporting requirements in HKSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information – see Illustration 1 in Appendix 2 of HKSA 720 (Revised).*]

### **Responsibilities of Directors and Those Charged with Governance for the Financial Information<sup>20</sup>**

The directors are responsible for the preparation of the financial information that gives a true and fair view in accordance with HKFRSs issued by the HKICPA and the provisions of the Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

In preparing the financial information, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

In addition, the directors are required to maintain proper records in accordance with section 16 of the Ordinance and to maintain the greater of the required margin of solvency attributable to its long term

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<sup>18</sup> Transitional guidance covering the intervening period for a financial period ended on or after 26 June 2017 but before 26 June 2018 (e.g. financial period from 1 January 2017 to 31 December 2017; 1 April 2017 to 31 March 2018): the reference to "Hong Kong Insurance Ordinance" in the report should be amended to "Hong Kong Insurance Ordinance (formerly known as the Hong Kong Insurance Companies Ordinance before being renamed on 26 June 2017)".

<sup>19</sup> The above wording has been agreed with the Insurance Authority. However, auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report". Any deviation from the above wording may not be acceptable to the Insurance Authority.

<sup>20</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

business as determined by the Company's appointed actuary in accordance with the Insurance (Margin of Solvency) Rules<sup>21</sup> and the relevant amount applicable as defined in the Ordinance (the "minimum solvency requirements").

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Information**

Our objectives are to obtain reasonable assurance about whether the financial information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial information. In addition, we express opinion on whether proper records have been maintained in accordance with section 16 of the Ordinance and as to whether the value of the assets of the Company as determined under the Ordinance exceeds its liabilities by not less than the minimum solvency requirements applicable as at year end.

Paragraph 41(b) of HKSA 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) of HKSA 700 (Revised) explains that when law, regulation or HKSA's expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial information, including the disclosures, and whether the financial information represents the underlying transactions and events in a manner that achieves fair presentation.

<sup>21</sup> Transitional guidance covering the intervening period for a financial period ended on or after 26 June 2017 but before 26 June 2018 (e.g. financial period from 1 January 2017 to 31 December 2017; 1 April 2017 to 31 March 2018): the reference to "Insurance (Margin of Solvency) Rules" in the report should be amended to "Insurance (Margin of Solvency) Rules (formerly known as the Insurance Companies (Margin of Solvency) Regulation before being renamed on 26 June 2017)".

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Report on matters under paragraphs 4(1) and (1AA) of Part 1 of Schedule 3 to the Hong Kong Insurance Ordinance**

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 (Margin of Solvency) Rules]\*, being greater than the [required margin of solvency, as determined by the Company's appointed actuary in accordance with the Insurance (Margin of Solvency) Rules]/[relevant amount applicable, as defined in section 10 of the Ordinance]\*, amounted to HK\$ \_\_\_\_\_\*\* as at 31 December 20X1.

In our opinion:

- (i) proper records have been maintained in accordance with section 16 of the Ordinance in respect of the year ended 31 December 20X1; and
- (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 31 December 20X1.

ABC & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

[Auditor Address]

[Date]

\* 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.

**Example 3 - Composite insurer: an auditor's report on financial information  
to be submitted to the Insurance Authority  
in accordance with Parts 4 and 5 of Schedule 3**

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of financial information of an entity other than a listed entity<sup>22</sup>, that have been prepared by the directors of the entity in accordance with the provisions of the Hong Kong Insurance Ordinance to meet the requirements of the Insurance Authority. For the long term business, the statement of financial position is also prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). The directors do not have a choice of financial reporting frameworks.<sup>23</sup>
- The applicable financial reporting framework is a fair presentation framework.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial statements in HKSA 210.<sup>24</sup>
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the Hong Kong Institute of Certified Public Accountants' Code of Ethics for Professional Accountants.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with HKSA 570 (Revised).<sup>25</sup>
- Use of the auditor's report is restricted.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with HKSA 701.<sup>26</sup>
- The auditor has obtained all of the other information<sup>27</sup> prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Those responsible for oversight of the financial information differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial information, the auditor has other reporting responsibilities required under paragraph 4 (1AC) of Part 1 of Schedule 3 to the Hong Kong Insurance Ordinance.

**INDEPENDENT AUDITOR'S REPORT**

To the Directors of XYZ Insurance Company Limited

**Report on the Audit of the Financial Information**

**Opinion**

We have audited the financial information of XYZ Insurance Company Limited ("the Company") set out on pages ..... to ....., which comprises the [balance sheet][statement of financial position] as at 31 December 20X1, and the [income statement][statement of profit or loss and other comprehensive

<sup>22</sup> See HKSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* for illustrations of auditor's reports for listed entities.

<sup>23</sup> According to paragraph A14 of HKSA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, the financial statements prepared for a specific purpose may be prepared in accordance with a general purpose framework because the intended users have determined that such general purpose financial statements meet their financial information needs.

<sup>24</sup> HKSA 210, *Agreeing the Terms of Audit Engagements*.

<sup>25</sup> HKSA 570 (Revised), *Going Concern*.

<sup>26</sup> HKSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

<sup>27</sup> HKSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, paragraph 12(c)



income], [statement of changes in equity], [cash flow statement][statement of cash flows] and the revenue account for the year then ended, and notes to the financial information, including a summary of significant accounting policies, and the supplementary schedules set out on pages ..... to .....

In our opinion, the financial information set out on pages ..... to ..... is prepared, in all material respects, in accordance with the provisions of the Hong Kong Insurance Ordinance<sup>28</sup> ("the Ordinance") and, on that basis, the long term business [balance sheet][statement of financial position] 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 31 December 20X1 in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and the provisions of the Ordinance.#

### **Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") and with reference to Practice Note 810.2 (Revised), *The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Information* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of Matter - Basis of Accounting and Restriction on Use**

We draw attention to note X to the financial information, which describes the basis of accounting. The financial information is prepared to assist the Company in complying with the provisions of the Ordinance. As a result, the financial information may not be suitable for another purpose. Our report is intended solely for the submissions by the Company to the Hong Kong Insurance Authority and the Registrar of Companies and is not intended to be, and should not be, distributed to or used by anyone for any other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of our report. Our opinion is not modified in respect of this matter.<sup>29</sup>

### **Other Information [or another title if appropriate such as "Information Other than the Financial Information and Auditor's Report Thereon"]**

*[Reporting in accordance with the reporting requirements in HKSA 720 (Revised), The Auditor's Responsibilities Relating to Other Information – see Illustration 1 in Appendix 2 of HKSA 720 (Revised).]*

### **Responsibilities of Directors' and Those Charged with Governance for the Financial Information<sup>30</sup>**

The directors are responsible for the preparation of the financial information that is in accordance with the provisions of the Ordinance. This responsibility includes the preparation of a long term business [balance sheet][statement of financial position] 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 accordance with the provisions of the Ordinance and HKFRSs issued by the HKICPA, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

<sup>28</sup> Transitional guidance covering the intervening period for a financial period ended on or after 26 June 2017 but before 26 June 2018 (e.g. financial period from 1 January 2017 to 31 December 2017; 1 April 2017 to 31 March 2018): the reference to "Hong Kong Insurance Ordinance" in the report should be amended to "Hong Kong Insurance Ordinance (formerly known as the Hong Kong Insurance Companies Ordinance before being renamed on 26 June 2017)".

<sup>29</sup> The above wording has been agreed with the Insurance Authority. However, auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report". Any deviation from the above wording may not be acceptable to the Insurance Authority.

<sup>30</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

In preparing the financial information, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

In addition, the directors are required to maintain proper records in accordance with section 16 of the Ordinance and to maintain an excess of assets over liabilities by the aggregate of the relevant amount applicable and attributable to its general business as defined in section 10 of the Ordinance and the greater of the required margin of solvency attributable to its long term business as determined by the Company's appointed actuary in accordance with the Insurance (Margin of Solvency) Rules<sup>31</sup> and the relevant amount applicable and attributable to its long term business as defined in the Ordinance.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Information**

Our objectives are to obtain reasonable assurance about whether the financial information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial information. In addition, we express opinion on whether proper records have been maintained in accordance with section 16 of the Ordinance and as to whether the value of the assets of the Company as determined under the Ordinance exceeds its liabilities by not less than the relevant amount applicable and attributable to general business and the greater of the required margin of solvency attributable to its long term business as determined by the Company's appointed actuary in accordance with the Insurance (Margin of Solvency) Rules and the relevant amount applicable and attributable to its long term business as defined in the Ordinance as at year end.

Paragraph 41(b) of HKSA 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) of HKSA 700 (Revised) explains that when law, regulation or HKSA's expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial information or, if such disclosures are inadequate, to

<sup>31</sup> Transitional guidance covering the intervening period for a financial period ended on or after 26 June 2017 but before 26 June 2018 (e.g. financial period from 1 January 2017 to 31 December 2017; 1 April 2017 to 31 March 2018): the reference to "Insurance (Margin of Solvency) Rules" in the report should be amended to "Insurance (Margin of Solvency) Rules (formerly known as the Insurance Companies (Margin of Solvency) Regulation before being renamed on 26 June 2017)".

modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial information, including the disclosures, and whether the financial information represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### **Report on matters under paragraph 4 (1AC) of Part 1 of Schedule 3 to the Hong Kong Insurance Ordinance**

In respect of the Company's general business, the relevant premium income, the relevant claims outstanding and the relevant amount applicable, as defined in section 10 of the Ordinance and reported in note x to the financial information, amounted to HK\$\_\_\_\_\_, HK\$\_\_\_\_\_ and HK\$\_\_\_\_\_ respectively as at 31 December 20X1.

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 (Margin of Solvency) Rules]\*\*, being greater than the [required margin of solvency, as determined by the company's appointed actuary in accordance with the Insurance (Margin of Solvency) Rules]/[relevant amount applicable, as defined in Section 10 of the Ordinance]\*\*, amounted to HK\$\_\_\_\_\_ as at 31 December 20X1.

In our opinion:

- (i) proper records have been maintained in accordance with section 16 of the Ordinance in respect of the year ended 31 December 20X1; and
- (ii) 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 and attributable to its general business and the required margin of solvency attributable to its long term business]/[relevant amounts applicable]\*\* as at 31 December 20X1.

ABC & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

[Auditor Address]

[Date]

\*\* 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.

**Example 4(a) - General insurer/ Composite insurer: an auditor's report  
on forms (except Form HKL1)  
to be submitted to the Insurance Authority  
under Part 8 of Schedule 3**

**INDEPENDENT AUDITOR'S ASSURANCE REPORT**

To the Directors of XYZ Insurance Company Limited

Pursuant to paragraph 4(1A)(a) of Part 1 of Schedule 3 to the Hong Kong Insurance Ordinance<sup>32</sup> ("the Ordinance"), we have been requested to issue this report for submission by XYZ Insurance Company Limited ("the Company") to the Insurance Authority ("the IA").

*Directors' Responsibilities*

The directors are responsible for the preparation of forms in accordance with the provisions of Part 8 of Schedule 3 to the Ordinance ("the Forms") set out on pages ..... to ..... This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of the Forms and applying appropriate accounting policies; and making estimates that are reasonable in the circumstances. In addition, the directors are also responsible for ensuring that the Company maintains proper records at all times in accordance with section 16 of the Ordinance.

*Our Independence and Quality Control*

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1<sup>33</sup> and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the matters referred to in paragraph 4(1A)(a) of Part 1 of Schedule 3 to the Ordinance, based on our work performed and to report our opinion.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 810.2 (Revised), *The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance* issued by the HKICPA. We have planned and performed our work to obtain reasonable assurance for giving our opinion below.

Our engagement includes examining, on a test basis, evidence supporting that proper records have been maintained by the Company in accordance with section 16 of the Ordinance for the purpose of preparing the Forms, and that the Forms have been properly compiled from those records.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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<sup>32</sup> Transitional guidance covering the intervening period for a financial period ended on or after 26 June 2017 but before 26 June 2018 (e.g. financial period from 1 January 2017 to 31 December 2017; 1 April 2017 to 31 March 2018): the reference to "Hong Kong Insurance Ordinance" in the report should be amended to "Hong Kong Insurance Ordinance (formerly known as the Hong Kong Insurance Companies Ordinance before being renamed on 26 June 2017)".

<sup>33</sup> HKSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

THE DUTIES OF THE AUDITOR OF AN INSURER AUTHORIZED  
UNDER THE INSURANCE ORDINANCE

*Opinion*

Based on the foregoing, in our opinion:

- (i) the Company has maintained proper records in accordance with section 16 of the Ordinance in respect of the year ended 31 December 20X1 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 is prepared, in all material respects, in accordance with the provisions of Part 8 of Schedule 3 to the Ordinance and, on that basis, the Forms, when read in conjunction with the Company's audited financial information for the year ended 31 December 20X1 prepared in accordance with Hong Kong Financial Reporting Standards and the provisions of the Ordinance dated [ ], gives a true and fair view of the Company's underwriting results pertaining to the Hong Kong Insurance Business for the year then ended.\*

*Intended Users and Purpose*

This report is intended solely for submission by the Company to the IA and is not intended to be, and should not be, distributed to or used by anyone for any other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of our report<sup>34</sup>.

ABC & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

[Auditor's Address]

Date

- \* To facilitate compliance with various reporting requirements, the Insurance Authority expects an insurer to prepare a combined set of financial statements in accordance with the Hong Kong Companies Ordinance (Cap.622) and financial information in accordance with the Insurance Ordinance (Cap.41) in order for an auditor to give a true and fair view opinion for reporting under Part 8 of Schedule 3 to the Insurance Ordinance. The effective date for this combined set of financial statements and information is for the financial year ending on or after 31 December 2015 with early adoption permitted. When preparing the combined set of financial statements and information, the insurer should refer to the guidance set out in Accounting Bulletin 6 "Guidance on the Requirements of Section 436 of the Hong Kong Companies Ordinance Cap. 622".

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<sup>34</sup> The above wording has been agreed with the Insurance Authority. However, auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report". Any deviation from the above wording may not be acceptable to the Insurance Authority.

**Example 4(b) - General insurer/ Composite insurer (Hong Kong Branch of an overseas insurance company which has obtained an Accounting Concession under Section 17(2) of the Insurance Ordinance): an auditor's report on forms (except Form HKL1) to be submitted to the Insurance Authority under Part 8 of Schedule 3**

**INDEPENDENT AUDITOR'S ASSURANCE REPORT**

To the Directors of XYZ Insurance Company Limited

Pursuant to paragraph 4(1A)(a) of Part 1 of Schedule 3 to the Hong Kong Insurance Ordinance<sup>35</sup> ("the Ordinance"), we have been requested to issue this report for submission by XYZ Insurance Company Limited ("the Company") to the Insurance Authority ("the IA").

*Directors' Responsibilities*

The directors are responsible for the preparation of forms in accordance with the provisions of Part 8 of Schedule 3 to the Ordinance ("the Forms") set out on pages ..... to ..... This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of the Forms and applying appropriate accounting policies; and making estimates that are reasonable in the circumstances. In addition, the directors are also responsible for ensuring that the Company maintains proper records at all times in accordance with section 16 of the Ordinance.

*Our Independence and Quality Control*

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1<sup>36</sup> and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the matters referred to in paragraph 4(1A)(a) of Part 1 of Schedule 3 to the Ordinance, based on our work performed and to report our opinion.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 810.2 (Revised), *The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance* issued by the HKICPA. We have planned and performed our work to obtain reasonable assurance for giving our opinion below.

Our engagement includes examining, on a test basis, evidence supporting that proper records have been maintained by the Company in accordance with section 16 of the Ordinance for the purpose of preparing the Forms, and that the Forms have been properly compiled from those records.

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<sup>35</sup> Transitional guidance covering the intervening period for a financial period ended on or after 26 June 2017 but before 26 June 2018 (e.g. financial period from 1 January 2017 to 31 December 2017; 1 April 2017 to 31 March 2018): the reference to "Hong Kong Insurance Ordinance" in the report should be amended to "Hong Kong Insurance Ordinance (formerly known as the Hong Kong Insurance Companies Ordinance before being renamed on 26 June 2017)".

<sup>36</sup> HKSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

THE DUTIES OF THE AUDITOR OF AN INSURER AUTHORIZED  
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We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Opinion*

Based on the foregoing, in our opinion:

- (i) the Company has maintained proper records in accordance with section 16 of the Ordinance in respect of the year ended 31 December 20X1 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 is prepared, in all material respects, in accordance with the provisions of Part 8 of Schedule 3 to the Ordinance and, on that basis, the Forms, when read in conjunction with the Company's Hong Kong Branch audited financial statements for the year ended 31 December 20X1 prepared in accordance with Hong Kong Financial Reporting Standards dated [ ], gives a true and fair view of the Company's underwriting results pertaining to the Hong Kong Insurance Business for the year then ended.

*Intended Users and Purpose*

This report is intended solely for submission by the Company to the IA and is not intended to be, and should not be, distributed to or used by anyone for any other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of our report<sup>37</sup>.

ABC & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

[Auditor's Address]

Date

- \* Branch financial statements prepared in accordance with the HKFRSs will normally be required in order for the auditor to issue a report for Part 8 for the financial year ended on or after 31 December 2015.

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<sup>37</sup> The above wording has been agreed with the Insurance Authority. However, auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report". Any deviation from the above wording may not be acceptable to the Insurance Authority.

**Example 4(c) - General insurer/ Composite insurer: an auditor's report  
on statement to be submitted to the Insurance Authority  
under Part 9 of Schedule 3**

**INDEPENDENT AUDITOR'S ASSURANCE REPORT**

To the Directors of XYZ Insurance Company Limited

Pursuant to paragraph 4(1A)(b) of Part 1 of Schedule 3 to the Hong Kong Insurance Ordinance<sup>38</sup> ("the Ordinance"), we have been requested to issue this report for submission by XYZ Insurance Company Limited ("the Company") to the Insurance Authority ("the IA").

*Directors' Responsibilities*

The directors are responsible for the preparation of a statement in accordance with the provisions of Part 9 of Schedule 3 to the Ordinance ("the Statement") set out on pages ..... to .....<sup>39</sup> and to maintain at all times assets in Hong Kong which enable the Company to comply with the requirement of section 25A of the Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of the Statement and applying appropriate accounting policies; and making estimates that are reasonable in the circumstances. In addition, the directors are also responsible for ensuring that the Company maintains proper records at all times in accordance with section 16 of the Ordinance.

*Our Independence and Quality Control*

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1<sup>40</sup> and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the matters referred to in paragraph 4(1A)(b) of Part 1 of Schedule 3 to the Ordinance, based on our work performed and to report our opinion.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 810.2 (Revised), *The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance* issued by the HKICPA. We have planned and performed our work to obtain reasonable assurance for giving our opinion below.

We have performed 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 Company's financial information prepared under Parts 4 and 5 of Schedule 3 for the year ended 31 December 20X1,

<sup>38</sup> Transitional guidance covering the intervening period for a financial period ended on or after 26 June 2017 but before 26 June 2018 (e.g. financial period from 1 January 2017 to 31 December 2017; 1 April 2017 to 31 March 2018): the reference to "Hong Kong Insurance Ordinance" in the report should be amended to "Hong Kong Insurance Ordinance (formerly known as the Hong Kong Insurance Companies Ordinance before being renamed on 26 June 2017)".

<sup>39</sup> The page numbers here should refer to the Statement and the accompanying supplementary information.

<sup>40</sup> HKSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*



THE DUTIES OF THE AUDITOR OF AN INSURER AUTHORIZED  
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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 Company's records, and assessing whether the Statement has been properly prepared in accordance with those records and the requirements of Part 9 of Schedule 3 and whether the assets held by the Company, as shown in the Statement, enable it to comply with the requirement of Section 25A of the Ordinance as at 31 December 20X1; and
- (iii) comparing the assets held by the Company at two other dates during the year ended 31 December 20X1, as reflected in the Company'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 the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Opinion*

Based on the foregoing, in our opinion:

- (i) the Company maintained proper records in accordance with section 16 of the Ordinance in respect of the year ended 31 December 20X1 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 (General Business) (Valuation) Rules<sup>41</sup>;
- (iv) the relevant amount, as shown in the Statement, has been determined in accordance with Section 25A(1) of the Ordinance; and
- (v) the assets held by the Company, as shown in the Statement, enable it to comply with the requirement of section 25A of the Ordinance as at 31 December 20X1 and, based on the records of the Company, the assets held by the Company as at [date 2\*] and [date 3 \*] enable it to comply with the requirement of section 25A of the Ordinance as at those dates#.

*Intended Users and Purpose*

This report is intended solely for submission by the Company to the IA and is not intended to be, and should not be, distributed to or used by anyone for any other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of our report<sup>42</sup>.

ABC & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

[Auditor's Address]

Date

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<sup>41</sup> Transitional guidance covering the intervening period for a financial period ended on or after 26 June 2017 but before 26 June 2018 (e.g. financial period from 1 January 2017 to 31 December 2017; 1 April 2017 to 31 March 2018): the reference to "Insurance (General Business) (Valuation) Rules" in the report should be amended to "Insurance (General Business) (Valuation) Rules (formerly known as the Insurance Companies (General Business) (Valuation) Regulation before being renamed on 26 June 2017)".

<sup>42</sup> The above wording has been agreed with the Insurance Authority. However, auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report". Any deviation from the above wording may not be acceptable to the Insurance Authority.

THE DUTIES OF THE AUDITOR OF AN INSURER AUTHORIZED  
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- \* The two dates selected must be not less than three months apart.
- \*\* Branch financial statements prepared in accordance with the HKFRSs will normally be required for the financial year ended on or after 31 December 2015.
- # Where the Company has received a notice under section 25B of the Ordinance then the opinion "(v)" will need to be amended accordingly as follows:
  - (v) the assets held by the Company, 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.

**Example 4(d) - General insurer / Composite insurer (Hong Kong Branch of an overseas insurance company which has obtained an Accounting Concession under Section 17(2) of the Insurance Ordinance): an auditor's report on statement to be submitted to the Insurance Authority under Part 9 of Schedule 3**

**INDEPENDENT AUDITOR'S ASSURANCE REPORT**

To the Directors of XYZ Insurance Company Limited

Pursuant to paragraph 4(1A)(b) of Part 1 of Schedule 3 to the Hong Kong Insurance Ordinance<sup>43</sup> ("the Ordinance"), we have been requested to issue this report for submission by XYZ Insurance Company Limited ("the Company") to the Insurance Authority ("the IA").

*Directors' Responsibilities*

The directors are responsible for the preparation of a statement in accordance with the provisions of Part 9 of Schedule 3 to the Ordinance ("the Statement") set out on pages ..... to .....<sup>44</sup> and to maintain at all times assets in Hong Kong which enable the Company to comply with the requirement of section 25A of the Ordinance [and the additional requirements pursuant to item [x] of the letter issued by the IA dated [date of concession letter] regarding the relaxation of the Insurance (General Business) (Valuation) Rules<sup>45,46</sup> (the "additional requirements regarding the Relaxation of Valuation Rules"). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of the Statement and applying appropriate accounting policies; and making estimates that are reasonable in the circumstances. In addition, the directors are also responsible for ensuring that the Company maintains proper records at all times in accordance with section 16 of the Ordinance.

*Our Independence and Quality Control*

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1<sup>47</sup> and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the matters referred to in paragraph 4(1A)(b) of Part 1 of Schedule 3 to the Ordinance, based on our work performed and to report our opinion.

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<sup>43</sup> Transitional guidance covering the intervening period for a financial period ended on or after 26 June 2017 but before 26 June 2018 (e.g. financial period from 1 January 2017 to 31 December 2017; 1 April 2017 to 31 March 2018): the reference to "Hong Kong Insurance Ordinance" in the report should be amended to "Hong Kong Insurance Ordinance (formerly known as the Hong Kong Insurance Companies Ordinance before being renamed on 26 June 2017)".

<sup>44</sup> The page numbers here should refer to the Statement and the accompanying supplementary information.

<sup>45</sup> Transitional guidance covering the intervening period for a financial period ended on or after 26 June 2017 but before 26 June 2018 (e.g. financial period from 1 January 2017 to 31 December 2017; 1 April 2017 to 31 March 2018): the reference to "Insurance (General Business) (Valuation) Rules" in the report should be amended to "Insurance (General Business) (Valuation) Rules (formerly known as the Insurance Companies (General Business) (Valuation) Regulation before being renamed on 26 June 2017)".

<sup>46</sup> The Insurance Authority may impose additional requirements in the concession letter on the application of the Relaxation of Valuation Rules. Refer to paragraph 30 for details.

<sup>47</sup> HKSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

THE DUTIES OF THE AUDITOR OF AN INSURER AUTHORIZED  
UNDER THE INSURANCE ORDINANCE

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 810.2 (Revised), *The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance* issued by the HKICPA. We have planned and performed our work to obtain reasonable assurance for giving our opinion below.

We have performed 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 Company's Hong Kong Branch financial statements prepared under Hong Kong Financial Reporting Standards\*\* for the year ended 31 December 20X1, 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 Company's records, and assessing whether the Statement has been properly prepared in accordance with those records and the requirements of Part 9 of Schedule 3 and whether the assets held by the Company, as shown in the Statement, enable it to comply with the requirement of Section 25A of the Ordinance [and the additional requirements regarding the Relaxation of Valuation Rules<sup>46</sup>] as at 31 December 20X1; and
- (iii) comparing the assets held by the Company at two other dates during the year ended 31 December 20X1, as reflected in the Company'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 [and the additional requirements regarding the Relaxation of Valuation Rules<sup>46</sup>].

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Opinion*

Based on the foregoing, in our opinion:

- (i) the Company maintained proper records in accordance with section 16 of the Ordinance in respect of the year ended 31 December 20X1 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 (General Business) (Valuation) Rules;
- (iv) the relevant amount, as shown in the Statement, has been determined in accordance with Section 25A(1) of the Ordinance; [and]
- (v) the assets held by the Company, as shown in the Statement, enable it to comply with the requirement of section 25A of the Ordinance [and the additional requirements regarding the Relaxation of Valuation Rules<sup>46</sup>] as at 31 December 20X1 and, based on the records of the Company, the assets held by the Company as at [date 2\*] and [date 3 \*] enable it to comply with the requirement of section 25A of the Ordinance [and the additional requirements regarding the Relaxation of Valuation Rules<sup>46</sup>] as at those dates#.

THE DUTIES OF THE AUDITOR OF AN INSURER AUTHORIZED  
UNDER THE INSURANCE ORDINANCE

*Intended Users and Purpose*

This report is intended solely for submission by the Company to the IA and is not intended to be, and should not be, distributed to or used by anyone for any other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of our report<sup>48</sup>.

ABC & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

[Auditor's Address]

Date

- \* The two dates selected must be not less than three months apart.
- \*\* Branch financial statements prepared in accordance with the HKFRSs will normally be required for the financial year ended on or after 31 December 2015.
- # Where the Branch has received a notice under section 25B of the Ordinance then the opinion "(v)" will need to be amended accordingly as follows:
  - (v) the assets held by the Company, 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.

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<sup>48</sup> The above wording has been agreed with the Insurance Authority. However, auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report". Any deviation from the above wording may not be acceptable to the Insurance Authority.

**Example 5 - Long term insurer/ Composite insurer: an auditor's report  
on Form HKL1 to be submitted to the Insurance Authority  
under Part 8 of Schedule 3**

**INDEPENDENT AUDITOR'S ASSURANCE REPORT**

To the Directors of XYZ Insurance Company Limited

Pursuant to paragraph 4(1A)(aa) of Part 1 of Schedule 3 to the Hong Kong Insurance Ordinance<sup>49</sup> (the "Ordinance"), we have been requested to issue this report for submission by XYZ Insurance Company Limited (the "Company") to the Insurance Authority ("the IA").

*Directors' Responsibilities*

Pursuant to the provisions of Part 8 of Schedule 3 to the Ordinance, the directors have a responsibility for ensuring that Form HKL1 set out on pages ..... to .....has been properly compiled from the records of the Company in accordance with the Guide to Forms HKL1, HKL2 and HKL3 issued by the IA on 26 February 2004, as further updated on 7 April 2004. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of Form HKL1 and applying appropriate accounting policies; and making estimates that are reasonable in the circumstances. In addition, the directors are also responsible for ensuring that the Company maintains proper records at all times in accordance with section 16 of the Ordinance.

*Our Independence and Quality Control*

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1<sup>50</sup> and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the matters referred to in paragraph 4(1A)(aa) of Part 1 of Schedule 3 to the Ordinance, based on our work performed and to report our opinion.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 810.2 (Revised), *The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance* issued by the HKICPA. We have planned and performed our work to obtain reasonable assurance for giving our opinion below.

Our engagement includes examining, on a test basis, evidence supporting that proper records have been maintained by the Company in accordance with section 16 of the Ordinance for the purpose of preparing the attached Form HKL1, and that the attached Form HKL1 has been properly compiled from the records of the Company in accordance with the Guide to Forms HKL1, HKL2 and HKL3 issued by the IA on 26 February 2004, as further updated on 7 April 2004.

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<sup>49</sup> Transitional guidance covering the intervening period for a financial period ended on or after 26 June 2017 but before 26 June 2018 (e.g. financial period from 1 January 2017 to 31 December 2017; 1 April 2017 to 31 March 2018): the reference to "Hong Kong Insurance Ordinance" in the report should be amended to "Hong Kong Insurance Ordinance (formerly known as the Hong Kong Insurance Companies Ordinance before being renamed on 26 June 2017)".

<sup>50</sup> HKSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

THE DUTIES OF THE AUDITOR OF AN INSURER AUTHORIZED  
UNDER THE INSURANCE ORDINANCE

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Opinion*

Based on the foregoing, in our opinion:

- a. the Company has maintained proper records in accordance with section 16 of the Ordinance in respect of the year ended [*year end date*] for the purposes of preparing the attached Form HKL1; and
- b. the attached Form HKL1 has been properly prepared in accordance with those records.

*Intended Users and Purpose*

This report is intended solely for submission by the Company to the IA and is not intended to be, and should not be, distributed to or used by anyone for any other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of our report<sup>51</sup>.

ABC & Co.  
Certified Public Accountants (Practising) [or Certified Public Accountants]  
[*Auditor's Address*]  
Date

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<sup>51</sup> The above wording has been agreed with the Insurance Authority. However, auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report". Any deviation from the above wording may not be acceptable to the Insurance Authority.

## **Example 6 - Long term insurer/ Composite insurer: an auditor's report to be submitted to the Insurance Authority under Part 6 of Schedule 3**

### **INDEPENDENT AUDITOR'S ASSURANCE REPORT**

To the Directors of XYZ Insurance Company Limited

Pursuant to paragraph 36(2) of Part 6 of Schedule 3 to the Hong Kong Insurance Ordinance (the "Ordinance"), we have been requested to issue this report for submission by XYZ Insurance Company Limited (the "Company") to the Insurance Authority ("the IA").

#### *Directors' Responsibilities*

In relation to this report, the directors have a responsibility to ensure compliance with the requirements set out in section 22 of the Ordinance and Part 6 of Schedule 3 to the Ordinance [, as modified by the IA under section 22A of the Ordinance, in respect of the long term business carried on in or from Hong Kong by the Company]<sup>52</sup>.

Pursuant to paragraph 36(1) of Part 6 of Schedule 3 to the Ordinance, [as modified by the IA under section 22A of the Ordinance, in respect of the long term business carried on in or from Hong Kong by the Company,]<sup>52</sup> the Company is required to deposit with the IA a certificate that the insurer has in accordance with Part 6 of Schedule 3 to the Ordinance:

- 36(1)(a) identified in accordance with the provisions of paragraphs 30 and 31 any assets and liabilities which were not already identified on the base date as at [Date] as attributable to the Company's long term business;
- 36(1)(b) identified as assets attributable to the Company's long term business all those assets which are required to be so identified in accordance with paragraph 32; and
- 36(1)(c) established and maintained those books of account and other records which are required to be established and maintained by section 22 of the Ordinance.

#### *Our Independence and Quality Control*

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1<sup>53</sup> and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the Company's compliance with the requirements set out in paragraph 36(1)(a) – (c) of Part 6 of Schedule 3 to the Ordinance, [as modified by the IA under section 22A of the Ordinance, in respect of the long term business carried on in or from Hong Kong by the Company,]<sup>52</sup> based on our work performed and to report our opinion.

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<sup>52</sup> Applicable to authorized insurer which carries on long term business is incorporated or formed outside Hong Kong and obtained IA's authorization under section 22A.

<sup>53</sup> HKSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*



THE DUTIES OF THE AUDITOR OF AN INSURER AUTHORIZED  
UNDER THE INSURANCE ORDINANCE

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 810.2 (Revised), *The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance* issued by the HKICPA. We have planned and performed our work to obtain reasonable assurance for giving our opinion below.

Our engagement includes examining, on a test basis, evidence supporting that:

- (a) the Company has properly identified in accordance with the provisions of paragraphs 30 and 31 of Part 6 of Schedule 3 to the Ordinance on the base date as at [Date], [as modified by the IA under section 22A,]<sup>52</sup> any assets and liabilities which were attributable to the Company's long term business [carried on in or from Hong Kong]<sup>52</sup>;
- (b) the Company has properly identified as assets attributable to the Company's long term business [carried on in or from Hong Kong]<sup>52</sup> all those assets which are required to be so identified in accordance with paragraph 32 of Part 6 of Schedule 3 to the Ordinance[, as modified by the IA under section 22A,]<sup>52</sup>; and
- (c) the Company has established and properly maintained those books of accounts and other records which are required to be established and maintained by section 22 of the Ordinance[, as modified by the IA under section 22A, in respect of the long term business carried on in or from Hong Kong by the Company]<sup>52</sup>.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Opinion*

Based on the foregoing, in our opinion, the Company has complied with paragraphs 36(1)(a) - (c) of Part 6 of the Schedule 3 to the Ordinance[, modified by the IA under section 22A, in respect of the long term business carried on in or from Hong Kong by the Company]<sup>52</sup>.

*Intended Users and Purpose*

This report is intended solely for submission by the Company to the IA and is not intended to be, and should not be, distributed to or used by anyone for any other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of our report<sup>54</sup>.

ABC & Co.  
Certified Public Accountants (Practising) [or Certified Public Accountants]  
[Auditor's Address]  
Date

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<sup>54</sup> The above wording has been agreed with the Insurance Authority. However, auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report". Any deviation from the above wording may not be acceptable to the Insurance Authority.

### Appendix 3 Solvency requirements

Business	Solvency requirements	Relevant amount	Maximum relevant amount	Minimum relevant amount
General	An excess of assets over liabilities by the relevant amount	20% of relevant premium income or relevant claims outstanding, whichever is higher	HK\$40 million plus 10% of relevant premium income or relevant claims outstanding in excess of HK\$200 million	HK\$10 million (HK\$20 million if authorized for statutory business)
Long term	An excess of assets over liabilities by the greater of the relevant amount and the required margin of solvency calculated in accordance with the Insurance (Margin of Solvency) Rules*	Other than classes G & H: HK\$2 million  Classes G & H: HK\$ nil	-	-
Composite	An excess of assets over liabilities by the aggregate of the amounts for general and long term business	-	-	-
Captive	An excess of assets over liabilities by the relevant amount	5% of net premium income or net claims outstanding, whichever is higher	-	HK\$2 million

\* At least the greater of HK\$2 million and one-sixth of the margin of solvency must be held in funds maintained in respect of its long term business (other than classes G & H business specified in Part 2 of Schedule 1 to the Ordinance). Furthermore, the excess of assets over liabilities for a separate fund for each class of long term insurance business must not be less than one-sixth of the margin of solvency required to be held in that separate fund.

## **Appendix 4**

### **Example reports for other reporting**

- Example 1 – Report by the auditor on annual return on employees' compensation gross premium
- Example 2 – Report on levies paid to the insolvency scheme for motor compensation insurance
- Example 3 – Report on levies paid to the insolvency scheme for employees' compensation insurance
- Example 4 – Report by the auditor on annual remittance report on levy to the Insurance Authority

## Example 1 – Report by the auditor on annual return on employees' compensation gross premium

### INDEPENDENT AUDITOR'S ASSURANCE REPORT ON ANNUAL RETURN ON EMPLOYEES' COMPENSATION GROSS PREMIUM

To the Directors of XYZ Insurance Company Limited

Pursuant to the Agreement for Provision of Facility covering Terrorism Risks in respect of Employees' Compensation Insurance Business entered into between XYZ Insurance Company Limited ("the Company") and the Government of the Hong Kong Special Administrative Region ("HKSAR") dated [date] ("Agreement"), we have been requested to report on the attached Annual Return on Employees' Compensation Gross Premium for the [\*year ended [date]/period from [date] to [date]] ("Annual Return").

#### *Directors' Responsibilities*

Pursuant to the Agreement, the directors are responsible for preparing the Annual Return. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation of the Annual Return. In addition, the directors are responsible for ensuring that the Company maintains proper records at all times in accordance with section 16 of the Hong Kong Insurance Ordinance<sup>55</sup> ("the Ordinance").

#### *Our Independence and Quality Control*

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1<sup>56</sup> and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the Annual Return, based on our work performed and to report our opinion.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 810.2 (Revised), *The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance* issued by the HKICPA. We have planned and performed our work to obtain reasonable assurance for giving our opinion below.

Our engagement includes examining evidence supporting that proper records have been maintained in accordance with section 16 of the Ordinance and the amounts in the Annual Return, and performing such other procedures as we considered necessary in the circumstances.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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<sup>55</sup> Transitional guidance covering the intervening period for a financial period ended on or after 26 June 2017 but before 26 June 2018 (e.g. financial period from 1 January 2017 to 31 December 2017; 1 April 2017 to 31 March 2018): the reference to "Hong Kong Insurance Ordinance" in the report should be amended to "Hong Kong Insurance Ordinance (formerly known as the Hong Kong Insurance Companies Ordinance before being renamed on 26 June 2017)".

<sup>56</sup> HKSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

THE DUTIES OF THE AUDITOR OF AN INSURER AUTHORIZED  
UNDER THE INSURANCE ORDINANCE

*Opinion*

Based on the foregoing, in our opinion:

- (a) the Company has maintained proper records in accordance with section 16 of the Ordinance for the purpose of preparing the Annual Return; and
- (b) the Annual Return has been properly prepared, in all material respects, from the books and records of the Company.

*Intended Users and Purpose*

This report is intended for filing with the Government of the HKSAR pursuant to the Agreement and is not intended to be, and should not be, distributed to or used by, anyone for any other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of our report<sup>57</sup>.

ABC & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

[Auditor's Address]

Date

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<sup>57</sup> The above wording has been agreed with the Insurance Authority. However, auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report". Any deviation from the above wording may not be acceptable to the Insurance Authority.

## Example 2 – Report on levies paid to the insolvency scheme for motor compensation insurance

### REPORT OF FACTUAL FINDINGS

To the Directors of XYZ Insurance Company Limited

We have performed the procedures agreed with you and enumerated below with respect to the premium surcharges ("the Surcharges") for motor insurance business of XYZ Insurance Company Limited ("the Company") for the year ended 31 December 20X1 as set forth in the accompanying schedules. The procedures were performed solely to assist you in connection with the requirements of the Motor Insurers' Bureau of Hong Kong as to annual reporting of the Surcharges payable according to the books and records of the Company.

Our engagement was undertaken in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The procedures performed are summarised as follows:

1. We obtained and checked the summation of the 20X1 quarterly returns prepared by the Company regarding the determination of Surcharges due in respect of the First Fund and the Insolvency Fund Scheme ("the Quarterly Returns").
2. We compared the Surcharges as stated in the Quarterly Returns to the books and records of the Company.

We report our findings below:

- (a) With respect to item 1, we found the summation of the Surcharges payable for motor insurance business of the Company for the year ended 31 December 20X1 to be correct.
- (b) With respect to item 2, we found the amounts to be in agreement.

Because the above procedures do not constitute an assurance engagement made in accordance with Hong Kong Standards on Auditing ("HKSAAs"), Hong Kong Standards on Review Engagements ("HKSREs") or Hong Kong Standards on Assurance Engagements ("HKSAEs"), we do not express any assurance on the figures as set forth in the accompanying schedules.

Had we performed additional procedures or had we performed an assurance engagement on the information provided in accordance with HKSAAs, HKSREs or HKSAEs issued by the HKICPA, other matters might have come to our attention that would have been reported to you.

Our report is prepared solely for the purpose set forth in the first paragraph of this report and for your information and use of the Company for submission to the Motor Insurers' Bureau of Hong Kong and is not to be used for any other purpose or to be distributed to any other parties. This report relates only to items specified above and does not extend to any financial statements of the Company, taken as a whole.

ABC & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

[Auditor's Address]

Date

### **Example 3 – Report on levies paid to the insolvency scheme for employees' compensation insurance**

#### **REPORT OF FACTUAL FINDINGS**

To the Directors of XYZ Insurance Company Limited

We have performed the procedures agreed with you and enumerated below with respect to the Gross Premium Income as defined under Clause 1.01 of the Insolvency Fund Agreement and the amount of contributions payable ("the Contributions") for employees' compensation business of XYZ Insurance Company Limited ("the Company") for the year ended 31 December 20X1 as set forth in the accompanying schedules. The procedures were performed solely to assist you in connection with the requirements of the Employees Compensation Insurer Insolvency Bureau as to annual reporting of the Gross Premium Income and the Contributions according to the books and records of the Company.

Our engagement was undertaken in accordance with Hong Kong Standard on Related Services 4400 "Engagements to perform agreed-upon procedures regarding financial information" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The procedures performed are summarised as follows:

1. We obtained and checked the summation of the 20X1 quarterly returns prepared by the Company regarding the Gross Premium Income and the determination of Contributions due in respect of the Insolvency Fund Scheme ("the Quarterly Returns").
2. We compared the Gross Premium Income and the Contributions as stated in the Quarterly Returns to the books and records of the Company.

We report our findings below:

- (c) With respect to item 1, we found the summation of the Gross Premium Income and the amount of the Contributions payable for employees' compensation business of the Company for the year ended 31 December 20X1 to be correct.
- (d) With respect to item 2, we found the amounts to be in agreement.

Because the above procedures do not constitute an assurance engagement made in accordance with Hong Kong Standards on Auditing ("HKSAAs"), Hong Kong Standards on Review Engagements ("HKSREs") or Hong Kong Standards on Assurance Engagements ("HKSAEs"), we do not express any assurance on the figures as set forth in the accompanying schedules.

Had we performed additional procedures or had we performed an assurance engagement on the information provided in accordance with HKSAAs, HKSREs or HKSAEs issued by the HKICPA, other matters might have come to our attention that would have been reported to you.

Our report is prepared solely for the purpose set forth in the first paragraph of this report and for your information and use of the Company for the submission to the Employees Compensation Insurer Insolvency Bureau and is not to be used for any other purpose or to be distributed to any other parties. This report relates only to items specified above and does not extend to any financial statements of the Company, taken as a whole.

ABC & Co.  
Certified Public Accountants (Practising) [or Certified Public Accountants]  
[Auditor's Address]  
Date

## **Example 4 – Report by the auditor on annual remittance report on levy to the Insurance Authority**

### **INDEPENDENT AUDITOR'S ASSURANCE REPORT ON ANNUAL REMITTANCE REPORT**

To the Directors of XYZ Insurance Company Limited ("the Company")

Pursuant to section 7 of the Insurance (Levy) Regulation ("Regulation"), we have been requested to report on the attached Annual Remittance Report on Levy for the [\*year ended *[date]*/period from *[date]* to *[date]*] ("Remittance Report").

#### *Directors' Responsibility*

Pursuant to the Regulation, the directors are responsible for preparing the Remittance Report. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation of the Remittance Report. In addition, the directors are responsible for ensuring that the Company maintains proper records at all times in accordance with section 16 of the Hong Kong Insurance Ordinance<sup>58</sup> ("the Ordinance").

#### *Our Independence and Quality Control*

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1<sup>59</sup> and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the matters referred to in section 7 of the Regulation, based on our work performed and to report our opinion.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 810.2 (Revised), *The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance* issued by the HKICPA. We have planned and performed our work to obtain reasonable assurance for giving our opinion below.

Our engagement includes examining, on a test basis, evidence supporting that proper records have been maintained in accordance with section 16 of the Ordinance for the purpose of preparing the Remittance Report, and that the Remittance Report has been properly compiled from those records.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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<sup>58</sup> Transitional guidance covering the intervening period for a financial period ended on or after 26 June 2017 but before 26 June 2018 (e.g. financial period from 1 January 2017 to 31 December 2017; 1 April 2017 to 31 March 2018): the reference to "Hong Kong Insurance Ordinance" in the report should be amended to "Hong Kong Insurance Ordinance (formerly known as the Hong Kong Insurance Companies Ordinance before being renamed on 26 June 2017)".

<sup>59</sup> HKSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*



THE DUTIES OF THE AUDITOR OF AN INSURER AUTHORIZED  
UNDER THE INSURANCE ORDINANCE

*Opinion*

Based on the foregoing, in our opinion:

- (a) the Company has maintained proper records in accordance with section 16 of the Ordinance for the purpose of preparing the Remittance Report; and
- (b) the Remittance Report has been properly prepared, in all material respects, from the records of the Company.

*Intended Users and Purpose*

This report is intended solely for submission by the Company to the Insurance Authority and is not intended to be, and should not be, distributed to or used by, anyone for any other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of our report.

ABC & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

[*Auditor's Address*]

Date

## **Appendix 5**

### **Example auditor's reports on Hong Kong Branch of an overseas insurance company**

- Example 1 – modified auditor's report on financial statements prepared in accordance with Hong Kong Financial Reporting Standards for the first time and where comparative information has not been presented and disclosed as required under Hong Kong Financial Reporting Standards
- Example 2 – unmodified auditor's report on financial statements prepared in accordance with Hong Kong Financial Reporting Standards pursuant to the conditions of accounting concession

**Example 1 - modified auditor's report on financial statements prepared in accordance with Hong Kong Financial Reporting Standards for the first time and where comparative information has not been presented and disclosed as required under Hong Kong Financial Reporting Standards**

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a branch that have been prepared by the chief executive of the branch in accordance with Hong Kong Financial Reporting Standards (a general purpose framework) to assist the branch in complying with the conditions of the accounting concession. The directors do not have a choice of financial reporting frameworks.<sup>60</sup>
- The applicable financial reporting framework is a fair presentation framework.
- The terms of the audit engagement reflect the description of the chief executive's responsibility for the financial statements in HKSA 210.<sup>61</sup>
- The comparative information has not been presented as required by Hong Kong Accounting Standard 1 (Revised), *Presentation of Financial Statements*. The misstatement is deemed to be material but not pervasive to the financial statements (i.e., a qualified opinion is appropriate).
- The relevant ethical requirements that apply to the audit are those of the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with HKSA 570 (Revised).<sup>62</sup>
- Use of the auditor's report is restricted.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with HKSA 701.<sup>63</sup>
- The auditor has obtained all of the other information<sup>64</sup> prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law or regulation.

**INDEPENDENT AUDITOR'S REPORT**

To the Chief Executive of the Hong Kong Branch of XYZ Insurance Company Limited

**Qualified Opinion**

We have audited the financial statements of XYZ Insurance Company Limited's Hong Kong Branch ("the Branch") set out on pages ..... to ....., which comprise the statement of financial position as at 31 December 20X1, and the [statement of profit or loss and] the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

<sup>60</sup> According to paragraph A14 of HKSA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, the financial statements prepared for a specific purpose may be prepared in accordance with a general purpose framework because the intended users have determined that such general purpose financial statements meet their financial information needs.

<sup>61</sup> HKSA 210, *Agreeing the Terms of Audit Engagements*.

<sup>62</sup> HKSA 570 (Revised), *Going Concern*.

<sup>63</sup> HKSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

<sup>64</sup> HKSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, paragraph 12(c)

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the financial statements give a true and fair view of the financial position of the Branch as at 31 December 20X1, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

### **Basis for Qualified Opinion**

As explained in [note X] to the financial statements, the comparative information for the year ended 31 December 20X1 has not been presented as required by Hong Kong Accounting Standard 1 (Revised) "Presentation of Financial Statements" which requires an entity to present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Branch in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### **Emphasis of Matter - Basis of Accounting and Restriction on Use**

We draw attention to note [X] to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Branch in complying with the conditions of the accounting concession. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the submissions by the Branch to the Hong Kong Insurance Authority and is not intended to be, and should not be, distributed to or used by anyone for any other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of our report. Our opinion is not modified in respect of this matter.<sup>65</sup>

### **Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**

[Reporting in accordance with the reporting requirements in HKSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*) – see Illustration 1 in Appendix 2 of HKSA 720 (Revised).]

### **Responsibilities of Chief Executive and Those Charged with Governance for the Financial Statements<sup>66</sup>**

Pursuant to the conditions of the accounting concession under section 17(2) of the Hong Kong Insurance Ordinance<sup>67</sup> granted by the Hong Kong Insurance Authority, the Chief Executive is responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the Chief Executive determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive is responsible for assessing the Branch's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Chief Executive either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

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<sup>65</sup> The above wording has been agreed with the Insurance Authority. However, auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report". Any deviation from the above wording may not be acceptable to the Insurance Authority.

<sup>66</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

<sup>67</sup> Transitional guidance covering the intervening period for a financial period ended on or after 26 June 2017 but before 26 June 2018 (e.g. financial period from 1 January 2017 to 31 December 2017; 1 April 2017 to 31 March 2018): the reference to "Hong Kong Insurance Ordinance" in the report should be amended to "Hong Kong Insurance Ordinance (formerly known as the Hong Kong Insurance Companies Ordinance before being renamed on 26 June 2017)".

Those charged with governance are responsible for overseeing the Branch's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Paragraph 41(b) of HKSA 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) of HKSA 700 (Revised) explains that when law, regulation or HKSA's expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive.
- Conclude on the appropriateness of the Chief Executive's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### **[Report on matter under Section 16 of the Hong Kong Insurance Ordinance**

In our opinion, proper records have been maintained in accordance with section 16 of the Ordinance in respect of the year ended [date].<sup>68</sup>

ABC & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

[Auditor Address]

[Date]

<sup>68</sup> Auditors should include this section for foreign authorized life insurer applying under section 22A as mentioned in paragraph 59 of the PN and where the IA had specified an additional requirement for the auditor to opine on the compliance with section 16 of the Insurance Ordinance in the auditor's report on the financial statements.

## Example 2 - unmodified auditor's report on financial statements prepared in accordance with Hong Kong Financial Reporting Standards pursuant to the conditions of accounting concession

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a branch that have been prepared by the chief executive of the branch in accordance with Hong Kong Financial Reporting Standards (a general purpose framework) to assist the branch in complying with the conditions of the accounting concession. The directors do not have a choice of financial reporting frameworks.<sup>69</sup>
- The applicable financial reporting framework is a fair presentation framework.
- The terms of the audit engagement reflect the description of the chief executive's responsibility for the financial statements in HKSA 210.<sup>70</sup>
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the Hong Kong Institute of Certified Public Accountants' Code of Ethics for Professional Accountants.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with HKSA 570 (Revised).<sup>71</sup>
- Use of the auditor's report is restricted.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with HKSA 701.<sup>72</sup>
- The auditor has obtained all of the other information<sup>73</sup> prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law or regulation.

### INDEPENDENT AUDITOR'S REPORT

To the Chief Executive of the Hong Kong Branch of XYZ Insurance Company Limited

#### Opinion

We have audited the financial statements of XYZ Insurance Company Limited's Hong Kong Branch ("the Branch") set out on pages ..... to ....., which comprise the statement of financial position as at [Date], and the [statement of profit or loss and] the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Branch as at [Date], and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

<sup>69</sup> According to paragraph A14 of HKSA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, the financial statements prepared for a specific purpose may be prepared in accordance with a general purpose framework because the intended users have determined that such general purpose financial statements meet their financial information needs.

<sup>70</sup> HKSA 210, *Agreeing the Terms of Audit Engagements*.

<sup>71</sup> HKSA 570 (Revised), *Going Concern*.

<sup>72</sup> HKSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

<sup>73</sup> HKSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, paragraph 12(c)

## **Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Branch in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Emphasis of Matter - Basis of Accounting and Restriction on Use**

We draw attention to note [X] to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Branch in complying with the conditions of the accounting concession. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the submissions by the Branch to the Hong Kong Insurance Authority and is not intended to be, and should not be, distributed to or used by anyone for any other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of our report. Our opinion is not modified in respect of this matter.<sup>74</sup>

## **Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**

[Reporting in accordance with the reporting requirements in HKSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information – see Illustration 1 in Appendix 2 of HKSA 720 (Revised)*.]

## **Responsibilities of Chief Executive and Those Charged with Governance for the Financial Statements<sup>75</sup>**

Pursuant to the conditions of the accounting concession under section 17(2) of the Hong Kong Insurance Ordinance<sup>76</sup> granted by the Hong Kong Insurance Authority, the Chief Executive is responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the Chief Executive determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Executive is responsible for assessing the Branch's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Chief Executive either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Branch's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate,

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<sup>74</sup> The above wording has been agreed with the Insurance Authority. However, auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report". Any deviation from the above wording may not be acceptable to the Insurance Authority.

<sup>75</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

<sup>76</sup> Transitional guidance covering the intervening period for a financial period ended on or after 26 June 2017 but before 26 June 2018 (e.g. financial period from 1 January 2017 to 31 December 2017; 1 April 2017 to 31 March 2018): the reference to "Hong Kong Insurance Ordinance" in the report should be amended to "Hong Kong Insurance Ordinance (formerly known as the Hong Kong Insurance Companies Ordinance before being renamed on 26 June 2017)".

THE DUTIES OF THE AUDITOR OF AN INSURER AUTHORIZED  
UNDER THE INSURANCE ORDINANCE

they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Paragraph 41(b) of HKSA 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) of HKSA 700 (Revised) explains that when law, regulation or HKSA's expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive.
- Conclude on the appropriateness of the Chief Executive's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**[Report on matter under Section 16 of the Hong Kong Insurance Ordinance]**

In our opinion, proper records have been maintained in accordance with section 16 of the Ordinance in respect of the year ended [date].<sup>77</sup>

ABC & Co.  
Certified Public Accountants (Practising) [or Certified Public Accountants]  
[Auditor Address]  
[Date]

<sup>77</sup> Auditors should include this section for foreign authorized life insurer applying under section 22A as mentioned in paragraph 59 of the PN and where the IA had specified an additional requirement for the auditor to opine on the compliance with section 16 of the Insurance Ordinance in the auditor's report on the financial statements.



PN 860.1 (Revised)  
Issued December 2014; revised December 2015, October 2016,  
June 2017, August 2020

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Effective from 26 June 2020

*Practice Note 860.1 (Revised)*

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# The Audit of Retirement Schemes



Hong Kong Institute of  
**Certified Public Accountants**  
香港會計師公會

**PRACTICE NOTE  
860.1 (REVISED)  
THE AUDIT OF RETIREMENT SCHEMES**

*(Issued December 2014; revised December 2015, October 2016, June 2017, August 2020  
Effective from 26 June 2020)*

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**PRACTICE NOTE**  
**860.1 (REVISED)**  
**THE AUDIT OF RETIREMENT SCHEMES**

*The purpose of Practice Notes issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) is to assist the auditor in applying Hong Kong Engagement Standards of general application to particular circumstances and industries.*

*Practice Notes are persuasive rather than prescriptive. However they are indicative of good practice and have similar status to the explanatory material in Hong Kong Engagement Standards. This Practice Note provides guidance to assist the auditor to fulfill the objectives of the engagement. The auditor should be prepared to explain departures when called upon to do so.*

**PART I**  
**GENERAL**

**Introduction**

1. The purpose of this Practice Note is to assist the auditor to develop an approach to the audit of the financial statements of retirement schemes, with particular focus on those registered under the Mandatory Provident Fund Schemes Ordinance (MPFSO) and the Occupational Retirement Schemes Ordinance (ORSO).
2. This Practice Note also provides guidance relevant to the auditor's other reporting responsibilities under the MPFSO and the ORSO:
  - a. the MPFSO
    - i. the auditor's report on compliance with prescribed capital adequacy requirements pursuant to sections 18 and 115 of the Mandatory Provident Fund Schemes (General) Regulation (General Regulation);
    - ii. the auditor's report on a review of the trustee's report on control objectives and internal control measures pursuant to section 113 of the General Regulation; and
    - iii. the report by the auditor of a service provider under section 74(5)(b) of the General Regulation.
  - b. the ORSO
    - i. the report by the auditor appointed by the administrator under section 20(1)(b) and 20(3) of the ORSO;
    - ii. work of the employer's auditor under section 20(7A) of the ORSO; and
    - iii. the report by the auditor under paragraph 1A of Part 1 and paragraph 2A of Part 2 of Schedule 1 to the ORSO.

Guidance is also provided on the communications between the auditor and the Mandatory Provident Fund Schemes Authority (MPFA).

3. This Practice Note has been prepared in consultation with the MPFA.
4. This Practice Note is based on the ORSO in effect as at 26 June 2020 (i.e. the ORSO as amended by the Occupational Retirement Schemes (Amendment) Ordinance 2020 (Amendment Ordinance)), and the MPFSO and the General Regulation in effect as at 1 April 2017, and guidelines issued by the MPFA up to March 2017. Every care has been taken in its

preparation. However, the legislation itself is the sole authority of the law and this Practice Note should be used in conjunction with the legislation.

- 5 This Practice Note has been revised for the Amendment Ordinance which was gazetted on 26 June 2020 and comes into effect on 26 June 2020.
6. Key revisions as a result of the Amendment Ordinance are set out in paragraphs 51 to 60, 239 to 246 of this Practice Note.
7. It should be borne in mind that certain expressions used in the MPFSO, the General Regulation and the ORSO may be matters for legal interpretation. There may, therefore, be circumstances in which, notwithstanding the guidance given in this Practice Note, the auditor will wish to seek legal advice.

## Definitions

8. The definitions used in this Practice Note are:
  - a. *Administrator*  
The trustee of an ORSO scheme governed by trust or the insurer of an ORSO scheme which is regulated by an insurance arrangement.
  - b. *Aggregate past service liability*  
As defined in section 2(1) of the ORSO.
  - c. *Aggregate vested liability*  
As defined in section 2(1) of the ORSO.
  - d. *Authorized financial institution*  
An institution authorized under Part IV of the Banking Ordinance.
  - e. *Authorized insurer*  
An insurer authorized under section 8 of the Insurance Companies Ordinance.
  - f. *Control objectives*  
In relation to a MPF scheme, the control objectives for the time being applicable to the scheme maintained under section 39 of the General Regulation.
  - g. *Default investment strategy (DIS)*  
In relation to a registered MPF scheme, means the default investment strategy provided in the governing rules of the scheme under 34DB(1)(a) of the MPFSO.
  - h. *A defined benefit scheme* is one which is not a defined contribution scheme.
  - i. *A defined contribution scheme* is one which provides that amount of a benefit under the scheme is to be an amount determined solely by reference to:
    - i. the contributions to the scheme's funds by or in respect of the member concerned and any declared return in respect of such contributions (where such return may be subject to a minimum guaranteed rate but is otherwise unascertainable before it is declared); and
    - ii. where appropriate, the qualifying service and age of the member (employee).

- j. *Encumbrance* includes a charge, pledge, lien and mortgage.
- k. *MPFSO*  
Mandatory Provident Fund Schemes Ordinance.
- l. *General Regulation*  
Mandatory Provident Fund Schemes (General) Regulation.
- m. *Exemption Regulation*  
Mandatory Provident Fund Schemes (Exemption) Regulation
- n. *MPF Code*  
Code on MPF Investment Funds
- o. *MPFA*  
Mandatory Provident Fund Schemes Authority.
- p. *MPF scheme*  
A retirement scheme registered under section 21 of the MPFSO as an employer sponsored scheme or a master trust scheme, or section 21A of the MPFSO as an industry scheme.
- q. *ORSO*  
Occupational Retirement Schemes Ordinance.
- r. *ORSO scheme*  
A retirement scheme registered under the ORSO.
- s. *Pooling arrangement or agreement*  
A pooling arrangement or agreement is one where two or more schemes are administered together. Under such an arrangement, a number of individual schemes can participate either through a master trust deed or a master insurance policy depending on whether the pooling arrangement is governed by a trust or is the subject of, or regulated by an insurance agreement. Master trust schemes and industry schemes established under the MPFSO also operate within a pooling arrangement.
- t. *Relevant employer*  
An employer who provides the employment which entitles or enables the employee to be a member of a retirement scheme.
- u. *Relevant undertaking*  
Relevant undertaking is defined by section 20(4) and Schedule 2 Parts 1 and 2 paragraph 6 of the ORSO as a written undertaking by the relevant employer of the scheme to the administrator of the scheme to contribute to the scheme's fund in accordance with recommendations made by the actuary in the actuarial certificate issued as regards a particular scheme. Where more than one actuarial certificate has been issued, the undertaking referred to is the one in the most recent of those certificates which is applicable to the financial period under review.

v. *Retirement scheme/scheme*

Any instrument or agreement (other than contracts of life insurance) to provide a benefit, payable on termination of service, death, retirement or otherwise, to a person or his beneficiary as a result of a contract of service of employment, whether in Hong Kong or elsewhere. For the purpose of this Practice Note, this includes self-employed persons.

w. *Rules*

MPFSO/ ORSO Subsidiary Legislation

x. *Trustee*

Approved trustee of MPF schemes.

## Regulatory background

9. Retirement schemes are generally either constituted as trusts or insurance arrangements (policies). Retirement schemes in Hong Kong are required to be registered under the MPFSO or the ORSO, although schemes may apply to the MPFA for an exemption. The MPFA assumes the role as the Registrar of Occupational Retirement Schemes (Registrar) in administering the ORSO with effect from 10 January 2000. Application for an exemption certificate from the ORSO (section 7) is allowed for offshore schemes which are registered or approved by a recognised overseas authority with effect from 26 June 2020 (commencement date of the Amendment Ordinance).
10. The environment in which a retirement scheme operates is different from that of most commercial enterprises. The auditor would need to be familiar with the regulatory background to retirement schemes, in particular the requirements of the MPFSO, the General Regulation, the Exemption Regulation, the ORSO, the relevant Rules, guidelines and codes issued by the MPFA, as appropriate, and the accounting aspects of their operation before commencing the audit.
11. For schemes registered under the MPFSO or the ORSO, the trustee/administrator has various responsibilities imposed by the MPFSO/ORSO, the General Regulation, the Exemption Regulation, the relevant Rules, guidelines and codes issued by the MPFA. The three main objectives of the MPFSO/ORSO, the General Regulation, the Exemption Regulation, the relevant Rules, guidelines and codes issued by the MPFA are regulation, segregation and information.

## Administration of a retirement scheme

12. The administration of a retirement scheme involves the input and interaction of a number of different parties:
  - a. the relevant employer - has an on-going responsibility for providing adequate funding to the scheme and ensuring that his obligations under the scheme terms and the relevant legislation are properly discharged;
  - b. the trustee/administrator - is responsible for ensuring that the scheme is administered in accordance with its governing rules/trust deed, and where applicable, the MPFSO/ORSO, the General Regulation, the Exemption Regulation, the relevant Rules, guidelines and codes issued by the MPFA;
  - c. the employee (or the member) - has a responsibility for providing contributions to the scheme (in the case of a contributory scheme) and as the ultimate beneficiary of the scheme has a vested interest in ensuring that the scheme is administered properly and is providing appropriate returns on the contributions made;

- d. the administrator's/trustee's auditor - is responsible for the independent audit of the scheme;
  - e. the employer's auditor - is responsible for examining the relevant records of the employer and preparing the employer's auditor's statement for ORSO schemes (see paragraphs 218 to 237 below); and
  - f. the scheme actuary - is responsible for reviewing the sufficiency of the scheme's assets and preparing the actuarial certificate for defined benefit schemes (see paragraphs 27 to 34 below).
13. While the trustee/administrator is ultimately responsible for the proper operation of a retirement scheme, he may choose to delegate some or all of his management functions to a third party. Where the trustee has delegated any function to a service provider (such as the administration or the investment function), the trustee/administrator must ensure that there are internal control procedures in place to monitor the activities of the service providers. The trustee/administrator must ensure that the service providers have carried out their duties in accordance with the agreements and the trustee/administrator is notified of any material changes relating to the eligibility of the service providers or material breach of obligations by the service providers.

### **Audit requirements**

- 14. The audit requirements of MPF schemes and ORSO schemes are set out respectively in Parts II and III of this Practice Note below.
- 15. The auditor ensures that he/ she is familiar with Hong Kong Accounting Standard 26 "Accounting and Reporting by Retirement Benefit Plans" which deals with accounting and reporting by the plan to all participants as a group.

### **Commentary on the application of Hong Kong Standards on Auditing (HKSA)s**

#### **Compliance with HKSA)s**

- 16. HKSA)s apply to the audits of the financial statements of any entity, irrespective of the size of the entity, its legal form, or the nature of its activities. The commentary which is set out in paragraphs 17 to 46 below identifies the special considerations arising from the application of individual HKSA)s to the audits of the financial statements of retirement schemes. Where no special considerations arise from a particular HKSA, no material is included.

#### **Engagement letters**

- 17. The auditor issues engagement letters in accordance with the principles and requirements of HKSA 210 *Agreeing the Terms of Audit Engagements*. Specific issues which the auditor would address in engagement letters applicable to retirement schemes include:
  - a. the nature and scope of the auditor's reporting responsibilities under the MPFSO/ORSO, the General Regulation, the MPF Code and the relevant guidelines issued by the MPFA;
  - b. the extent of the auditor's rights to obtain information and explanations from the relevant employer and/or persons to whom the trustee/administrator has delegated some or all of his duties;
  - c. the fact that the audit will be planned so that there is a reasonable expectation of detecting material misstatements in the financial statements resulting from breaches of trust or statute. It should be made clear, however, that the audit should not be relied on to detect all breaches which may exist; and



- d. the extent of the auditor's responsibility for information/documents which may be contained in the documents containing the audited financial statements of the scheme.

### Planning

- 18. The auditor plans the audit in accordance with HKSA 300 *Planning an Audit of Financial Statements*. Consideration of specific matters related to retirement schemes may also include:
  - a. whether the trustee/administrator has a sound understanding of the legislation and rules governing the scheme as set out under the trust deed, the insurance agreement and/or the MPFSO/ORSO, the General Regulation, the Exemption Regulation, the relevant Rules, guidelines and codes issued by the MPFA;
  - b. whether the trustee/administrator has the necessary training and skills required to maintain the records of the scheme (both financial and non-financial), given that the trustee/administrator may have to maintain membership records, make investment decisions and administer benefit payments; and
  - c. whether there is close involvement of the employer in a "directly invested scheme". Direct investment is a term used to describe a method of investment for a scheme by which securities are held directly in the name of the trustees.
- 19. The operation of a retirement scheme can involve complex technical issues and calculations in areas in which the auditor cannot be expected to be expert. During the course of the audit it may be necessary for the auditor to obtain confirmations from other professional advisers such as actuaries, fund managers and solicitors. The audit planning would therefore include details of the advisers and the extent to which reliance would be placed on information provided by them.

### Internal controls

- 20. The auditor considers internal controls in accordance with HKSA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*.
- 21. The trustee/administrator has a duty to maintain adequate accounting records and systems to enable his duties to be carried out including discharging his responsibilities for investment decisions and safeguarding the scheme's assets.
- 22. The nature and extent of a scheme's accounting systems, procedures and internal controls depend mainly upon the size of the scheme, the extent to which the trustee/administrator delegates the administration of the scheme to third parties and the nature of its investments.
- 23. Where a trustee/administrator delegates the management of a significant part of the scheme's operations to a third party, the auditor considers the requirements of HKSA 402 *Audit Considerations Relating to an Entity Using a Service Organization*. In particular, the auditor would need to assess the systems and controls the trustee/administrator has in place to monitor and control the activities of the third party, and those of the third party itself. This may involve corresponding with the auditor of the third party.
- 24. Where some or all of the scheme is administered in-house, the size of the scheme and the size of the employer's operations determine the scope for developing internal controls and therefore whether formalised procedures and internal controls for certain transactions exist. For example, in a small scheme the infrequency of particular types of transactions such as benefits payable on the death in service of members, may result in no formal control being in place. It may also be difficult for the trustee/administrator to achieve a proper segregation of duties. In such instances, it is unlikely that the auditor is able to place reliance on those internal controls.

### **Computer systems**

25. The auditor considers the requirements of HKSA 315 (Revised) and also to the matters set out in paragraph 26 below.
26. The processing and recording of a large number of scheme member records and related transactions frequently involve the use of computer systems. Typical examples of scheme administration functions that are performed by computerised procedures include:
  - a. calculation of contributions receivable;
  - b. calculation of benefits payments and vested benefits;
  - c. generation of computer cheques for benefit payments;
  - d. allocation of investment income and expenses; and
  - e. scheme accounting function.

### **Review of actuarial information**

#### *General*

27. The requirement for actuarial reviews only applies to defined benefit schemes. Under a defined contribution scheme the vested benefit (the member's contributions and a proportion of the employer's contributions plus the net investment return on both) is more readily identifiable from the scheme's accounting records.
28. Without actuarially determined disclosures in the financial statements of a defined benefit scheme, the financial statements only give limited information about the state of affairs of the scheme. Actuarial reviews are necessary to assess, amongst other things, the ability of the scheme to pay the defined benefits in the future.
29. The ORSO (section 31) requires an actuarial review to be performed at least once every three years and the report to be given to the administrator within six months of the date at which the review takes place. However schemes where solvency is an issue require a review every year. The primary purpose of this review is to monitor the solvency and funding of the scheme.
30. Accordingly, the full actuarial certificate arising from this review is required by the ORSO (schedule 2) to include the following statements:
  - a. that, in the course of the actuarial review, the actuary has had regard to the financial condition of the scheme;
  - b. that the assets of the scheme were (or, in the case of a qualified certificate, were not) sufficient to meet its aggregate vested liability at the valuation date;
  - c. that, following his review, the actuary has made recommendations as regards funding of the scheme;
  - d. that, following his review, the actuary has received a copy of a written undertaking by the relevant employer of the scheme to the administrator of the scheme that he will contribute to the scheme's funds in accordance with those recommendations; and
  - e. that, provided the scheme is funded in accordance with the actuary's recommendations the actuary would expect that the scheme's assets would be sufficient to meet its aggregate vested liability throughout the next three years, and, at a specified date, they would be sufficient to meet the scheme's aggregate past service liability.

31. In the event that a qualified actuarial certificate is issued, the auditor is advised to refer to Part 2 of Schedule 2 to the ORSO (which details information to be given by the actuary).
32. In addition to the statutory requirements set out above, actuarial reports can provide an assessment of a defined benefit scheme's progress in achieving its objective of providing members' future benefits. The results of an actuarial review are used to determine the appropriate contribution level and to indicate any surplus or deficiency in the funding of the retirement scheme.
33. A practical way of showing the level of funding of a scheme is for the actuary to indicate the trend in the values of the following from the latest valuation and from previous valuations, if they are available:
  - a. the amount of aggregate vested liabilities; and
  - b. the amount of aggregate past service liabilities.
34. The actuary arrives at the actuarial valuation by taking the discounted value of future benefits that are expected to arise in the scheme in respect of members, and comparing this with the value of scheme assets, and the discounted value of future contributions. The actuary would also compare scheme assets with past service liabilities and vested liabilities. In doing so the actuary makes a number of assumptions, including earnings rate, inflation, salary increases and staff turnover rates.

*The auditor's responsibilities*

35. In considering the work of the actuary as audit evidence, the auditor considers the requirements of HKSA 500 *Audit Evidence* on information produced by a management expert.
36. As set out in paragraph 8 of HKSA 500, if information to be used as audit evidence has been prepared using the work of a management's expert, the auditor is required to perform the following procedures:
  - a. Evaluate the competence, capabilities and objectivity of that expert;
  - b. Obtain an understanding of the work of that expert; and
  - c. Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion.

Further guidance is set out in paragraphs A37 to A48 of HKSA 500. Additional specific considerations which apply in the audit of retirement schemes are set out below in paragraphs 37 to 41 below.

37. In evaluating the work of an actuary, the auditor is required to consider the following:
  - a. the source data used;
  - b. the assumptions and methods used and their consistency; and
  - c. the results of the expert's work in the context of the auditor's overall knowledge.
38. The auditor would need to be satisfied as to the accuracy and reasonableness of the source data. The source data used is provided by the administrator and includes information on salaries, date of birth of members, date of joining the employer, date of joining the scheme, contribution rates, accumulation of member and employer contributions, transfer of benefits (if any), benefit multiples and investments held.

39. The assumptions used comprise both ones which pertain to the scheme and the industry in which the scheme operates and ones which are used by actuaries generally, such as inflation and interest rates.
40. The appropriateness and reasonableness of assumptions and methods used and their application are the responsibility of the actuary. The auditor does not have the same expertise and, therefore, cannot always challenge the actuary's assumptions and methods. However, the auditor seeks to obtain an understanding of the assumptions and methods used and to consider whether they are appropriate and reasonable, based on the auditor's knowledge of the business and the results of other audit procedures.
41. The auditor would also consider the consistency of the actuary's assumptions and the funding method used to calculate the members' future benefits. By changing the assumptions and funding method, the valuation changes and this affects the surplus or deficiency in the fund and the required contribution rates. Any such changes in assumptions or funding method should be explained by the actuary. The auditor would also give special attention to the consistency of the margin between the projected returns of the scheme and the projected salary rises. If the results of the actuary's work do not provide sufficient appropriate audit evidence or if the results are not consistent with other audit evidence, the auditor would seek to resolve the matter. This may involve discussions with the administrator and the actuary, applying additional procedures, including possibly engaging another actuary.

*Deficiency of assets*

42. It is not uncommon for some of these calculations to show a deficiency of assets to meet the amount of members' benefits calculated. The auditor would review the actuary's recommendations to determine whether the relevant employer has made contributions to the scheme in accordance with such recommendations. These recommendations may include an increase in the amount of contributions or an extension of the period over which contributions are made.
43. The auditor would need to determine whether a deficiency may imply an inability of the scheme to meet its obligations as and when they fall due. Furthermore, in any year in which an actuarial certificate has not been prepared, the auditor would consider whether economic circumstances have eroded the value of the investments, which might also imply that the scheme may not be able to meet its obligations as and when they fall due. Such uncertainties may give rise to additional disclosure in the financial statements and/or the need to include an explanatory paragraph dealing with a fundamental uncertainty or a qualification in the auditor's report.

**Consideration of laws and regulations**

44. In accordance with HKSA 250 *Consideration of Laws and Regulations in an Audit of Financial Statements*, the auditor considers the impact of the relevant requirements of the trust deed or scheme rules, the ORSO, the MPFSO, the General Regulation, the Exemption Regulation, the relevant Rules, guidelines and codes issued by the MPFA on their audit. As stated in HKSA 250, it is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements. The requirements in HKSA 250 are designed to assist the auditor in identifying material misstatement of the financial statements due to non-compliance with laws and regulations. However, the auditor is not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

## The auditor's reports

45. The principles set out in HKSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* are applicable to auditor's report on retirement scheme financial statements. For ORSO schemes the auditor's reports are addressed in accordance with the trust deed or scheme rules. Where the deed is silent, the auditor's reports would be addressed to the administrator. For MPF schemes the auditor's reports are addressed to the trustee.

### Review of trustees' (or administrator's) report/scheme report/investment report

46. The trustees' report, the scheme report and the investment report do not form part of the audited financial statements. However, as they will form part of the same document, the auditor refers to HKSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* concerning the auditor's responsibilities in this area.

## Specific audit areas

### Investments

#### *General*

47. The trustee/administrator is responsible for the process of investing the scheme assets. The trustee/administrator must therefore ensure that investments conform to the requirements of the scheme's rules, restrictions imposed by the MPFSO/ORSO, the General Regulation, the Exemption Regulation, the relevant Rules, guidelines and codes issued by the MPFA and the general duties and obligations established under trust law.
48. Most schemes allow trustees/administrators a wide range of investment choice. There are however, some restrictions imposed by the MPFSO/ORSO, the General Regulation, the Exemption Regulation, the relevant Rules, guidelines and codes issued by the MPFA. Examples of such restrictions in respect of MPF and ORSO schemes are included in Parts II and III of this Practice Note respectively.
49. The audit of investment balances in a retirement scheme is essentially no different to the audit of investment balances in any other organisation, except where the trustee/administrator chooses to delegate the management of the investment portfolio to a third party. The audit implications of this situation are discussed in paragraph 23 above.

#### *Audit objectives*

50. The auditor would consider whether:
- a. the investments of a scheme exist and are owned by the scheme;
  - b. all investments of the scheme have been accurately and completely recorded in the books of the scheme;
  - c. the investment policy of the scheme is in accordance with the terms of the scheme rules/trust deed, the MPFSO/ORSO (where applicable), the General Regulation (where applicable), the Exemption Regulation (where applicable), the relevant Rules, guidelines and codes issued by the MPFA;
  - d. all investments are appropriately valued; and
  - e. all investment balances are appropriately classified and disclosed in the financial statements of the scheme.

## Contributions

### *General*

51. There are principally three types of contributions, namely:
- a. employer financed;
  - b. member financed; and
  - c. transferred in benefits.

These three categories can be further subdivided. For example, the employer contribution may take the form of a contribution based on a specified rate (by the MPFSO, trust deed or by the actuary), and member contributions may include contribution based on a specified rate, additional voluntary contribution or amounts rolled over/transferred from other schemes.

52. The trustee's/administrator's primary responsibility for contributions is to ensure that all contributions due have been paid over to the scheme on a timely basis, and have been recorded to the members' benefit completely and accurately. Specific responsibilities of the trustee/administrator for contributions are included in Parts II and III of this Practice Note below.
53. In fulfilling this responsibility the trustee/administrator must firstly ensure that all new members have been properly admitted to the scheme in accordance with the provisions of the governing rules or trust deed, members who have ceased their membership during the year have been appropriately removed from the membership register, and that details relating to all continuing members are properly carried forward in the scheme records. The trustee/administrator must ensure that all membership records are accurate.
54. The trustee/administrator is required to ensure that both employer and member contributions and transferred in benefits are made in accordance with the governing rules or other relevant agreements and as recommended by the actuary (in the case of a defined benefit scheme) and such contributions are made on a timely basis.

### *Audit objectives*

55. The auditor would consider whether:
- a. all contributions receivable from, or on behalf of, eligible members have been received and have been recorded in the correct period; and
  - b. contributions received have been made in accordance with the governing rules or other relevant agreements and, for defined benefit schemes, the recommendations of the actuary.

### *Specific risk areas*

56. The main risks are those of completeness and accuracy. Completeness involves ensuring that all contributions are recorded, either as received or receivable. Accurate calculation is particularly relevant to defined contribution schemes where employer's contributions are based on a percentage of a member's salary. The auditor would also consider whether contributions receivable are recoverable, particularly if the employer has a significant level of contributions owing at the financial year end of the scheme.

## **Benefits**

### *General*

57. Benefits (including benefits transferred from one scheme to another) are normally paid by way of a lump sum. The amount and means of calculation of the benefit paid depend on the type of the scheme.
58. Where a scheme is a defined contribution scheme, the benefit paid will equal the members' vested benefit in the scheme which is the accumulation of the members' contributions plus the appropriate proportion of the employer's contributions and the investment return on both.
59. Where the scheme is a defined benefit scheme, the benefit paid is determined by the governing rules and is generally calculated on the basis of length of service and the members' salary, which may be based on current salary, an average salary or another method as determined by the scheme rules.
60. The trustee/administrator is primarily responsible for ensuring that all benefit payments (including transfer of benefits to other schemes) which should have been made are correctly paid to bona fide members in accordance with the governing rules or the MPFSO/ORSO, the General Regulation, the Exemption Regulation, the relevant Rules, guidelines and codes issued by the MPFA.
61. In many cases, where an employee leaves an ORSO scheme, part or all of the employer's contributions plus the investment returns thereon in respect of that member may not be paid to the member. These forfeitures may be applied (depending on the rules of the scheme) in reducing the contributions of the employer, retained in the scheme for the benefit of members, or returned to the employer. The same rules will apply to voluntary contributions made by an employer to a MPF scheme.

### *Audit objectives*

62. The auditor would consider whether:
  - a. benefits paid and payable are bona fide, have been correctly calculated and have been recorded in the correct period; and
  - b. benefits have been paid in accordance with the scheme rules/trust deed and the MPFSO/ORSO, the Exemption Regulation (where applicable), the relevant Rules, guidelines and codes issued by the MPFA.

### *Specific risk areas*

63. The principal audit risks in relation to benefits are those of completeness and accuracy. Completeness involves ensuring that all benefits are recorded either as paid or payable. Calculation of benefits paid is relevant, particularly with respect to defined benefit schemes, and benefits are paid to people who are not entitled to receive them.

## **Pooling arrangements**

### *General*

64. The ORSO (section 2(4)) permits pooling arrangements to be governed by a trust, provided that it is managed by a registered trust company. All MPF schemes must be governed by trust. The master trust deed sets out, amongst other things, the respective powers and duties of the pool trustee and the administrator. The ORSO (section 2(4)) also permits pooling arrangements to be the subject of or regulated by an insurance agreement (policy). This master policy sets out the respective powers and duties of the administrator, usually the insurer, and the relevant employer.

65. The ORSO (section 2(4)) requires that proper accounts and records are kept with respect to the pooling arrangement and its participating schemes, such that the value of the assets attributable to, and the liabilities of, each of its participating schemes are readily determinable. The General Regulation (section 78) requires that a separate account is established and maintained for each scheme member specifying that member's accrued benefits.
66. Where a scheme is a participating scheme in a pooling agreement, section 21(4A) of the ORSO provides that the asset separation requirement under section 21(1)(a) of the ORSO does not require the separation of the assets of the scheme from the assets of the other schemes vested in the administrator in his capacity as administrator of the pooling agreement.

*Audit implications*

67. For ORSO schemes, it is the responsibility of the pool administrator to prepare annual financial statements for each scheme participating in the pool, and to have those financial statements audited. The ORSO (section 20(7C)) requires that, unless exempted by the MPFA, the pool administrator appoints the same auditor to audit the financial statements of each scheme participating in the pool and all participating schemes should have a common year end. The trustee of a MPF scheme need not prepare individual financial statements for each participating employer.
68. The participation of a scheme in a pooling arrangement can have specific implications for the auditor as the audit evidence that the auditor requires to form the opinion could be derived from several sources.
69. For example, the pool trustee/administrator may appoint an auditor for the schemes administered by him who are not the auditor appointed by his shareholders to be his statutory auditor. In such instances, the auditor for the schemes would consider the extent to which he/she can rely on the work of the trustee's/administrator's auditor in testing the internal controls and systems of the pooling arrangement. It may be more efficient for the auditor of the schemes to independently assess the controls established by the trustee/administrator over the systems used to produce the scheme financial statements.

**Abbreviated information for scheme members**

70. Many schemes produce abbreviated financial information for distribution to members which summarises the key financial highlights from the audited financial statements.
71. The auditor has no control over the issue of such abbreviated financial information, particularly, when the auditor is not asked to report on it. However, if the auditor becomes aware that such information has been or will be issued, the auditor would take steps towards ensuring that members are not given the impression that such abbreviated financial information itself constitutes audited financial statements. If the auditor has any concerns in this respect, the auditor would communicate them to the trustee/administrator and the auditor would consider the continuing appointment in the light of the trustee's/administrator's response.
72. If the auditor is asked to provide a report, the same concerns apply, and the auditor would make clear in the auditor's report the scope of the work the auditor has carried out, in particular any areas the auditor has not examined. The auditor would ensure that the report specifically refers to the fact that the financial information does not give a true and fair view and would indicate whether the opinion on the full financial statements had been qualified or not.



## **PART II ADDITIONAL GUIDANCE RELEVANT TO THE AUDITOR OF A MPF SCHEME**

### **General**

73. The reference in this Part to a retirement scheme or scheme means a MPF scheme.

### **Reporting under sections 102 and 106 of the General Regulation**

74. Section 95 of the General Regulation requires the trustee to submit the financial statements of the scheme to an auditor annually, for the purpose of independent audit. All schemes, regardless of size or type, must be audited. A copy of the audited financial statements of the scheme is required to be submitted by the trustee to the MPFA within 6 months after the end of the scheme's financial period.

75. The first audit would be required in respect of the first financial period which should commence with the date on which the scheme was first registered under section 21 or 21A of the MPFSO and end on a date not more than 12 months from this date.

### **Specific audit areas**

#### *Investments*

76. Under section 28 of the MPFSO, the MPFA has the authority to publish guidelines on forbidden investment practices in relation to a scheme.

77. The General Regulation imposes the following requirements in respect of investment of scheme assets:

- a. a capital preservation fund must comply with the investment restrictions as set out in section 37(2) of the General Regulation;
- b. a scheme cannot enter a repurchase agreement unless it complies with the restrictions as set out in section 51 of the General Regulation;
- c. a scheme cannot lend any securities unless it complies with the restrictions as set out in section 52 of the General Regulation;
- d. an employer sponsored scheme is not allowed to invest more than 10% of the total assets of each constituent fund in "restricted securities" or make a loan other than a loan by way of a deposit with an authorised financial institution (General Regulation Part X);
- e. a scheme must comply with Schedule 1 to the General Regulation which deals with "permissible investments", "currency exposure" and "pooled investment". The general restrictions for investments for a scheme are:
  - i. no more than 10% of the total funds of a constituent fund may be invested in securities and other permissible investments issued by any one person (General Regulation Schedule 1 section 2(1)); and
  - ii. no more than 10% of securities or other permissible investments of a particular class issued by one person may be acquired for the purposes of a constituent fund (General Regulation Schedule 1 section 2(2)).

The general restrictions for investments set out above are not applicable when the investment is made into approved pooled investment funds<sup>1</sup>. (The reporting and investment requirements of approved pooled investment funds are set out in relevant guidelines and the MPF Code issued by the MPFA.)

78. The General Regulation (Schedule 1 section 17) states that funds may be invested in a pooled investment fund, which may in turn be invested in one or more other pooled investment funds. Where the trustees of these pooled investment funds and the scheme are not the same, the auditor of the scheme would need to ensure that the trustee has monitoring procedures in place over the trustees of the pooled investment funds. These procedures may include:
- a. obtaining a copy of the report of internal controls and the accompanying auditor's report of the trustees of the pooled investment funds;
  - b. obtaining regular statement of compliance from the trustee that the investment restrictions are not breached; and
  - c. obtaining a copy of the financial statements of the trustee and of the pooled investment funds.
79. The auditor would need to perform such procedures as are considered necessary in order to obtain sufficient appropriate audit evidence to enable the auditor to report whether or not the requirements of section 28 of the MPFSO and sections 37(2), 51 and 52 and Part X of, and Schedule 1 to, the General Regulation have been complied with as at the end of the financial period and 2 other dates as the auditor preparing the auditor's report may elect, provided that the intervening period between the 2 other dates shall not be shorter than three months. Where a scheme has been in operation for less than a full year and the intervening period between the 2 other dates nominated is less than 3 months, approval must be obtained from the MPFA in writing to use those dates. In planning and performing this work, the auditor should refer to the principles in the Hong Kong Standard on Assurance Engagements (HKSAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* applicable to assurance engagements.
- Investments in relation to DIS*
80. Section 34DB(1)(b) of the MPFSO provides that the trustee must ensure that any investment related to the DIS accords with the requirements under Part 4AA and Part 2 of Schedule 10 to the MFPSO.
81. Section 2 of Schedule 10 to the MPFSO provides that the trustee must make available in a registered scheme the following constituent funds for investment under the DIS of the registered scheme:
- a. a constituent fund investing in a globally diversified manner that targets to invest 20% of the net asset value of the fund in higher risk assets, but the investment in those assets may vary from 15% to 25% of the net asset value of the fund at any point in time (Age 65 Plus Fund) ("A65F");
  - b. a constituent fund investing in a globally diversified manner that targets to invest 60% of the net asset value of the fund in higher risk assets, but the investment in those assets may vary from 55% to 65% of the net asset value of the fund at any point in time (Core Accumulation Fund) ("CAF").

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<sup>1</sup> An example of an auditor's report for an approved pooled investment fund is included as Example 9 of Appendix 1 to this Practice Note.

82. For compliance with the requirements under section 2 of Schedule 10 to the MPFSO, the trustee must ensure that the investment in higher risk assets by the CAF and the A65F does not, at any point in time, directly or indirectly, breach the percentages of the net asset value as set in that section. Where the assets of the CAF or the A65F are invested in underlying approved pooled investment funds ("APIFs") and index tracking collective investment schemes ("ITCIS") (other than an ITCIS that tracks an index comprised of equities or equities-like securities), the trustee must determine the percentage of the constituent fund indirectly invested in higher risk assets held in the APIF or ITCIS and, where relevant, APIF or ITCIS invested into by such APIF or ITCIS. For the purposes of determining this, the trustees should obtain from the operators of such APIFs and/or ITCIS relevant information about their asset holdings to enable the trustee of the constituent fund to make the necessary calculations. Trustees of APIFs should endeavour to provide the relevant information to the trustees or if relevant, operators of other APIFs that invest in that APIF as regularly as possible.
83. Relevant industry bodies such as the Hong Kong Trustees Association and the Hong Kong Investment Funds Association have developed reference portfolios, to which recognition has been given by the MPFA for the purpose of the Code on Disclosure for MPF Investment Funds ("recognized reference portfolios"). The main purpose of the recognized reference portfolios is to provide a common reference point for the approved trustees to report to members about the performance of the CAF and the A65F respectively. Auditors should refer to the "Guidelines on Default Investment Strategy" (MPFA Guidelines III.14) issued by the MPFA for guidance.

*Control of payment for services ("PFS") and out-of-pocket expenses ("OPE") relating to DIS*

84. Section 34DD of the MPFSO sets out the framework for regulation of certain types of fees, expenses and charges relating to the DIS. Auditors should also refer to the MPFA Guidelines III.14 for guidance on PFS and OPE in respect of the percentages specified for the purposes of section 34DD(4) set out in section 1 and 2 of Schedule 11 to the MPFSO.
85. Section 34DD(1) of the MPFSO sets out a general prohibition in relation to charging payments for services to a DIS constituent fund or a scheme member who invests in such fund.
86. Section 34DD(4) of the MPFSO sets out a regime for the control of the amounts and types of items that can be charged to or imposed on a DIS constituent fund or a scheme member who invests in such fund. Section 34DD(4)(a) imposes a daily limit on payments for services permissible under section 34DD(3) and similar amounts chargeable to underlying investment funds. Subsection (4)(b) imposes a separate, yearly limit on the amount of certain types of OPE that are charged to or imposed on a DIS constituent fund or a scheme member who invests in such funds.
87. Both sections 34DD(1) and 34DD(4) refer to amounts charged to or imposed on a DIS constituent fund or a scheme member. This would cover different types of charging mechanisms such as direct billing/payment or deductions made directly from the member's account.
88. The trustee is required under section 34DD(1)(b) of the MPFSO to ensure that no payment for services specified may be charged to or imposed on a scheme member who invests in the DIS constituent fund.
89. Given that the auditor of a registered scheme/DIS constituent fund does not have access to information before members make contributions to a DIS constituent fund, the auditor should consider appropriate audit procedures to ascertain that the trustee has implemented internal controls to ensure that no payment for services specified are charged.
90. For the purposes of determining whether the percentage in section 1 of Schedule 11 to the MPFSO is exceeded, section 34DD(4)(a)(ii) includes in the calculation, payments for services chargeable at the underlying investment fund level. It requires the total amount of "proportionate underlying investment fund fees" chargeable to any underlying investment fund of a DIS constituent fund to be aggregated with certain types of payments for services at the constituent fund level.

91. For the purposes of calculating the daily aggregate payment for services, where the trustees of the underlying investment funds are different from that of the registered scheme, the trustee of the registered scheme may place reliance on public disclosures to ascertain the rate of management fee charged as a percentage of NAV for fees or payments to be included as the "underlying investment fund fee".
92. The trustee must ensure that the total amount of all payments that are charged to or imposed in a year on a DIS constituent fund, or a scheme member who invests in the fund, for OPE incurred by the trustee, when expressed as a percentage of the net asset value of the fund does not exceed the percentage specified in section 2 of Schedule 11 to the MPFSO. The net asset value that should be used for calculating the percentage of OPE is the sum of the net asset value of the relevant DIS constituent fund as at the last dealing date of each month of the relevant year divided by 12.
93. For the purposes of calculating the percentage of OPE for a DIS constituent fund, the calculation does not need to consider the OPE charged to the underlying investment funds held by the DIS constituent fund.

*Compliance reporting relating to DIS*

94. For the purposes of the reporting requirements as described in section 102(2)(e) of the General Regulation, the auditor would need to perform such procedures as are considered necessary in order to obtain sufficient appropriate audit evidence to enable the auditor to report whether or not the requirements under sections 34DB(1)(a), (b), (c) and (d), 34DC(1), 34DD(1) and (4), 34DI(1) and (2), 34DJ(2), (3), (4) and (5) and 34DK (2) of the MPFSO have been complied with in all material respects as at the end of the period and 2 other dates as the auditor preparing the auditor's report may elect, provided that the intervening period between the two other dates shall not be shorter than three months. Where a constituent funds under the DIS has been in operation for less than a full year and the intervening period between the 2 other dates nominated is less than 3 months, approval must be obtained from the MPFA in writing to use those dates. In planning and performing this work, the auditor should refer to the principles in the Hong Kong Standard on Assurance Engagements (HKSAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* applicable to assurance engagements.
95. For the purposes of determining compliance with section 34DD(4)(b) of the MPFSO by the trustee, the auditor is only required to report compliance as at the end of the period as the cap on OPE is an annual requirement. The auditor need not report on two other reporting dates.
96. Section 34DI(1) requires that the approved trustees must, within 6 months after the commencement date, give specified notices to existing members in respect of the DIA accounts. Transitional provisions under sections 34DI (2), 34DJ(2), (3), (4) and (5) and 34DK(2) specify the steps the approved trustees need to take within time limits determined based on the dates of such notices and specified in the MPFA Guidelines III.14. For the purposes of determining compliance with the transitional provisions set out in sections 34DI(1) and (2), 34DJ(2), (3), (4) and (5), and 34DK(2) the auditor reports on such sections only when they are applicable in the period i.e. these sections are not applicable in the following scenarios:
- if the trustee has completed the necessary transitional provisions in the previous reporting periods and they are no longer applicable in the current reporting period, no reporting by the auditor is required.
  - If the period end of a scheme is within 6 months after the commencement date and the approved trustee has not commenced the processes of giving specified notices to any of its existing members in respect of the DIA accounts for the purpose of section 34DI(1) and locating scheme members whose address are unknown for the purpose of section 34DJ as at the period end, no reporting in relation to sections 34DI(1) and (2), 34DJ(2), (3), (4) and (5) and 34DK(2) by the auditor is required. Similarly if the approved trustee is not required to complete certain steps under sections 34DI (2), 34DJ(2), (3), (4) and (5) and 34DK(2) as

at the period end, the auditor should consider appropriate audit procedures to ascertain that those sections do not apply to the trustee for such financial period and determine whether those sections should be covered in his reporting.

Auditors should include an Other Matter paragraph in the report to state the sections that are not applicable in the above scenarios and the reasons.

97. The reporting requirements in relation to DIS as described in section 102 of the General Regulation apply to a registered scheme. Accordingly, the auditor of a registered scheme is required to ascertain compliance by the trustee of that registered scheme. When performing procedures on the controls at the trustee level, the auditor of a registered scheme may consider to leverage on assurance reports on controls at the trustee, if available (e.g. reports issued in accordance with HKSAE 3000 (Revised)) or to design its own audit procedures that are appropriate in the circumstances.

*Contributions*

98. In respect of completeness of contributions under MPF, section 106(2) of the General Regulation states that information contained in a remittance statement submitted by an employer or particulars given by a self-employed person to the trustee shall be treated as conclusive evidence as to the amount of the member's relevant income. Accordingly, the auditor need not carry out further procedures to satisfy himself/ herself in respect of the completeness of the relevant income.

**The auditor's reports**

99. Section 102 of the General Regulation requires:
- a. the auditor's report, addressed to the trustee, in relation to the financial statements of a scheme and a financial period of it to state whether or not in the auditor's opinion:
    - i. the financial statements give a true and fair view of the financial position of the scheme as at the end of the period and of the financial transactions of the scheme for the period then ended; and
    - ii. the financial statements have been properly prepared, in all material respects, in accordance with sections 80, 81, 83 of the General Regulation; and
  - b. the auditor's report, addressed to the trustee, on a scheme's compliance with certain requirements of the MPFSO and General Regulation to state:
    - i. whether or not in the auditor's opinion:
      - proper accounting and other records have been kept during the relevant financial period in respect of the constituent funds of the scheme, the scheme assets and all financial transactions entered into in relation to the scheme; and
      - the requirements specified in the guidelines made by the MPFA under section 28 of the MPFSO with respect to forbidden investment practices and the requirements of sections 37(2), 51 and 52 and Part X of, and Schedule 1 to, the General Regulation have been complied with in all material respects as at the end of the period and two such other dates in the period as the auditor preparing the auditor's report may elect, provided that the intervening period between such dates shall not be shorter than three months, or a shorter period allowed by the MPFA; and
      - the requirements under sections 34DB(1)(a), (b), (c) and (d), 34DC(1), 34DD(1) and (4)(a) of the MPFSO with respect to the investment of

accrued benefits and control of payment for services relating to default investment strategy ("DIS") constituent funds have been complied with in all material respects as at the end of the period and two other dates as the auditor preparing the auditor's report may elect, provided that the intervening period between the such dates shall not be shorter than three months, or a shorter period allowed by the MPFA; and

- the requirements under sections 34DI(1) and (2) and 34DK(2) with respect to the transfer of accrued benefits to an account and specified notice, and 34DJ(2), (3), (4) and (5) with respect to locating scheme members have been complied with in all material respects during the period; and
- the requirements under section 34DD(4)(b) of the MPFSO with respect to the controls of out-of-pocket expenses of DIS constituent funds have been complied with, in all material respects, as at the end of the period; and

- ii. whether or not the assets of the scheme as at the end of the period were subject to any encumbrance, otherwise than as permitted by the General Regulation.

100. In addition, section 106 of the General Regulation requires the auditor to state whether the auditor has obtained all the information and explanations that the auditor has required.

101. Example auditor's reports are included in Appendix 1 to this Practice Note (examples 1 and 2).

## **Reporting under sections 18 and 115 of the General Regulation**

### **Prescribed capital adequacy requirements**

102. The MPFA requires all applicant trustees to meet the prescribed capital adequacy requirements (capital adequacy requirements) when applying for approval as trustee, and all trustees to comply with the capital adequacy requirements at all time.

103. The MPFSO (sections 20A and 20B) empowers the MPFA to suspend or revoke the approval of a trustee for failure to meet financial resources requirements, including capital adequacy requirements.

104. There are essentially two means by which a company can meet the capital adequacy requirements. These are referred to in this Practice Note as "the stand-alone basis" and "the group basis".

105. The stand-alone basis sets requirements for the company itself as follows:

- a. paid up share capital of at least \$150,000,000 (or its foreign currency equivalent);
- b. net assets of at least \$150,000,000 (or its foreign currency equivalent); and
- c. assets in Hong Kong of at least \$15,000,000.

106. "Assets in Hong Kong" is defined in section 10 of the General Regulation.

107. The alternate basis of meeting the capital adequacy requirements is the group basis. In this case the applicant trustee must be an associate of:
- a. a company or corporation that is a substantial financial institution (as defined by section 7 of the General Regulation) which provides continuous financial support (as defined under section 12 of the General Regulation) to the applicant trustee; or
  - b. a company or corporation having a subsidiary that is a substantial financial institution and provides continuous financial support to the applicant trustee.
108. Under the group basis, the applicant trustee is only required to maintain paid up share capital and net assets of \$30,000,000. The \$15,000,000 "assets in Hong Kong" requirement must still be met in full.
109. The substantial financial institution must itself have:
- a. a paid up share capital of at least \$150,000,000 (or its foreign currency equivalent) and net assets of at least the same amount. In the determination of net assets, certain subordinated debts may be excluded by virtue of section 7(2) of the General Regulation; and
  - b. given a written undertaking in a form acceptable to the MPFA to the extent that it commits itself to provide financial support to the applicant trustee such that the \$30,000,000 share capital and net asset position of the applicant trustee and the associate relationship between the institution and the trustee will be maintained. A written undertaking under section 12 of the General Regulation needs to be by deed or like form.

**Procedures performed by the auditor**

110. For the auditor's reports under sections 18 and 115 of the General Regulation, in planning and performing the work, the auditor should refer to the principles in the HKSAE 3000 (Revised) applicable to assurance engagements.
111. For the purposes of the auditor's report on the capital adequacy requirements of an applicant trustee, unless the date agreed between the applicant trustee and the MPFA is the financial year end of the applicant trustee, the auditor will be required to design substantive procedures at the date specified to enable the auditor to report whether or not the capital adequacy requirements have been complied with.
112. Such substantive procedures may include:
- a. obtaining evidence to support the amount of paid up share capital at the reporting date;
  - b. obtaining a balance sheet of the applicant trustee at the reporting date and reviewing the net asset position of the applicant trustee at that date;
  - c. obtaining evidence to support the existence of assets at the reporting date and the basis on which the assets are valued at that date;
  - d. extending existence testing of assets to verify the requirements for assets in Hong Kong are being met;
  - e. searching for unrecorded liabilities at the reporting date;
  - f. reviewing transactions before and after the balance sheet date to consider the reasonableness of the presentation of the balance sheet position at the reporting date;

- g. obtaining and reviewing the written undertaking in respect of continuous financial support as specified under section 12 of the General Regulation.

If a group basis of meeting the capital adequacy requirements is chosen, the auditor would obtain evidence that the institution supporting the applicant trustee qualifies under the General Regulation and, where necessary, evidence of appropriate approval by the MPFA is provided.

- 113. If the reporting date is to be the financial year end of the company and the company is required to prepare financial statements which have been audited, then the auditor would have regard to the extent of the substantive tests performed for the audit of the financial statements in the consideration of the extent of the procedures in paragraph 112 above to be carried out.
- 114. For the purposes of the reporting on ongoing capital adequacy requirements, the auditor would plan to include the procedures suggested in paragraph 112 above in respect of the financial year end and the two dates selected to test the compliance with capital adequacy requirements in the audit work. However, there are other matters which the auditor may consider in forming the opinion:
  - a. the frequency by which management accounts or other financial information is prepared may influence the dates chosen by the auditor, especially if the audit procedures adopted plan to place reliance on the controls surrounding the preparation and review of the management information;
  - b. the auditor may choose to rely on the internal control processes adopted by the trustee in ensuring that capital levels can be monitored at all times, and test the controls in place in conjunction with a series of substantive tests.

#### **The auditor's reports pursuant to sections 18 and 115 of the General Regulation**

- 115. The General Regulation (section 18) requires that any applicant trustee applying to be an approved trustee must cause a report to be prepared by its auditor. The auditor's report is addressed to the applicant trustee and must state, in the opinion of the auditor, whether or not the applicant trustee complies with the capital adequacy requirements, as set out in section 11 of the General Regulation, on a specified date (agreed between the MPFA and the applicant trustee). The date referred to must be on or before the date on which the MPFA approves the applicant trustee as a trustee.
- 116. The auditor's report may contain such observations, elaborations, qualifications or explanations as the auditor considers necessary. The MPFA has the power to request remedial action by the applicant trustee within a specified time period. In such circumstances a second auditor's report would be required to be prepared by the auditor, stating whether or not in the auditor's opinion the qualification or matter raised has been rectified.
- 117. With respect to the ongoing capital adequacy requirements, section 114 of the General Regulation requires that the trustee prepares a report to the MPFA, stating whether or not the capital adequacy requirements were complied with throughout the period. If the requirements were not complied with, the reasons for non-compliance should be stated in the trustee's report.
- 118. Section 115 of the General Regulation requires the auditor to review the section 114 report issued by the trustee and issue an auditor's report, stating whether or not, in the auditor's opinion, the capital adequacy requirements were complied with at the financial year end of the approved trustee, and two other dates during the financial year, such dates being selected by the auditor. The two dates selected must be at least three months apart or such a shorter period the MPFA may allow. If the requirements were not met, the reasons for non-compliance are required to be stated in the auditor's report.
- 119. Both reports under sections 114 and 115 are to be submitted to the MPFA within six months of the financial year end of the trustee. In practice the requirements of sections 114 and 115, when taken together, will mean that the trustee will be required to prepare a draft section 114 report in time for the auditor to review and attach the auditor's report under section 115.



120. Suggested reports suitable for reporting on compliance with prescribed capital adequacy requirements are included in Appendix 1 to this Practice Note (examples 3 and 4).

## **Reporting under section 74(5)(b) of the General Regulation**

### **Trustee to review service providers' reports**

121. In accordance with section 74 of the General Regulation, the trustee requires each service provider appointed or engaged by the trustee to report any material breach of obligations or material changes to the trustee.
122. On an annual basis, the service provider is required to submit to the trustee within four months after the scheme's year end date, the audited financial statements together with a report from its auditor stating whether or not, in the auditor's normal course of duties<sup>2</sup>, the auditor has become aware of:
- a. any failure of the service provider to comply with the service provider's obligations under the contract of appointment or engagement entered into between the trustee and the service provider; and
  - b. any false declaration made by the service provider to the trustee or any other person, and if so, give particulars of the failure or false declaration.

### **The auditor's report pursuant to section 74(5)(b) of the General Regulation**

123. A copy of an example auditor's report as mentioned in paragraph 122 above is included in Appendix 1 to this Practice Note (example 5).

## **Reporting under section 113 of the General Regulation**

### **Trustee's report on control objectives and internal control measures**

#### *Requirements of trustee*

124. The MPFA requires all trustees to maintain an appropriate internal control framework with respect to the management and administration of schemes. Trustees are also required to submit an annual report to the MPFA on their control objectives and internal control measures (Trustee's Report).
125. Reference would be made to section 39 of the General Regulation for details of the control objectives and internal control measures that must be established for each scheme and be maintained at all times while the scheme is registered.
126. Certain schemes may be exempted from these requirements. Reference would be made to the relevant regulation for further information.
127. Certain sections of the MPFSO as set out in section 39(2)(ca) of the General Regulation related to the transfer of accrued benefits to an account, specified notice and locating scheme members relevant to DIS may not be applicable for the reporting period.
128. The General Regulation specifies the requirements for trustees to report to the MPFA and reference would be made to the General Regulation for details of these requirements. A Trustee's Report would normally set out:
- a. a statement of responsibility;

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<sup>2</sup> The auditor should obtain management representation specifically for reporting under section 74(5)(b) of the General Regulation.

- b. the trustee's control objectives in relation to the safeguarding of scheme assets, the recording of transactions and the compliance with the General Regulation;
  - c. details of each of the specific control procedures and measures designed to achieve the control objectives;
  - d. details of any significant changes to the control objectives, procedures and measures during the period;
  - e. details of any exceptions to the control objectives, procedures and measures during the period; and
  - f. an assertion by the trustee that it has reviewed the control objectives, and the control procedures and measures in operation.
129. In order that the statement by the trustee is fairly described, the trustee should include in the Trustee's Report a description of any material weaknesses identified which have, in its view, affected whether control procedures and measures are in place, or reduced the effectiveness, or prevented the operation, of control procedures and measures, if those weaknesses were not themselves identified and rectified within an appropriate time.

*Requirements of the auditor*

130. The MPFA requires the Trustee's Report on internal controls to be reviewed by the auditor (section 113 of the General Regulation), and the auditor is required to report to the trustee:
- a. whether or not appropriate control objectives were established and maintained for the scheme during the period to which the report relates;
  - b. if appropriate control objectives were so established and maintained, whether or not effective internal control measures were established and maintained for the purpose of achieving those objectives; and
  - c. whether or not those internal control measures (if any) were likely to have been sufficiently effective to provide a reasonable assurance that the control objectives established and maintained for the scheme would be achieved if those measures were fully and properly implemented.
131. For the reporting set out in paragraph 130(a) above, the auditor should ascertain which sections of the MPFSO as set out in section 39(2)(ca) of the General Regulation related to the transfer of accrued benefits to an account, specified notice, and locating scheme members relevant to DIS are applicable for the reporting period. Auditors should include an Other Matter paragraph in the report to state the sections that are not applicable, the name of the relevant scheme(s) and the reasons.
132. The auditor is also required to state:
- a. whether or not, during the course of the review of the Trustee's Report, the auditor became aware of any shortcomings in the internal control measures that could materially affect the operation of the scheme (including its financial position) or the financial interests of scheme members; and
  - b. details of any such shortcomings the auditor became aware of.

*Requirements of both the trustee and auditor*

133. Both the Trustee's Report and the auditor's report on a review thereof under sections 112 and 113 of the General Regulation respectively are submitted to the MPFA in accordance with section 111 of the General Regulation. In practice the requirements of sections 112 and 113 of

the General Regulation when taken together, will mean that the trustee will be required to prepare a draft Trustee's Report in time for the auditor to review and attach the auditor's report thereto under section 113 of the General Regulation.

134. The MPFA has issued guidelines relating to the reporting requirements of the trustee and auditor in respect of the internal control objectives and control measures for each scheme in "Guidelines on Internal Control Report for each Registered Scheme" ("MPFA Guidelines II.6").
135. It is recognised that the control objectives and procedures may differ from trustee to trustee depending on the trustee's own assessment and tolerance of the risk level in the organization, its specific operating system, size of the business, types of products on offer etc.
136. The MPFA Guidelines II.6 is not intended to prescribe specific control systems for all schemes and the measures described in the MPFA Guidelines II.6 are not intended to be exhaustive and in many instances alternative control procedures and measures may be equally appropriate and acceptable.
137. Even though trustees are not required to report on all the control objectives and measures applicable to their schemes, trustees are expected to ensure that a proper system of internal controls is in place for all aspects of their schemes' operations and are expected to ensure that as a minimum the requirements specified by the MPFA are complied with.
138. The auditor is expected to report on the design effectiveness of the internal controls and is therefore not expected to test or ascertain whether the control objectives or internal control measures were actually implemented during the period.
139. It is recognised that the auditor of the trustee may be different from the auditor of the scheme. It is also possible that different auditors may be appointed to each scheme managed by the same trustee.
140. If the Trustee's Report relates to only one scheme, then the Trustee's Report is submitted to the auditor of the scheme for review.
141. If the Trustee's Report relates to 2 or more schemes and the trustee specifies the financial period of one of the schemes to which the report relates as the relevant period nominated under section 111(1)(b) of the General Regulation, then the Trustee's Report is submitted to the auditor of that scheme for review.
142. If the Trustee's Report relates to 2 or more schemes and the financial year of the trustee is the relevant period nominated under section 111(1)(b) of the General Regulation, then the Trustee's Report is submitted to the auditor of the trustee for review.

#### **Procedures performed by the auditor**

143. In planning and performing this work, the auditor should refer to the principles in the HKSAE 3000 (Revised) applicable to assurance engagements.

#### *Terms of engagement*

144. In agreeing the terms of the engagement, the auditor would exclude liability in respect of any loss or damage caused by, or arising from, fraudulent acts, misrepresentation or wilful default on the part of the trustee, its directors, employees or agents. The auditor would also exclude liability to third parties. They would normally obtain a limitation in aggregate of the auditor's liability. It should be noted that it is not possible to limit liability in relation to death or personal injury caused by the negligence (within the meaning of section 2 of the Control of Exemption Clauses Ordinance) of the auditor.

*Planning the engagement*

145. In addition to the requirements contained in HKSAE 3000 (Revised), the following would need to be considered by the auditor:
- a. the structure with respect to a scheme operation may be different for each scheme. The auditor would need to understand the structure adopted in the administration and management of the scheme, i.e. who is and what are the custodian's responsibilities, who is and what are the trustee's responsibilities etc;
  - b. the terms of the contract between the trustee and service providers such as the custodian, third party administrator and the investment manager of the scheme;
  - c. the nature of services provided by the service providers and the extent to which the trustee's internal control measures interact with those of the service providers;
  - d. the methods adopted by the trustee to evaluate the appropriateness of the specified control objectives of the scheme and the effectiveness of the major procedures and internal control measures for achieving those objectives;
  - e. the type and extent of evidence supporting the trustee's evaluation/assertion about the effectiveness of the internal control procedures and measures;
  - f. the nature of control procedures relevant to the responsibility of the trustee in ensuring that a proper system of internal controls is in place for all aspects of the scheme's operation; and
  - g. matters affecting the industry, such as financial reporting practices, economic conditions, amendments to ordinances and regulations and technology changes.

*Situations where part of the trustee's responsibilities are outsourced to a third party*

146. The ultimate responsibility with respect to the implementation of, and ongoing compliance with, the necessary internal controls framework rests with the trustee. Where a trustee has delegated certain of its functions to another service provider, the auditor needs to consider the impact of this on the overall engagement with reference to HKSA 402.

*Evaluating design effectiveness*

147. To evaluate the effectiveness of control procedures, the auditor would obtain a general understanding of the control environment and information system to identify matters that are likely to have a significant impact on the effectiveness of particular control procedures and measures.
148. Procedures to evaluate the effectiveness of a specific control are concerned with whether that control is suitably designed to comply with the suggested control measures in the MPFA Guidelines II.6. Such procedures will vary depending upon the nature of the specific control, the nature of the trustee's documentation of the specific control, and the complexity and sophistication of the trustee's operations and systems.
149. The auditor would evaluate the effectiveness of the control procedures based on the identified control objective. This evaluation would be based on whether the control procedures have been suitably designed to reduce to an acceptably low level the risks that threaten achievement of the objectives relevant to the area of activity. Where the auditor is unable to identify control procedures designed to provide reasonable assurance about the reduction of risk, this would constitute a weakness in relation to design effectiveness.
150. The auditor would focus on the significance of controls in achieving the control objectives rather than on specific controls in isolation. The absence or inadequacy of a control designed to

achieve specific criteria may not be a deficiency if other controls specifically address the same criteria.

*Testing operating effectiveness*

151. It is recognised that the auditor cannot be aware of all the relevant control assertions made by the trustee in its report on internal controls, in particular as these might be affected by the other service providers' control procedures. The auditor does not have the responsibility to identify or test all the control objectives and procedures which have been included in the description of the control report prepared by the trustee and the auditor is not expected to test or ascertain whether the control objectives or internal control measures were actually implemented during the period under review.
152. However it is envisaged that in order to enable the auditor to form an opinion on the design effectiveness and on whether those internal control measures were likely to have been sufficiently effective to provide a reasonable assurance that the control objectives established and maintained for the scheme would be achieved if those measures were fully and properly implemented, the auditor would be required to carry out a limited level of testing.
153. These tests would ordinarily include procedures such as enquiries of appropriate personnel, inspection of relevant documentation, observation of the trustee's operations, and reapplication of, and reperformance of, the control measures to a certain extent.
154. Tests of operating effectiveness are concerned with how the control procedures were applied, the consistency with which they were applied, and by whom they were applied. The auditor would also need to consider the period of time over which the control procedures were applied.
155. The nature of a control procedure often influences the nature of tests of operating effectiveness that can be performed. For example, the auditor may examine evidence regarding a control where such evidence exists, however documentary evidence regarding some control procedures often does not exist. In these circumstances, the tests of operating effectiveness may consist of enquiry and observation only.
156. The decision about what comprises sufficient appropriate evidence is a matter of professional judgement. The auditor would consider for example:
  - a. the significance of the control procedure in achieving the relevant objective; and
  - b. the nature and extent of any tests of operating effectiveness performed by the trustee (management, internal auditing or other personnel).
157. Management, internal auditing or other personnel of the trustee may provide the auditor with the results of their tests of the operating effectiveness of certain aspects of internal control. Although the auditor would consider the results of such tests when evaluating operating effectiveness, it is the auditor's responsibility to obtain sufficient appropriate evidence to support the auditor's conclusion and, if appropriate, corroborate the results of such tests. When evaluating whether sufficient appropriate evidence has been obtained, the auditor would consider that evidence obtained through direct personal knowledge, observation, re-performance (to a limited extent only), and inspection is more persuasive than information obtained indirectly, such as from management, internal auditing or other personnel of the trustee. Furthermore, judgements about the sufficiency and appropriateness of evidence obtained and other factors affecting the auditor's conclusion, such as the significance of identified control weaknesses, are those of the auditor.

**The auditor's report pursuant to section 113 of the General Regulation**

158. The auditor's report is addressed to the trustee.
159. The auditor's report depends on the specific terms of engagement agreed with the trustee, but it is normally expected to contain:
- a. the title;
  - b. the addressee;
  - c. a statement as to the scope of the auditor's work;
  - d. a section dealing with the responsibilities of the trustee:
    - i. if not included in the Trustee's Report, a statement that it is the responsibility of the trustee to design, implement and maintain the control procedures; and
    - ii. it should also specify that it is the trustee's responsibilities to ensure adequate controls are implemented in the monitoring of other service providers where some or all of the trustee's responsibilities have been outsourced to a third party;
  - e. a section dealing with independence and quality control:
    - i. a statement that the auditor complies with the independence and other ethical requirements of the HKICPA's *Code of Ethics for Professional Accountants*; and
    - ii. A statement that the firm of which the auditor is a member applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*;
  - f. a section dealing with the responsibilities of the auditor:
    - i. the auditor's responsibilities;
    - ii. a statement that the engagement was conducted in accordance with HKSAE 3000 (Revised) and with reference to this Practice Note;
    - iii. a statement that the auditor is not required to verify whether the controls were in fact implemented during the period under review and that the auditor have performed very limited tests on the control procedures; and
    - iv. a statement that the auditor's work was limited to ensuring whether control measures designed by the trustee were in line with those recommended in the MPFA Guidelines II.6;
  - g. a statement that all control systems have inherent limitations and accordingly, errors and irregularities may occur and not be detected. Also, they cannot guarantee protection against fraudulent collusion especially on the part of those holding positions of authority or trust;
  - h. the auditor's conclusion:
    - i. a statement as to whether or not appropriate control objectives were established and maintained for the scheme during the period to which the report relates;

- ii. a statement as to whether or not effective internal control measures were established and maintained for the purpose of achieving those objectives during the period to which the report relates; and
  - iii. a statement as to whether or not those internal control measures (if any) were likely to have been sufficiently effective, in all material respects, to provide a reasonable assurance that the control objectives established and maintained for the scheme would be achieved if those measures were fully and properly implemented;
  - i. a statement as to whether or not, during the course of the review of the Trustee's Report, the auditor became aware of any shortcomings in the internal control measures that could materially affect the operation of the scheme (including its financial position) or the financial interests of scheme members;
  - j. details of any such shortcomings that the auditor became aware of; and
  - k. a statement as to the intended use of the report.
160. A suggested auditor's report suitable for such an engagement is included in Appendix 1 to this Practice Note (example 6).

*Report modifications*

161. The auditor would modify the auditor's report if any of the following conditions exist:
- a. there is a material weakness in the internal controls;
  - b. there is a restriction on the scope of the engagement; or
  - c. the trustee presents an assertion about only a segment of the internal controls, and not all the control objectives and control procedures as outlined in the General Regulation and the MPFA Guidelines II.6 are included in the Trustee's Report.

*Reporting material weaknesses in the internal controls*

162. Where the auditor has become aware of material weaknesses which are inadequately described in the Trustee's Report, the auditor would need to issue a modified conclusion<sup>3</sup> in the auditor's report and provide such a description in the auditor's report or a reference to such a description in the Trustee's Report. The auditor would also refer to any inaccurate or inadequate description of the trustee's control procedures in the Trustee's Report of which the auditor has become aware. It would also be helpful for the status of any corrective action taken by the trustee in relation to any reported weakness to be included in the auditor's report.
163. On occasions the trustee may seek to alter control objectives in order to prevent a modification in the report by the auditor. The auditor would assess carefully the appropriateness of any changes proposed to the Trustee's Report and the risks arising from this and consider the conclusion in the light of that assessment.
164. The trustee may express its intention to rectify a weakness at some future time. No conclusion would be given by the auditor in relation to such an expressed intention and the auditor's report would specifically state that fact. The auditor may, at the request of the trustee, test and report on any corrective action taken in respect of a weakness.

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<sup>3</sup> In the circumstances where the auditor expresses a qualified conclusion or a disclaimer of conclusion or adverse conclusion, the auditor's report is to be modified accordingly as required in paragraph 69(l)(v) of HKSAA 3000 (Revised). Further guidance is set out in paragraphs 74 to 77, A183, A189 to A192 of HKSAA 3000 (Revised).

165. The engagement is not intended to be planned and carried out in such a way that all control weaknesses that may possibly exist within the trustee can be identified during the course of the engagement. Furthermore as the auditor is not expected to test whether the control objectives and internal control measures were actually implemented during the period under review, the auditor cannot be expected to identify all control weaknesses that may possibly exist within the trustee's operation over the management and administration of schemes. This limitation must be clearly stated in both the engagement letter and the auditor's report.
166. However the auditor would also consider the statutory requirements to report material weaknesses to the MPFA (see paragraphs 169 to 173 below).
167. During the course of the engagement, if the auditor becomes aware of significant deficiencies in the trustee's system of internal control, to the extent that the shortcomings identified during the course of the auditor's work may materially affect the operation and financial position of the scheme. The auditor is required to include details of the shortcomings of which the auditor became aware in the report.
168. The auditor's conclusion is based on the procedures determined to be necessary for the collection of sufficient appropriate evidence, that evidence being persuasive rather than conclusive in nature. The assurance provided by the auditor on the effectiveness of internal controls is however restricted because of the nature of internal controls and the inherent limitations of any set of internal controls and their operations. These limitations include:
- a. the trustee's usual requirement that the cost of an internal control does not exceed the expected benefits to be derived;
  - b. most internal controls tend to be directed at routine rather than non-routine transactions/events;
  - c. the potential for human error due to carelessness, distraction or fatigue, misunderstanding of instructions and mistakes in judgement;
  - d. the possibility of circumvention of internal controls through the collusion of employees with one another or with parties outside the trustee;
  - e. the possibility that a person responsible for exercising an internal control could abuse that responsibility, for example, a member of management overriding a control procedure;
  - f. the possibility that management may not be subject to the same internal controls applicable to other personnel; and
  - g. the possibility that internal controls may become inadequate due to changes in conditions, and compliance with procedures may deteriorate.

## **Communications between the auditor and the MPFA**

### **Ad hoc reports to the MPFA under section 103 of the General Regulation**

169. Section 103 of the General Regulation requires the auditor to report the following matters to the MPFA in writing, if the auditor becomes aware of them while performing the duties:
- a. any matter that would cause the auditor to qualify the auditor's report on the financial statements of the scheme;
  - b. non-compliance with any of the following provisions of the MPFSO:
    - i. section 34DB(1)(a), (b), (c) or (d);
    - ii. section 34DC(1);



- iii. section 34DD(1) or (4);
  - iv. section 34DI(1) or (2);
  - v. section 34DJ(2), (3), (4) or (5);
  - vi. section 34DK(2);
- c. non-compliance with the following sections of the General Regulation:
- i. keeping proper accounting records (section 77); and
  - ii. keeping a separate account for each scheme member (section 78);
- d. any transaction that has resulted in a misappropriation of the funds of the scheme or the scheme assets;
- e. any payment from the funds of the scheme that is materially prejudicial to the interests of scheme members except where the trustee has fully reimbursed the scheme after the payment has been brought to the notice of the trustee;
- f. any combining of the scheme assets with the funds of the trustee or the assets of any persons except where the custodian:
- i. also holds the assets of one or more other scheme(s) or other financial schemes or undertakings; and
  - ii. keeps a separate account of the scheme assets and those other assets in such a way as to enable them to be separately identified;
- g. non-compliance with the legislation and guidelines on forbidden investment practices;
- h. non-compliance with section 135 of the General Regulation which requires the trustee to inform the MPFA in writing within 7 days after the end of the settlement period of non-payment of or discrepancy in mandatory contribution.
170. The auditor has no obligation to seek out grounds for making a report under section 103 of the General Regulation, nor does the section place an obligation on the auditor to conduct the work in such a way that there is reasonable certainty that the auditor will discover a matter upon which the MPFA may need to act. It is only when the auditor does become aware in the ordinary course of the work of such a matter, or of circumstances which suggest the existence of such a matter, that the auditor would consider reporting under this section.
171. In the event that the auditor becomes aware of any matters in paragraph 169 above, the auditor may bring the matter to the trustee's attention in writing and request an explanation of the matter. The trustee is required to rectify the situation within such period as the auditor considers to be reasonable. If the trustee complies with the auditor's request in this respect, the auditor is not required to report the matter to the MPFA. However, the auditor must not give such notice:
- a. if the matter relates to a transaction, which in the opinion of the auditor, is or has resulted in a material misappropriation of the funds of the scheme or the scheme assets; or
  - b. if bringing the matter to the attention of the trustee could reasonably be expected to detrimentally affect the interests of the scheme members.
172. If on becoming aware of matters reported in accordance with paragraph 169 above, the MPFA is of the opinion that the matter is capable of being rectified, the MPFA may ask the trustee to rectify the matter. As soon as practicable after giving such a direction, the MPFA will request

the auditor in writing to provide the MPFA with a further report as to whether or not the trustee has rectified the matter.

173. If upon receiving a request in writing from the MPFA to provide to them a further report as to whether or not the trustee has rectified the matter as specified in the letter, the auditor must as soon as practicable after the end of the period specified in the notice and at the expense of the trustee, issue such a report to the MPFA.

**Statutory protection under section 42A of the MPFSO**

174. The MPFSO (section 42A) introduces statutory protection for current and prior auditors from liability to their client for breach of confidentiality. Such statutory protection is available when the auditor communicates directly with the MPFA (whether or not in response to a request of the MPFA) in good faith, if the auditor became aware of the matter in the capacity as the auditor and on matters relevant to a function of the MPFA.
175. Section 42A of the MPFSO does not lay down any rules nor specify the circumstances in which the auditor is to communicate any matter to the MPFA. It provides a statutory mechanism whereby the auditor may make matters known to the MPFA without breaching the duty of confidentiality.
176. Confidentiality is an implied term of an auditor's contract with the client, but in certain circumstances and under conditions specified in section 42A of the MPFSO it does not prevail, since the auditor is entitled to communicate information or opinions on a matter relating to the business or affairs of the client relevant to the MPFA's functions without the duty of confidentiality owed to the client being regarded as having been breached.
177. Examples of circumstances in which the auditor may communicate a matter to the MPFA under section 42A of the MPFSO include:
- a. the auditor considers scheme members have incurred, or are at significant risk of incurring, a material loss as a result of a trustee carrying on business in a manner that is not fit and proper or that is in breach of the MPFSO or the General Regulation;
  - b. there is evidence of:
    - i. fraud, dishonesty or serious incompetence; or
    - ii. serious failure to observe requirements of the MPFSO or the General Regulation or conditions imposed on the trustee by the MPFA if such failure impacts scheme members;
  - c. it has come to the attention of the auditor that the procedures, records or systems fail significantly to comply with, or to demonstrate compliance with, requirements set by the MPFA to which the trustee or the scheme is subject; and
  - d. the position is such that because of a significant risk which is material to the collective interests of scheme members, the scheme members' interests would be better safeguarded if the MPFA were aware of the position.
178. Clearly the potential nature of matters which may be reported is very wide, but as explained in paragraph 181 below this does not, of itself, require the auditor to extend the scope of the work in order to discover matters and it will only be in exceptional circumstances that the auditor may choose to seek statutory protection.
179. Any protected communication can be made either on the auditor's initiative or in response to a request from the MPFA for information. The auditor would normally co-operate with the MPFA and respond to any requests from the MPFA for information, provided the auditor has no reason to doubt that the request is relevant to the MPFA's functions. The auditor may communicate a matter to the MPFA with the protection of section 42A of the MPFSO regardless of the source

of that information, provided the auditor became aware of the matter in the capacity as the auditor of the scheme and the auditor does so in good faith.

180. Matters of which the auditor becomes aware "in the capacity as the auditor" may not be restricted to those matters identified by the auditor during the course of the audit work. The auditor may become aware of a matter which is relevant to the functions of the MPFA during the course of the work for the trustee other than audit work or through private discussions on social or other occasions, in which case the information will be known to them as individuals. In circumstances which suggest that a matter would be reported to the MPFA if knowledge of it had been obtained in the capacity as the auditor, it would be prudent to make enquiries in the course of the audit work in order to establish whether this is the case from information obtained in this capacity.
181. The auditor cannot be expected to be aware of all circumstances which, had the auditor known of them, would have led him/ her to exercise the right to communicate under section 42A of the MPFSO. This section does not require the auditor to change the scope of the audit or other work for the client, nor the frequency or timing of the visits. The auditor has no obligation to seek out grounds for making a report under section 42A of the MPFSO. The section does not place an obligation on the auditor to conduct the work in such a way that there is reasonable certainty that the auditor will discover a matter upon which the MPFA may need to act. It is only when the auditor does become aware in the ordinary course of the work of such a matter, or of circumstances which suggest the existence of such a matter, that the auditor would consider using the protection of section 42A of the MPFSO.
182. The MPFA recognises that it would not be appropriate for the auditor to report information which the auditor has obtained or matters which the auditor has identified through the professional relationship with another client, even though the information obtained or the matters identified may relate to a trustee or a scheme. However, the MPFA expects the trustee to advise its auditor when it appoints a third party (including another department of the same firm) to review, investigate or report on any aspects of its records and systems and to provide the auditor with copies of reports by such a third party promptly after their receipt. The auditor can, if appropriate, make enquiries in the capacity as the auditor to ascertain whether any findings of the reports should be reported to the MPFA.
183. It should be noted that section 42A of the MPFSO will not provide protection to the auditor where the auditor could be held to have acted maliciously or in bad faith or if the information reported is outside the scope of that section. The MPFSO does not, therefore, provide complete immunity from all types of legal action by all parties affected, or subsequently affected, by the auditor's action in reporting to the MPFA. The auditor would consider taking legal or other professional advice before making the decision about whether, or in what manner, to report and in order, for example, to ensure that the form and content of the auditor's report are such as to secure the protection of section 42A of the MPFSO and that it only includes relevant material.
184. The auditor is protected, however, even if the information which the auditor communicates fall short of proof, or the opinion which the auditor communicates cannot be verified. An auditor who can demonstrate that he/ she has acted reasonably and in good faith in informing the MPFA of a reportable matter would not be held in breach of duty to the client even if, after an investigation, it were found there was not a matter which needed to be reported. These are areas where the auditor may wish to consider taking legal advice before making a report.
185. Whilst no breach of statutory duty may arise, it should be appreciated that there is no protection given by the MPFSO, if the auditor, after becoming aware of an occurrence, fail to report, promptly, or at all, to the MPFA. Furthermore, it should be recognised that speed of reporting is likely to be important in order to enable the MPFA to protect the interests of scheme members.

## **MPFA may require certain reports to be prepared by the auditor under section 30 of the MPFSO**

186. Under section 30 of the MPFSO, if at any time the MPFA reasonably believes that circumstances exist or have existed which may prejudice the accrued benefits of a member of a scheme or the trustee has failed to comply with the relevant sections set out in section 30(1A), it may require a trustee, by written notice, to arrange for the auditor (who must be approved by the MPFA) to investigate whether such circumstances exist, or have existed, or to investigate whether or not the trustee has failed to comply with the provision, and to investigate any other matter relating to the trustee or the scheme as specified by the MPFA.
187. A copy of the auditor's report on the investigation must be provided to the MPFA and may be published or supplied to a scheme member that the MPFA believes may have been prejudiced.

## **Rights and duties of the auditor**

### **Offence to obstruct**

188. Under section 107 of the General Regulation, it is an offence for the trustee of a scheme or a service provider appointed or engaged:
- a. not to allow the auditor of the scheme access to all accounting records and other records relating to the scheme and to the trustee of the scheme that are in the possession of that trustee or service provider;
  - b. not to give any information or explanation to the auditor as and when reasonably required by the auditor; and
  - c. to obstruct, hinder or delay the auditor in the performance of the auditor's duties or the exercise of the auditor's powers.

### **Offence to make false or misleading statement**

189. A person who, in any document given to the auditor of a scheme, makes a statement that the person knows to be false or misleading in a material respect, or recklessly makes a statement which is false or misleading, commits an offence and is liable on conviction:
- a. to a fine and imprisonment for 12 months on the first occasion on which the person is convicted of the offence; and
  - b. to a fine of HK\$200,000 and to imprisonment for 2 years on each subsequent offence.

### **Certain statements of the auditor not admissible evidence**

190. The following statements made by the auditor are not admissible in evidence in any civil or criminal proceedings against the auditor and they may not be made the grounds of a prosecution or other legal proceeding against the auditor:
- a. a statement made by the auditor in a notice to the MPFA under Part VIII of the General Regulation; or
  - b. a statement made in answer to an inquiry by the MPFA; or
  - c. reasons for the auditor's removal or resignation from office; or
  - d. reasons for not seeking reappointment.

**Removal and resignation of the auditor**

191. The removal of the auditor by the trustee will take effect if the auditor and the MPFA are notified in writing within 2 working days after the removal.
192. The auditor must write to the MPFA, within 2 working days of receiving the notice from the trustee, giving reasons why, in the auditor's opinion, he/ she was removed from office.
193. The auditor of a scheme may resign from office by giving written notice to the trustee.
194. An auditor who does not wish to be re-appointed for a further period, if the initial appointment was for a specified period, must notify the trustee in writing.
195. Where the auditor determines to resign in the circumstances set out in paragraphs 193 and 194 above, the written notice of this fact to the trustee must be accompanied by:
  - a. a statement that, to the best of the auditor's knowledge and belief, there are no circumstances relating to the resignation or decision not to seek reappointment that would prejudicially affect the interests of the scheme members to a material extent; or
  - b. a statement specifying the circumstances giving rise to the resignation or decision not to accept re-appointment.
196. If a statement under paragraph 195(b) above is given to the trustee, a copy of the notice must be given to the MPFA within 2 working days after giving the notice to the trustee.

**PART III**  
**ADDITIONAL GUIDANCE RELEVANT TO**  
**THE AUDITOR OF AN ORSO SCHEME**

**General**

197. The reference in this Part to a retirement scheme or scheme means an ORSO scheme.

**Appointment of the auditor**

198. The ORSO (section 68) requires any statement, report or other document to be prepared by an auditor in respect of a Hong Kong domiciled scheme to be prepared by a Certified Public Accountant (Practising) as defined by section 2 of the Professional Accountants Ordinance.

199. For an offshore scheme, they must be prepared by a Certified Public Accountant (Practising) or any person who may lawfully practise as a professional accountant in the country or jurisdiction which is the domicile of the scheme and who holds such qualification as the MPFA may accept as being of a standard comparable to that of a Certified Public Accountant (Practising).

**Reporting under section 20 of the ORSO**

200. The ORSO (section 20) requires the administrator of a scheme to submit the financial statements of the scheme to an auditor annually, for the purpose of independent audit. With few exceptions (see section 20(5) of the ORSO), all schemes, regardless of size or type must be audited. A copy of the audited financial statements of the scheme is required to be submitted by the administrator to the MPFA within 6 months after the end of the scheme's financial period.

201. The first audit would be required in respect of the first financial period ending after the scheme is registered.

**Specific audit areas**

*Investments*

202. Section 27 of the ORSO sets out the investment requirement for an ORSO scheme. Section 27(2) imposes the following requirements in respect of investment of scheme assets:

- a. not more than 10% of the assets of the scheme shall consist of restricted investments;
- b. no assets of the scheme shall consist of a loan to the relevant employer of the scheme or an associate of the relevant employer;
- c. subject to subsection (3), no asset of the scheme acquired on or after 15 October 1993 shall consist of investments in the share capital of a body corporate which share capital is not –
  - i. listed on a recognized stock market as defined in section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance; or
  - ii. publicly listed on a specified stock exchange as defined in that section.

For further details of the requirements, the auditor is required to refer to section 27 of the ORSO.

203. The auditor would need to perform such procedures as are considered necessary in order to obtain sufficient appropriate audit evidence to enable the auditor to report as to whether or not the requirements of section 27(2) of the ORSO in respect of investment restrictions have been complied with as regards the scheme as at the last day of the year and two other dates in the year as the auditor may elect, provided that the intervening period between all such dates shall not be shorter than three months. Where a scheme has been in operation for less than a full year and the requirements of section 27(2) cannot be satisfied in full, it is recommended that the auditor would select three dates which may not necessarily be three months apart. In planning and performing this work, the auditor should refer to the principles in the HKSAE 3000 (Revised) applicable to assurance engagements.

*Contributions*

204. The ORSO (section 20) also requires the auditor to include a statement as to whether or not, in the auditor's opinion, contributions payable to the scheme during the financial year have been paid in accordance with the scheme rules or the relevant undertaking under which they were payable.
205. The wording of the opinion on contributions is more specific than the opinion required on the financial statements. It requires the auditor to consider the amounts of contributions payable to the scheme and, where the trust deed or rules are specific, the dates of payment.
206. It may be necessary for the auditor to consider whether the results of audit tests or evidence on contributions require a qualified opinion to be given on contributions. Matters to be considered in this respect include the opinion in Form A issued by the employer's auditor (paragraphs 218 - 237 below) and whether any discrepancies favour one particular member or group of members and the extent to which the growth of the fund has suffered because of a failure to pay contributions to the scheme in a proper manner.
207. The auditor may, for example, in the case of a scheme having several participating employers, be unable to obtain sufficient evidence on contributions to give an unqualified opinion. The scope of the examination might be expressly stated as being limited to the transactions as recorded in the books of the scheme.
208. Section 27(2) of the ORSO prohibits loans from the scheme to the employer. Where contributions are outstanding these may, under some circumstances, become de facto loans.

*Accrued benefits*

209. The financial statements of a retirement scheme are required to disclose:
- a. the liability of the scheme in respect of the benefits which have accrued to members and beneficiaries as a result of their membership of the scheme up to the financial year end of the scheme (aggregate past service liabilities); and
  - b. the benefits to which members would have been entitled in the event that they had resigned from membership of the scheme as at the financial year end date (aggregated vested liabilities). These liabilities are calculated differently depending upon the type of the retirement scheme and therefore the auditing procedures vary.
210. The aggregate past service liability to members and beneficiaries of a defined contribution scheme is the accumulated contributions and allocated net earnings of the scheme. This is normally equivalent to the difference between the carrying amounts of the assets and the other liabilities (including forfeitures available to the employer by way of offset against future contributions or cash refund) of the scheme as at the financial year end date, less any reserves or other net earnings which have not been allocated for the benefit of members. This is normally the amount shown as the total balances of the members' accounts.

211. The aggregate past service liability for defined benefit schemes is the present value of the portion of expected future benefit payments which arise from membership of the scheme up to the financial year end.
212. The amount of the liability depends upon an actuarial review which makes reference to the scheme rules and assumptions such as expected future salary levels, mortality rates and membership turnover.
213. The gross liability is discounted to its present value by applying a discount rate consistent with the rate of return that the scheme would anticipate that it could achieve if, at the financial year end date, sufficient funds were available to meet accrued benefits as they fall due.
214. The procedures appropriate to this aspect of the audit usually include the review of the work of the actuary, which is discussed in paragraphs 27 to 43 above.
215. The aggregate vested liability of a defined contribution scheme is the accumulation of the members' contributions plus the appropriate proportion of the employer's contributions determined by the governing rules of the scheme and the net earnings of the scheme allocated on both balances as at the financial year end date. The aggregate vested liability of a defined benefit scheme is determined by the governing rules of the scheme and is generally calculated by the actuary on the basis of length of service and the salaries of the members as at the financial year end date.

**The auditor's reports**

216. Section 20 of the ORSO requires:
- a. the auditor's report in relation to the financial statements of a scheme and a financial year of it to state:
    - i. whether or not in the auditor's opinion the financial statements give a true and fair view of the disposition, at the last day of the year, of the scheme assets and liabilities and of its financial transactions for the year then ended;
    - ii. where:
      - the auditor has been denied access to the employer's books and records in contravention of section 20(7) of the ORSO; or
      - the auditor has not been given necessary information and explanations as required by section 20(7) of the ORSO,
 such fact; and
    - iii. such other information as the MPFA may specify in guidelines issued by it; and
  - b. the auditor's report on a scheme's compliance with certain requirements of the ORSO to state whether or not in the auditor's opinion:
    - i. proper accounts and records have been kept as regards all assets, liabilities and financial transactions of the scheme;
    - ii. where the scheme is a defined benefit scheme, the relevant undertaking has been complied with;
    - iii. where the scheme is a defined contribution scheme,
      - contributions have been made in accordance with the terms of the scheme; and



- a shortfall between the scheme's assets and the scheme's aggregate vested liability exists, and if so stating the amount of such shortfall at the last day of the year;
- iv. as at the end of the year the assets of the scheme were subject to any assignment, charge, pledge or other encumbrance except:
  - the trust (if any) governing the scheme;
  - any charge or pledge created for the purposes of securing loans necessary for meeting the liabilities of the scheme; and
  - any option to acquire for valuable consideration any interest in the assets of the scheme granted in the normal course of business; and
- v. the requirements of section 27(2) of the ORSO in respect of investment restrictions have been complied with as regards the scheme as at the last day of the year and two such other dates in the year as the auditor may elect, provided that the intervening period between such dates shall not be shorter than three months.

217. The auditor's reports are addressed in accordance with the trust deed or scheme rules. Where the deed is silent, the auditor's reports would be addressed to the administrator. Example auditor's reports are included in Appendix 1 to this Practice Note (examples 7 and 8).

### **Responsibility and scope of work of the employer's auditor under section 20(7A) of the ORSO**

218. The ORSO (section 20(7A)) requires the relevant employer to appoint an auditor ( "the employer's auditor" ) who provides confirmation to the administrator's auditor not later than four months after the scheme's financial year end on such matters as may be reasonably required in order for the administrator's auditor to discharge his obligations. The ORSO defines "the administrator's auditor" as being the auditor who is forming the opinion on the scheme's financial statements. The employer's auditor does not need to be the same as the administrator's auditor. Separate engagement letters are required for the appointments of the employer's auditor and the administrator's auditor, whether or not they are the same firm.
219. The role of the employer's auditor is to report under "Forms A and B" as issued by the Registrar under section 20(7A) of the ORSO. Form A is the employer's auditor's statement issued to the administrator's auditor, and Form B is the statement on details of contributions. The employer's auditor is advised to refer to the Guidelines issued by the Registrar on the preparation of the Statement of the Employer's Auditor under section 20(7A) of the ORSO ("Registrar's Guidelines")<sup>4</sup> for guidance.
220. The primary responsibility for completing Form B lies with the employer although in practice it is often completed by the administrator or with assistance from the administrator. Therefore, the employer's auditor would allow the employer to make amendments on the Form B prepared by the administrator if the information contained therein is not correct. Before carrying out any work on Form B, the employer's auditor would ensure that Form B is signed by the employer, or where Form B is signed by the administrator, that it is counter-signed by the employer.
221. The responsibility of the employer's auditor is to complete Form A which is addressed to the administrator's auditor and includes an opinion as to whether proper accounts and records have been kept in relation to contributions and whether Form B is in accordance with the books and records of the employer.

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<sup>4</sup> Registrar's Guidelines can be found in the link:  
[http://www.mpfa.org.hk/eng/information\\_centre/forms/orso\\_schemes/annual\\_submitted\\_doc/files/Guidelines\\_on\\_Statement\\_of\\_Employers\\_Auditor\\_eng\\_version.pdf](http://www.mpfa.org.hk/eng/information_centre/forms/orso_schemes/annual_submitted_doc/files/Guidelines_on_Statement_of_Employers_Auditor_eng_version.pdf)

222. As the employer's auditor's work in relation to Forms A and B is usually not within the scope of a normal statutory audit of the financial statements of the employer, the employer's auditor would agree the terms of this engagement in writing with the employer.
223. Where the employer's auditor is not the statutory auditor for the annual audit of the financial statements of the employer, under paragraph 440.10 of the Code of Ethics for Professional Accountants under section 440 "Changes in a professional appointment", the employer's auditor is required to notify the statutory auditor of the work he is undertaking. This notification need not be given if the client advances a valid reason against it. The employer's auditor has the right to expect full co-operation of the statutory auditor in carrying out his assignment.
224. For a scheme that covers more than one relevant employer, the employer's auditor would set out in the engagement letter which relevant employers' Form B will be examined by him.

**Procedures performed by the employer's auditor**

225. The objective of the employer's auditor giving such an opinion in Form A is to provide the administrator's auditor with reliable audit evidence regarding contributions paid and payable for the financial year of the scheme.
226. The administrator's auditor is responsible for expressing an opinion on the financial statements of the scheme. Among other things, the administrator's auditor is required to report whether proper accounts and records have been kept; whether contributions have been made in accordance with the terms of the scheme and; for defined benefit schemes, whether the relevant undertaking has been complied with in respect of the financial year of the scheme.
227. It is therefore important that the employer's auditor plans and performs appropriate and sufficient procedures on Form B to justify his opinion given in Form A. This opinion provides an important part of the audit evidence required by the administrator's auditor in forming his opinion on the financial statements of the scheme.
228. In considering the nature and extent of procedures necessary, the employer's auditor would have regard to a number of factors, including:
- a. whether the financial year end of the scheme is the same as the financial year end of the employer;
  - b. whether the financial statements of the employer have been or are required to be audited;
  - c. whether the auditor's report on the employer's financial statements was qualified or unqualified;
  - d. the extent and nature of audit work performed on payroll and personnel records during the financial statement audit of the employer and the results of such audit work; and
  - e. the employer's auditor's general knowledge of the employer's business, internal controls and reliability of records.
229. Where the scheme is a defined benefit scheme, the employer's auditor would also have regard to the latest actuarial certificate and funding recommendations for the scheme as well as the "relevant undertaking" made by the employer to contribute to the scheme's funds in accordance with the actuary's recommendations. In such circumstances, the employer's auditor would pay particular attention to the column on Form B headed "percentage of payroll" under "Ordinary contributions from relevant employer".

**Dates of receipt and payment of contributions**

230. Where the date of receipt of a contribution by the administrator as shown on Form B differs by more than 14 calendar days from the date of payment as recorded in the employer's records, paragraph 23 of the Registrar's Guidelines requires that the opinion in Form A should be qualified in this respect and details of such differences should be provided in Form A.
231. The primary purpose of this qualification of opinion is to alert the administrator's auditor to the possibility of errors or irregularities arising which result in undue delay of contributions being credited to the scheme for the benefit of members. In determining what represents the "date of payment as recorded in the employer's records", the employer's auditor would have regard to the accounting system of the employer. The appropriate date may be determined from different records of the employer, depending upon the accounting system, but should usually represent the date of the cheque or other form of payment made by the employer in respect of the payment of contributions to the administrator.
232. For a scheme which the members or a class of members and their employers are exempted under section 5 of the MPFSO, the employer must pay all contributions to the scheme in respect of a "relevant" period by the due date. The term "relevant period" means each period in respect of which contributions are required to be paid. The due date by which employer contributions are required to have been paid to the scheme is:
- a. if the contribution requirements of a relevant scheme have specified the date on which the relevant employer is to pay a contribution, the due date for that contribution shall be the date so specified.
  - b. if the contribution requirements of a relevant scheme have not specified the date on which the relevant employer is to pay a contribution, the due date for the contribution for each relevant period shall be:
    - i. a day within a month next following the expiration of the relevant period as specified in a statement sent by the employer to the designated person; or
    - ii. if not so specified, the tenth day after the relevant period.

Such required date of payment should not be confused with the payroll date, although in some cases the contribution payment may be tied to the payroll date.

233. Where an employer fails to comply with its obligation to pay contributions by the due date the administrator is obliged to issue a written notice to the employer requiring the employer to pay the outstanding contributions within 30 days of the date of the notice. Such notice must be sent to the employer as soon as practicable after the administrator becomes aware of the failure by the employer to pay contributions by the due date.
234. Where the employer, despite the reminder from the administrator, still fails to pay the contributions which are in arrears the administrator is then obliged to notify the MPFA which, in turn, has the power to issue various payment notices to the employer and impose surcharges and financial penalties on the employer.

**Opinion by the employer's auditor (Form A)**

235. The employer's auditor is required to express his opinion in the general format set out in Form A. It is important that in expressing his opinion on whether proper accounts and records have been kept in relation to contributions, the employer's auditor indicates clearly whether or not the opinion is qualified, and if it is, precisely what the qualification(s) relate to. Similarly, in expressing his opinion on whether Form B is in accordance with the books and records of the relevant employer, the employer's auditor indicates whether or not the opinion is qualified, and if it is, the details of the exceptions identified. The employer's auditor would need to exercise professional judgement in deciding whether to include all or merely material exceptions identified by him in Form A.

236. The employer's auditor may find it desirable to reproduce Form A on the auditor's own letterheads. This is in order, provided that the contents of Form A conform to those specified in the Registrar's Guidelines. The template of Form A is included in Appendix 2 to this PN.
237. The employer's auditor's work on Form B is essentially an extension of a payroll audit. Therefore in forming an opinion in Form A in respect of whether proper accounts and records have been kept in relation to contributions, the employer's auditor considers whether the payroll and contribution details stated in Form B agree to the books kept by the employer. In addition, the employer's auditor considers whether sufficient personnel records have been kept in respect of each employee. Such personnel records may include the name of the employee, employment letter or contract, age, salary history, date of commencement of employment and date of joining the scheme, etc.

### **MPFA may require certain reports to be prepared by the auditor under section 32 of the ORSO**

238. Under section 32 of the ORSO, the MPFA may under certain conditions require the administrator to cause an auditor approved by the MPFA to prepare a report on any matters specified in a written notice from the MPFA, and to supply the report to the MPFA. Such additional reports would constitute a separate appointment from that as the auditor of the financial statements of the scheme. Accordingly, any auditor appointed under these circumstances would agree the terms of this engagement in writing with the administrator.

### **Responsibility and scope of work of the auditor under paragraph 1A of Part 1 and paragraph 2A of Part 2 of Schedule 1 to the ORSO**

239. Under section 15 of the ORSO, an application for registration of an ORSO scheme shall be made by the relevant employer, or for a group scheme by the representative employer of the scheme, to the Registrar. The application shall be accompanied:
- a. in case the scheme to which the application relates is a participating scheme of a pooling agreement, by the documents set out in Part 2 of Schedule 1; or
  - b. in case the scheme is not such a participating scheme of a pooling agreement, by the documents set out in Part 1 of Schedule 1.
240. Schedule 1 paragraph 1A of Part 1 and paragraph 2A of Part 2 require a statement by an auditor stating, as at a date within 3 months before the date of application –
- a. whether or not, in the auditor's opinion, all members of the scheme are eligible persons in all material respects; and
  - b. if not, the extent to which the requirement is, in the auditor's opinion, not complied with.
241. The meaning of "eligible person" as set out under section 2A of the ORSO is as follows:
- (1) An eligible person, in relation to an ORSO scheme, is an individual who is entitled or prospectively entitled to benefits under the scheme by virtue of –
    - a. the individual's employment<sup>5</sup> (whether past or present) by the relevant employer of the scheme; or

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<sup>5</sup> Section 2B of the ORSO further elaborates on the meaning of "employment".

- b. an agreement (transfer agreement)
  - (i) made between
    - (A) the relevant employer of the scheme; and
    - (B) the relevant employer of another occupational retirement scheme (original scheme) of which the individual was a member, whether or not the individual is a party to the agreement; and
  - (ii) made as a result of any company amalgamation, restructuring, joint venture, or any other business transaction of a similar nature, conducted in good faith between the two employers.
- (2) However, for an individual to be an eligible person because of an entitlement by virtue of a transfer agreement, the individual must have been a member of the original scheme by virtue of being an individual described in (1) or (3) in relation to the original scheme.
- (3) Also, an eligible person is an individual having an interest in the estate of a deceased individual described in (1).

242. As stated in section 20B(3) of the ORSO, if without reasonable excuse, a person other than an eligible person is allowed to be a member of a registered scheme, the relevant employer of the scheme commits an offence and is liable on conviction to a fine and/or imprisonment.

**Procedures performed by an auditor**

- 243. As mentioned in paragraph 239 and 240 above, the employer should appoint an auditor to conduct a reasonable assurance engagement in accordance with HKSAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and issue the auditor's report as at a date within 3 months before the date of application. The auditor should agree the terms of the engagement with the employer in accordance with HKSAE 3000 (Revised).
- 244. The auditor is responsible for expressing an opinion on whether all members of the scheme are eligible persons as defined in section 2A of the ORSO in all material respects. It is therefore important that the auditor plans and performs appropriate and sufficient procedures.
- 245. In considering the nature and extent of procedures necessary, the auditor should obtain an understanding of internal controls in determination whether the members of the scheme are eligible persons as defined in section 2A of the ORSO. The auditor should plan and perform the engagement with an attitude of professional skepticism. In addition, the auditor should consider the number of scheme members and whether sufficient personnel records have been kept in respect of each member including those members working overseas and deceased members. Such personnel records may include the name of employee, employment letter or contract, date of commencement of employment, date of joining the scheme or pass away date of deceased members.
- 246. An example auditor's report for such an engagement is included in Appendix 1 to this Practice Note (example 11). This example report is an unmodified report. However, circumstances may arise where the auditor believes that an unmodified conclusion is not appropriate, the auditor should state, in the auditor's opinion, the extent to which the requirement is not complied with (as mentioned in paragraph 240 above). In the circumstances where the auditor expresses a qualified conclusion or a disclaimer of conclusion or adverse conclusion, the auditor's report is to be modified accordingly as required in paragraph 69(l)(v) of HKSAE 3000 (Revised). Further guidance is set out in paragraphs 74 to 77, A183, A189 to A192 of HKSAE 3000 (Revised).

## APPENDIX 1

**Example 1 - auditor's report on the  
financial statements of a MPF scheme - unqualified opinion**

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a MPF scheme other than a listed scheme using Hong Kong Financial Reporting Standards (HKFRSs). The audit is not a group audit (i.e., HKSA 600<sup>6</sup> does not apply).
- The financial statements are prepared by the trustee of the scheme in accordance with HKFRSs (a general purpose framework<sup>7</sup>).
- The terms of the audit engagement reflect the description of the trustee's responsibility for the financial statements in HKSA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the scheme's ability to continue as a going concern in accordance with HKSA 570 (Revised).<sup>8</sup>
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with HKSA 701.<sup>9</sup>
- The auditor has obtained all of the other information<sup>10</sup> prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under the Mandatory Provident Fund Schemes (General) Regulation.

**INDEPENDENT AUDITOR'S REPORT<sup>11</sup>**

To the Trustee of XYZ Scheme

**Report on the Audit of the Financial Statements****Opinion**

We have audited the financial statements of XYZ Scheme ("the Scheme") set out on pages ..... to ....., which comprise the statement of net assets available for benefits as at [*year end date*], and the statement of changes in net assets available for benefits and [cash flow statement][statement of cash flows]<sup>12</sup> for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Scheme as at [*year end date*], and of its financial transactions and cash flows for the year then ended in

<sup>6</sup> HKSA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>7</sup> HKSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 7(b)

<sup>8</sup> HKSA 570 (Revised), *Going Concern*.

<sup>9</sup> HKSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

<sup>10</sup> HKSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, paragraph 12(c)

<sup>11</sup> The auditor's report may be tailored to include reporting for constituent funds of the Scheme.

<sup>12</sup> Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

### **Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") and with reference to Practice Note 860.1 (Revised), *The Audit of Retirement Schemes* issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Scheme in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**

*[Reporting in accordance with the reporting requirements in HKSA 720 (Revised), The Auditor's Responsibilities Relating to Other Information – see Illustration 1 in Appendix 2 of HKSA 720 (Revised).]*

### **Responsibilities of Trustee and Those Charged with Governance for the Financial Statements<sup>13</sup>**

The trustee is responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and for such internal control as the trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustee either intends to liquidate the Scheme or to cease operations, or has no realistic alternative but to do so.

In addition, the trustee is required to ensure that the financial statements have been properly prepared in accordance with sections 80, 81, 83 and 84 of the Mandatory Provident Fund Schemes (General) Regulation ("General Regulation").

Those charged with governance are responsible for overseeing the Scheme's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.<sup>14</sup> Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. In addition, we are required to assess whether the financial statements of the Scheme have been properly prepared, in all material respects, in accordance with sections 80, 81, 83 and 84 of the General Regulation.

<sup>13</sup> Throughout the illustrative auditor's reports, the terms trustee and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

<sup>14</sup> Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".

Paragraph 41(b) of HKSA 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) of HKSA 700 (Revised) explains that when law, regulation or HKSA's expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustee.
- Conclude on the appropriateness of the trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### **Report on matters under the Mandatory Provident Fund Schemes (General) Regulation**

- a. In our opinion, the financial statements have been properly prepared, in all material respects, in accordance with sections 80, 81, 83 and 84 of the General Regulation.
- b. We have obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purpose of our audit.

ABC & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

[Auditor Address]

[Date]



**Example 2 - auditor's report on a MPF scheme's  
compliance with certain requirements of the  
Mandatory Provident Fund Schemes Ordinance and the  
Mandatory Provident Fund Schemes (General) Regulation  
- unqualified opinion**

**INDEPENDENT AUDITOR'S ASSURANCE REPORT**

To the Trustee of XYZ Scheme

We have audited the financial statements of XYZ Scheme ("the Scheme") for the year ended [*year end date*] in accordance with Hong Kong Standards on Auditing and with reference to Practice Note 860.1 (Revised), *The Audit of Retirement Schemes* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and have issued [an unqualified/a qualified] auditor's report thereon dated [*insert date here*].

Pursuant to section 102 of the Mandatory Provident Fund Schemes (General) Regulation ("General Regulation"), we are required to report whether the Scheme complied with certain requirements of the Mandatory Provident Fund Schemes Ordinance ("MPFSO") and the General Regulation.

*Trustee's Responsibility*

The General Regulation requires the trustee to ensure that:

- a. proper accounting and other records are kept in respect of the constituent funds of the Scheme, the Scheme assets and all financial transactions entered into in relation to the Scheme;
- b. the requirements specified in the guidelines made by the Mandatory Provident Fund Schemes Authority under section 28 of the MPFSO with respect to forbidden investment practices and the requirements of sections 37(2), 51 and 52 and Part X of, and Schedule 1 to, the General Regulation are complied with;
- c. the requirements under sections 34DB(1)(a), (b), (c) and (d), 34DC(1), 34DD(1) and (4), 34DI(1)<sup>15</sup> and (2)<sup>15</sup>, 34DJ(2)<sup>15</sup>, (3)<sup>15</sup>, (4)<sup>15</sup> and (5)<sup>15</sup> and 34DK(2)<sup>15</sup> of the MPFSO are complied with; and
- d. the Scheme assets are not subject to any encumbrance, otherwise than as permitted by the General Regulation.

*Our Independence and Quality Control*

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1<sup>16</sup> and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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<sup>15</sup> Delete the specific sections of the MPFSO related to the transfer of accrued benefits to an account, specified notice, and locating scheme members relating to DIS if these sections are not applicable for the reporting period. Refer to paragraph 96 for guidance.

<sup>16</sup> HKSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

*Auditor's Responsibility*

Our responsibility is to report on the Scheme's compliance with the above requirements based on the results of the procedures performed by us.<sup>17</sup>

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 860.1 (Revised), *The Audit of Retirement Schemes* issued by the HKICPA. We have planned and performed our work to obtain reasonable assurance on whether the Scheme has complied with the above requirements.

We have planned and performed such procedures as we considered necessary with reference to the procedures recommended in PN 860.1 (Revised), which included reviewing, on a test basis, evidence obtained from the [Trustee][Administrator] regarding the Scheme's compliance with the above requirements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Opinion*

Based on the foregoing:

1. in our opinion:
  - a. proper accounting and other records have been kept during the year ended *[year end date]* in respect of the constituent funds of the Scheme, the Scheme assets and all financial transactions entered into in relation to the Scheme; and
  - b. the requirements specified in the guidelines made by the Mandatory Provident Fund Schemes Authority under section 28 of the MPFSO with respect to forbidden investment practices and the requirements of sections 37(2), 51 and 52 and Part X of, and Schedule 1 to, the General Regulation have been complied with, in all material respects, as at *[year end date]*, *[.....]* \* and *[.....]* \*; and
  - c. the requirements specified in the MPFSO under sections 34DB(1)(a), (b), (c) and (d) 34DC(1) and 34DD(1) and (4)(a) with respect to the investment of accrued benefits and control of payment for services relating to *[name of CAF]* and *[name of A65F]* have been complied with, in all material respects, as at *[year end date]*, *[....]*\* and *[....]*\*; and
  - d. the requirements specified in the MPFSO under sections 34DI(1)<sup>15</sup> and (2)<sup>15</sup> and 34DK(2)<sup>15</sup> with respect to the transfer of accrued benefits to an account and specified notice, and 34DJ(2)<sup>15</sup>, (3)<sup>15</sup>, (4)<sup>15</sup> and (5)<sup>15</sup> with respect to locating scheme members relating to *[name of CAF]* and *[name of A65F]* have been complied with, in all material respects, during the *[period from [date] to [year end date]][year ended [year end date]]*; and
  - e. the requirements specified in section 34DD(4)(b) of the MPFSO with respect to the controls of out-of-pocket expenses of the *[name of CAF]* and *[name of A65F]* have been complied with, in all material respects, as at *[year end date]*.

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<sup>17</sup> Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".

\* *insert 2 other dates in the year selected by the auditor for performing the procedures on checking compliance provided that the intervening period between such dates is not shorter than 3 months.*

2. as at *[year end date]*, the Scheme assets were not subject to any encumbrance, otherwise than as permitted by the General Regulation.

*[Other Matter<sup>18</sup>*

The requirement(s) specified in the MPFSO under section(s) [34DI(1) and (2) and 34DK(2) with respect to the transfer of accrued benefits to an account and specified notice], [and 34DJ(2), (3), (4) and (5) with respect to locating scheme members] relating to *[name of CAF]* and *[name of A65F]* are not applicable to the trustee during the [period from *[date]* to *[year end date]*][year ended *[year end date]*] as the [trustee has [not commenced/completed] the relevant transitional provisions] [the default investment arrangement of the Scheme prior to 1 April 2017 was not guaranteed funds], [and *[state other reason(s), if applicable]*]. Accordingly, there is no reporting on these sections.]

*Intended Users and Purpose*

This report is intended solely for submission by the Trustee to the Mandatory Provident Fund Schemes Authority pursuant to section 102 of the General Regulation, and is not intended to be, and should not be, used by anyone for any other purpose.

ABC & Co.  
Certified Public Accountants (Practising) [or Certified Public Accountants]  
*[Auditor's Address]*  
Date

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<sup>18</sup> Auditors should include an Other Matter paragraph to state the sections that are not applicable in the reporting period and the reasons. Refer to paragraph 96 for guidance.

**Example 3 - auditor's report on an applicant trustee's compliance with prescribed capital adequacy requirements pursuant to section 18 of the Mandatory Provident Fund Schemes (General) Regulation - unqualified opinion**

**INDEPENDENT AUDITOR'S ASSURANCE REPORT PURSUANT TO SECTION 18 OF THE MANDATORY PROVIDENT FUND SCHEMES (GENERAL) REGULATION**

To the Directors of XYZ Limited ("the Company")

Pursuant to section 18 of the Mandatory Provident Fund Schemes (General) Regulation ("General Regulation"), we have been requested to report on the Company's compliance with prescribed capital adequacy requirements.

*Directors' Responsibility*

Under the General Regulation, the directors are responsible for the Company's compliance with prescribed capital adequacy requirements.

*Our Independence and Quality Control*

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1<sup>19</sup> and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

*Auditor's Responsibility*

Our responsibility is to report on the Company's compliance based on the results of the procedures performed by us.<sup>20</sup>

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 860.1 (Revised), *The Audit of Retirement Schemes* issued by the HKICPA. We have planned and performed our work to obtain reasonable assurance on whether the Company has complied, in all material respects, with prescribed capital adequacy requirements.

We have planned and performed such procedures as we considered necessary with reference to the procedures recommended in PN 860.1 (Revised), which included reviewing evidence obtained from the Company regarding the Company's compliance with the prescribed capital adequacy requirements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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<sup>19</sup> HKSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

<sup>20</sup> Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".

*Opinion*

Based on the foregoing, in our opinion the Company has complied, in all material respects, with prescribed capital adequacy requirements as set out in section 11[(2)/(3)] of the General Regulation as at *[insert date here]*.

*Intended Users and Purpose*

This report is intended solely for submission by the Company to the Mandatory Provident Fund Schemes Authority and is not intended to be, and should not be, used by anyone for any other purpose.

ABC & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

*[Auditor's Address]*

Date

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\* *the date agreed between the Company and the Mandatory Provident Fund Schemes Authority.*

**Example 4 - auditor's report on the trustee's compliance  
with prescribed capital adequacy requirements  
pursuant to section 115 of the Mandatory Provident  
Fund Schemes (General) Regulation - unqualified opinion**

**INDEPENDENT AUDITOR'S ASSURANCE REPORT PURSUANT TO SECTION 115 OF THE  
MANDATORY PROVIDENT FUND SCHEMES (GENERAL) REGULATION**

To XYZ Trustee ("the Trustee")

Pursuant to section 115 of the Mandatory Provident Fund Schemes (General) Regulation ("General Regulation"), we have been requested to report on the Trustee's compliance with prescribed capital adequacy requirements.

*Management's Responsibility*

Under the General Regulation, management is responsible for the Trustee's compliance with prescribed capital adequacy requirements.

*Our Independence and Quality Control*

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1<sup>21</sup> and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

*Auditor's Responsibility*

Our responsibility is to report on the Trustee's compliance based on the results of the procedures performed by us.<sup>22</sup>

We have audited the financial statements of the Trustee for the year ended *[year end date]* in accordance with Hong Kong Standards on Auditing issued by the HKICPA, and have issued *[an unqualified/a qualified]* auditor's report thereon dated *[insert date here]*.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 860.1 (Revised), *The Audit of Retirement Schemes* issued by the HKICPA. We have planned and performed our work to obtain reasonable assurance on whether the Trustee has complied, in all material respects, with prescribed capital adequacy requirements.

We have planned and performed such procedures as we considered necessary with reference to the procedures recommended in PN 860.1 (Revised), which included reviewing, on a test basis, evidence obtained from the Trustee regarding the Scheme's compliance with the above requirements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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<sup>21</sup> HKSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

<sup>22</sup> Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".

*Opinion*

Based on the foregoing, in our opinion the Trustee has complied, in all material respects, with prescribed capital adequacy requirements as set out in section 11[(2)/(3)] of the General Regulation as at *[year end date]*, *[.....]*\* and *[.....]*\*.

*Intended Users and Purpose*

This report is intended solely for submission by the Trustee to the Mandatory Provident Fund Schemes Authority and is not intended to be, and should not be, used by anyone for any other purpose.

ABC & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

*[Auditor's Address]* Date *[see note below]*

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\* *insert 2 other dates in the year selected by the auditor for performing procedures on checking compliance and such selected dates must be at least 3 months apart or such a shorter period the MPFA may allow.*

*Note: In practice, section 115 (5) of the General Regulation imposes a six month deadline for the submission of this report to the trustee in order that the trustee can comply with section 114 (1) of the General Regulation - submission of the trustee's and auditor's report to the MPFA.*

**Example 5 - report by the auditor of a service provider for submission to the trustee pursuant to section 74(5)(b) of the Mandatory Provident Fund Schemes (General) Regulation**

**INDEPENDENT AUDITOR'S REPORT  
TO THE DIRECTORS OF XYZ LIMITED  
PURSUANT TO SECTION 74(5)(b) OF THE MANDATORY PROVIDENT FUND SCHEMES  
(GENERAL) REGULATION**

Pursuant to section 74(5)(b) of the Mandatory Provident Fund Schemes (General) Regulation ( "General Regulation" ), we have been requested to issue a report, in respect of the Service Agreements made between XYZ Limited ("the Company") and ABC Trustee dated *[insert date here]* ( "Service Agreements" ).

***Directors' Responsibility***

Under the General Regulation, ABC Trustee requires the Company to submit to it a report of any material event and an annual report that complies with section 74(5) of the General Regulation. The directors of the Company are responsible for complying with the requirement of ABC Trustee in submitting the abovementioned reports to it.

***Auditor's Responsibility***

It is our responsibility to issue a report stating whether or not, in our normal course of duties as the auditor of the Company<sup>23</sup>, we have become aware of:

1. any failure of the Company to comply with the Company's obligations under the Service Agreements; and
2. any false declaration made by the Company to ABC Trustee or any other person.

***Basis of conclusion***

We have audited the financial statements of the Company for the year ended *[year end date]* in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("the HKICPA"), and have issued *[an unqualified/a qualified]* auditor's report thereon dated *[insert date here]*. The objective of the audit of the financial statements of the Company is to enable us to express an opinion on whether such financial statements give a true and fair view of the financial position of the Company as at *[year end date]* and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

In preparing this report, we have also considered the guidance contained in Practice Note 860.1 (Revised), *The Audit of Retirement Schemes* issued by the HKICPA.

In relation to our conclusion below, we are not required to perform any procedures in addition to the normal course of audit to search for instances of non compliance with obligations under the Service Agreements or any false declarations made to ABC Trustee or any other person.

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<sup>23</sup> Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".



**Conclusion**

Based on the foregoing, nothing has come to our attention during the course of our audit of the financial statements of the Company for the year ended *[year end date]* that causes us to believe that the Company:

1. failed to comply with its obligations under the Service Agreements; and
2. made any false declaration to ABC Trustee or any other person.

**Use of this report**

This report is intended solely for submission by the Company to ABC Trustee as required under section 74(1) of the General Regulation and is not intended to be, and should not be, used by anyone for any other purpose.

ABC & Co.  
Certified Public Accountants (Practising) [or Certified Public Accountants]  
*[Auditor's Address]*  
Date

**Example 6 - auditor's report on the review of the trustee's report on  
control objectives and internal control measures  
pursuant to section 113 of the Mandatory Provident Fund Schemes (General)  
Regulation - unqualified conclusion**

**INDEPENDENT AUDITOR'S ASSURANCE REPORT PURSUANT TO SECTION 113 OF THE  
MANDATORY PROVIDENT FUND SCHEMES (GENERAL) REGULATION**

To XYZ Trustee

Pursuant to section 113 of the Mandatory Provident Fund Schemes (General) Regulation ("the General Regulation"), we have been requested to review a report on control objectives and internal control measures dated *[insert date here]* ("Trustee's Report") which is required to be prepared by you as trustee under section 112 of the General Regulation.

*Scope*

This report covers our review of the Trustee's Report on the control objectives and internal control measures of XYZ Trustee applicable to the approved Mandatory Provident Fund Schemes for which the trustee is XYZ Trustee ("the Schemes"), and does not extend to any other control objectives or internal control measures of XYZ Trustee.

*Trustee's Responsibility*

Under the General Regulation, XYZ Trustee is responsible for:

1. ensuring that control objectives, as stated under section 39 of the General Regulation, are established and maintained with respect to the Schemes by ensuring that:
  - a. the assets of the Schemes are safeguarded in the interests of members of the Schemes;
  - b. the guidelines made by the Mandatory Provident Fund Schemes Authority ( "MPFA" ) under section 28 of the Mandatory Provident Fund Schemes Ordinance ("the MPFSO") with respect to forbidden investment practices are not contravened;
  - c. the limitations and prohibitions imposed under the General Regulation with respect to the investment of the funds of the Schemes in restricted investments are complied with;
  - d. the following provisions of the MPFSO are complied with in relation to the Schemes:
    - (i) section 27(2A);
    - (ii) section 34DB(1)(a), (b), (c) and (d);
    - (iii) section 34DC(1);
    - (iv) section 34DD(1) and (4);
    - (v) section 34DH(1)<sup>24</sup> or (2)<sup>24</sup>;
    - (vi) section 34DI(1)<sup>24</sup> and (2)<sup>24</sup>;
    - (vii) section 34DJ(2)<sup>24</sup>, (3)<sup>24</sup>, (4)<sup>24</sup> and (5)<sup>24</sup>;
    - (viii) section 34DK(2)<sup>24</sup>;
    - (ix) section 34DM<sup>24</sup>;
  - e. the requirements of section 37(2) of the General Regulation with respect to capital preservation fund, section 51 of the General Regulation with respect to repurchase

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<sup>24</sup> Delete the specific sections of the MPFSO relating to DIS if these sections are not applicable for the reporting period. Refer to paragraph 127 for guidance.

agreements, section 52 of the General Regulation with respect to stock lending and Schedule 1 to the General Regulation with respect to permissible investments are complied with in relation to the Schemes; and

- f. the funds of the Schemes and the assets of the Schemes are, except as permitted by the General Regulation, kept separate from those of the participating employers, XYZ Trustee and the service providers and other persons appointed or engaged for the purposes of the Schemes;
2. establishing and maintaining the following internal control measures and procedures for achieving the above control objectives:
    - a. monitoring investments to ensure that the control objectives referred to in paragraphs 1(b), (c) and (e) above are achieved;
    - b. monitoring the funds of the Schemes and the assets of the Schemes to ensure the objective referred to in paragraph 1(f) above is achieved, so that the funds of the Schemes and the assets of the Schemes are kept separate from those of the participating employers, XYZ Trustee and any other persons (such as service providers); and
    - c. ensuring the accuracy of statements, returns and reports required to be lodged with the MPFA; and
  3. implementing the recommended measures outlined in the MPFA Guidelines II.6 "Guidelines on Internal Control Report for each Registered Scheme" ("MPFA Guidelines II.6").

#### *Our Independence and Quality Control*

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1<sup>25</sup> and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

#### *Auditor's Responsibility*

Our responsibility is to review the Trustee's Report and report in writing to XYZ Trustee on the review.<sup>26</sup>

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 860.1 (Revised), *The Audit of Retirement Schemes* issued by the HKICPA. We have planned and performed our work to obtain reasonable assurance for giving conclusions 1 to 3 and obtain limited assurance in respect of any shortcomings in the internal control measures.

Our work was based upon obtaining an understanding of the control procedures in operation by enquiry of management and review of documents supplied to us.

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<sup>25</sup> HKSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

<sup>26</sup> Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".

Our work was limited to ensuring whether relevant control objectives and internal control measures were designed by XYZ Trustee for meeting each of the requirements specified in the General Regulation and the MPFA Guidelines II.6. We [did not test and ascertain][have [tested/ascertained]]<sup>27</sup> whether the control objectives and internal control measures as described on pages [ ] to [ ] were actually implemented during the year ended [year end date].

We have not performed an assessment of the adequacy or completeness of the control objectives in relation to the risks they are designed to address. Our work was limited to the objectives specified in the General Regulation and our conclusion relates solely to reporting that XYZ Trustee has designed control objectives and internal control measures in line with those recommended in the MPFA Guidelines II.6.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

*Inherent Limitations*

Internal control measures designed to address specific control objectives are subject to inherent limitations of any internal control structure, and accordingly, errors or irregularities may occur and not be detected. Such measures cannot guarantee protection against fraudulent collusion especially on the part of those holding positions of authority or trust.

*Conclusion*

Based on the foregoing, in our opinion:

1. appropriate control objectives were established and maintained for the Schemes during the year ended [year end date];
2. effective internal control measures were established and maintained for the purpose of achieving those objectives during the year ended [year end date]; and
3. those internal control measures were likely to have been sufficiently effective, in all material respects, to provide a reasonable assurance that the control objectives established and maintained for the Schemes would be achieved if those measures were fully and properly implemented.

During the course of our engagement, we did not become aware of any shortcomings in the internal control measures that could materially affect the operation of the Schemes (including their financial position) or the financial interests of members of the Schemes during the year ended [year end date].

OR

During the course of our engagement, we became aware of the following shortcomings in the internal control measures that could materially affect the operation of the Schemes (including their financial position) or the financial interests of members of the Schemes during the year ended [year end date]:

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- 
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<sup>27</sup> Delete as appropriate. Guidance in paragraph 138 states that the auditor is expected to report on the design effectiveness of the internal controls and is therefore not expected to test or ascertain whether the control objectives or internal control measures were actually implemented during the period. If the auditor has tested or ascertained whether the control objectives or internal control measures were actually implemented during the period, the auditor should consider making necessary changes to the auditor's report.

*[Other Matter<sup>28</sup>*

The requirement(s) specified in the MPFSO under section(s) [34DH(1), (2), 34DI(1), (2), 34DK(2) and 34DM with respect to the transfer of accrued benefits to an account and specified notice], and [34DJ(2), (3), (4), (5) with respect to locating scheme members] relating to [*name of scheme(s)*] are not applicable to the trustee during the [period from [*date*] to [*year end date*]][*year ended [*year end date*]*] as the [trustee has [not commenced/completed] the relevant transitional provisions] [the default investment arrangement of [*name of scheme(s)*] prior to 1 April 2017 [was/were] not guaranteed funds], [and [*state other reason(s), if applicable*]]. Accordingly, there is no reporting on these sections.]]

*Intended Users and Purpose*

This report is intended solely for submission by XYZ Trustee to the MPFA pursuant to section 112(3) of the General Regulation, and is not intended to be, and should not be, used by anyone for any other purpose.

ABC & Co.  
Certified Public Accountants (Practising) [or Certified Public Accountants]  
[*Auditor's Address*]  
Date

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<sup>28</sup> Auditors should include an Other Matter paragraph to state the sections that are not applicable in the reporting period and the reasons. Refer to paragraph 131 for guidance.

**Example 7 - auditor's report on the financial statements of an ORSO scheme - unqualified opinion**

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an ORSO scheme other than a listed scheme using Hong Kong Financial Reporting Standards (HKFRSs). The audit is not a group audit (i.e., HKSA 600<sup>29</sup> does not apply).
- The financial statements are prepared by the administrator of the scheme in accordance with HKFRSs (a general purpose framework<sup>30</sup>).
- The terms of the audit engagement reflect the description of the administrator's responsibility for the financial statements in HKSA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the scheme's ability to continue as a going concern in accordance with HKSA 570 (Revised).<sup>31</sup>
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with HKSA 701.<sup>32</sup>
- The auditor has obtained all of the other information<sup>33</sup> prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under the Hong Kong Occupational Retirement Schemes Ordinance.

**INDEPENDENT AUDITOR'S REPORT**

To the Administrator<sup>34</sup> of XYZ Scheme

**[Report on the Audit of the Financial Statements]<sup>35</sup>**

**Opinion**

We have audited the financial statements of XYZ Scheme ("the Scheme") set out on pages .... to ....., which comprise the statement of net assets available for benefits as at [*year end date*], and the statement of changes in net assets available for benefits and [cash flow statement][statement of cash flows]<sup>36</sup> for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

<sup>29</sup> HKSA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>30</sup> HKSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 7(b)

<sup>31</sup> HKSA 570 (Revised), *Going Concern*.

<sup>32</sup> HKSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

<sup>33</sup> HKSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, paragraph 12(c)

<sup>34</sup> The term "administrator" is used in this Practice Note to refer to the trustee if an ORSO scheme is governed by a trust or the insurer if an ORSO scheme is the subject of or regulated by an insurance arrangement. The auditor's report is addressed in accordance with the trust deed or scheme rules. Where the deed is silent, the auditor's report is addressed to the administrator.<sup>35</sup> The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on matters under section 20(3)(c) of the Hong Kong Occupational Retirement Schemes Ordinance" is not applicable.

<sup>35</sup> The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on matters under section 20(3)(c) of the Hong Kong Occupational Retirement Schemes Ordinance" is not applicable.

<sup>36</sup> Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

In our opinion, the financial statements give a true and fair view of the disposition of the assets and liabilities of the Scheme as at *[year end date]* and of its financial transactions and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

### **Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") and with reference to Practice Note 860.1 (Revised), *The Audit of Retirement Schemes* issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Scheme in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**

*[Reporting in accordance with the reporting requirements in HKSA 720 (Revised), The Auditor's Responsibilities Relating to Other Information – see Illustration 1 in Appendix 2 of HKSA 720 (Revised).]*

### **Responsibilities of Administrator and Those Charged with Governance for the Financial Statements<sup>37</sup>**

The administrator is responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the provisions of the Hong Kong Occupational Retirement Schemes Ordinance, and for such internal control as the administrator determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the administrator is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the administrator either intends to liquidate the Scheme or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Scheme's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.<sup>38</sup> Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

<sup>37</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

<sup>38</sup> Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".

Paragraph 41(b) of HKSA 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) of HKSA 700 (Revised) explains that when law, regulation or HKSA's expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the administrator.
- Conclude on the appropriateness of the administrator's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**[Report on matters under section 20(3)(c) of the Hong Kong Occupational Retirement Schemes Ordinance]<sup>35</sup>**

*[The auditor shall state in the auditor's report such other information as the MPFA may specify in the guidelines issued by it. The auditor is required under the ORSO (section 20(3)(c)) to report by exception the following limitations on the scope of the work:*

- a. *access to the employer's books and records has been denied; or*
- b. *the auditor is unable to obtain all the information and explanations which, to the best of the knowledge and belief, are necessary for the purpose of the audit.]*

ABC & Co.  
 Certified Public Accountants (Practising) [or Certified Public Accountants]  
 [Auditor Address]  
 [Date]



**Example 8 - auditor's report on an ORSO scheme's compliance with certain requirements of the Occupational Retirement Schemes Ordinance - unqualified opinion**

**INDEPENDENT AUDITOR'S ASSURANCE REPORT**

To the Administrator<sup>39</sup> of XYZ Scheme

We have audited the financial statements of XYZ Scheme ("the Scheme") for the year ended [*year end date*] in accordance with Hong Kong Standards on Auditing and with reference to Practice Note 860.1 (Revised), *The Audit of Retirement Schemes* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and have issued [an unqualified/a qualified] auditor's report thereon dated [*insert date here*].

Pursuant to section 20 of the Occupational Retirement Schemes Ordinance ("ORSO"), we are required to report whether the Scheme complied with certain requirements of the ORSO.

*Administrator's Responsibility*

The ORSO requires the administrator to ensure that:

- a. proper accounts and records are kept as regards all assets, liabilities and financial transactions of the Scheme;

[*For a defined benefit scheme only*]

- b. the relevant undertaking, as defined under section 20(4) of the ORSO<sup>40</sup>, is complied with;

OR

[*For a defined contribution scheme only*]

- b. contributions are made in accordance with the terms of the Scheme;
- c. the assets of the Scheme are not subject to any assignment, charge, pledge or other encumbrance except for those specified in section 20(3)(b)(iii) of the ORSO<sup>41</sup>; and
- d. the requirements of section 27(2) of the ORSO<sup>42</sup> are complied with.

*Our Independence and Quality Control*

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

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<sup>39</sup> The term "administrator" is used to refer to the trustee if an ORSO scheme is governed by a trust or the insurer if an ORSO scheme is the subject of or regulated by an insurance arrangement. The auditors' report is addressed in accordance with the trust deed or scheme rules. Where the deed is silent, the auditors' report is addressed to the administrator.

<sup>40</sup> "relevant undertaking" is defined by section 20(4) and Schedule 2 Parts 1 and 2 paragraph 6 of the ORSO as a written undertaking by the relevant employer of the scheme (i.e. the employer who provides the employment which entitles or enables the employee to be a member of the scheme) to the administrator of the scheme to contribute to the scheme's fund in accordance with recommendations made by the actuary in the actuarial certificate issued as regards a particular registered scheme. Where more than one actuarial certificate has been issued, the undertaking referred to is the one in the most recent of those certificate which is applicable to the financial period under review.

<sup>41</sup> *The exceptions stated in section 20(3)(b)(iii) of the ORSO are as follows:*

- a. *the trust (if any) governing the scheme;*
- b. *any charge or pledge created for the purposes of securing loans necessary for meeting the liabilities of the scheme; and*
- c. *any option to acquire for valuable consideration any interest in the assets of the scheme granted in the normal course of business.*

<sup>42</sup> *Section 27(2) of the ORSO stipulates the investment restrictions.*

The firm applies Hong Kong Standard on Quality Control 1<sup>43</sup> and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

*Auditor's Responsibility*

Our responsibility is to report on the Scheme's compliance with the above requirements based on the results of the procedures performed by us.<sup>44</sup>

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 860.1 (Revised), *The Audit of Retirement Schemes* issued by the HKICPA. We have planned and performed our work to obtain reasonable assurance about whether the Scheme has complied with the above requirements.

We have planned and performed such procedures as we considered necessary with reference to the procedures recommended in PN 860.1 (Revised), which included reviewing, on a test basis, evidence obtained from the Administrator regarding the Scheme's compliance with the above requirements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Opinion*

Based on the foregoing, in our opinion:

1. proper accounts and records have been kept during the year ended *[year end date]* as regards all assets, liabilities and financial transactions of the Scheme;

*[For a defined benefit scheme only]*

2. the relevant undertaking, as defined under section 20(4) of the ORSO, has been complied with during the year ended *[year end date]*;

OR

*[For a defined contribution scheme only]*

2. contributions have been made in accordance with the terms of the Scheme during the year ended *[year end date]*; and  
*[If there is a shortfall]*  
at *[net assets statement date]* there was a shortfall amounting to HK\$..... between the Scheme's assets and the Scheme's aggregate vested liability;

OR

*[If there is no shortfall]*

at *[net assets statement date]* there was no shortfall between the Scheme's assets and the Scheme's aggregate vested liability;

3. at *[net assets statement date]* the assets of the Scheme were not subject to any assignment, charge, pledge or other encumbrance except for those specified in section 20(3)(b)(iii) of the ORSO; and

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<sup>43</sup> HKSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

<sup>44</sup> Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".

THE AUDIT OF RETIREMENT SCHEMES

4. at *[net assets statement date]*, *[.....]* and *[.....]*<sup>45</sup> the requirements of section 27(2) of the ORSO have been complied with.

*Intended Users and Purpose*

This report is intended solely for submission by the administrator to the Mandatory Provident Fund Schemes Authority and is not intended to be, and should not be, used by anyone for any other purpose.

ABC & Co.  
Certified Public Accountants (Practising) [or Certified Public Accountants]  
*[Auditor's Address]*  
Date

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<sup>45</sup> Insert two other dates in the year selected by the auditors for performing the procedures on checking compliance provided that the intervening period between such dates is not shorter than three months.

**Example 9 - auditor's report on  
the financial statements of an APIF - unqualified opinion**

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an APIF other than a listed fund using Hong Kong Financial Reporting Standards (HKFRSs). The audit is not a group audit (i.e., HKSA 600<sup>46</sup> does not apply).
- The financial statements are prepared by the manager/ trustee/ insurer of the fund in accordance with HKFRSs (a general purpose framework<sup>47</sup>).
- The terms of the audit engagement reflect the description of the manager's/ trustee's/ insurer's responsibility for the financial statements in HKSA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the Hong Kong Institute of Certified Public Accountants' *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the fund's ability to continue as a going concern in accordance with HKSA 570 (Revised).<sup>48</sup>
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with HKSA 701.<sup>49</sup>
- The auditor has obtained all of the other information<sup>50</sup> prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under the relevant disclosure provisions of the constitutive documents of the fund, the Mandatory Provident Fund Schemes Ordinance, the Mandatory Provident Fund Schemes (General) Regulation, the Code on MPF Investment Funds, and Guidelines II.5 issued by the Mandatory Provident Fund Schemes Authority [and Appendix E to the Code on Unit Trusts and Mutual Funds issued by the Hong Kong Securities and Futures Commission].

**INDEPENDENT AUDITOR'S REPORT**

To the [Trustee][Insurer] of XYZ Fund

**Report on the Audit of the Financial Statements**

**Opinion**

We have audited the financial statements of XYZ Fund ("the Fund") set out on pages ..... to ....., which comprise the statement of net assets attributable to [fundholders][unitholders] as at *[year end date]*, and the statement of comprehensive income, the statement of changes in net assets attributable to [fundholders][unitholders] and [cash flow statement][statement of cash flows]<sup>51</sup> for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

<sup>46</sup> HKSA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>47</sup> HKSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 7(b)

<sup>48</sup> HKSA 570 (Revised), *Going Concern*.

<sup>49</sup> HKSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

<sup>50</sup> HKSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, paragraph 12(c)

<sup>51</sup> Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at *[year end date]*, and of its financial transactions and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

### **Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") and with reference to Practice Note 860.1 (Revised), *The Audit of Retirement Schemes* issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Scheme in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**

*[Reporting in accordance with the reporting requirements in HKSA 720 (Revised), The Auditor's Responsibilities Relating to Other Information – see Illustration 1 in Appendix 2 of HKSA 720 (Revised).]*

### **Responsibilities of [[Manager and] [Trustee] [Insurer] and Those Charged with Governance for the Financial Statements<sup>52</sup>**

The [Manager and the] [Trustee][Insurer] of the Fund [are][is] responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the [manager and the] [trustee][insurer] determine[s] is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the [Manager and the] [Trustee][Insurer] of the Fund [are][is] responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the [Manager and the] [Trustee][Insurer] either [intend][intends] to liquidate the Fund or to cease operations, or [have][has] no realistic alternative but to do so.

In addition, the [Manager and the] [Trustee][Insurer] of the Fund [are][is] required to ensure that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the constitutive documents of the Fund ("the Constitutive Documents"), the Mandatory Provident Fund Schemes Ordinance ("the MPFSO"), the Mandatory Provident Fund Schemes (General) Regulation ("the General Regulation"), the Code on MPF Investment Funds ("the MPF Code"), and Guidelines II.5 issued by the Mandatory Provident Fund Schemes Authority ("the MPFA") [and Appendix E to the Code on Unit Trusts and Mutual Funds ("the UT Code") issued by the Hong Kong Securities and Futures Commission ("the SFC")]<sup>53</sup>.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.<sup>54</sup> Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the

<sup>52</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

<sup>53</sup> Delete if the Fund is only approved by the MPFA but not authorized by the SFC under section 104(1) of the Securities and Futures Ordinance.

<sup>54</sup> Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".

aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. In addition, we are required to assess whether the financial statements of the Fund have been properly prepared, in all material respects, in accordance with the relevant disclosure provisions of the constitutive documents of the Fund, the MPFSO, the General Regulation, the MPF Code and Guidelines II.5 issued by the MPFA [and the UT Code issued by the SFC]<sup>53</sup>.

Paragraph 41(b) of HKSA 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) of HKSA 700 (Revised) explains that when law, regulation or HKSAs expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the [manager and the] [trustee][insurer].
- Conclude on the appropriateness of the [manager's and the] [trustee's][insurer's] use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Report on matters under the relevant disclosure provisions of the Constitutive Documents, the MPFSO, the General Regulation, the MPF Code, and Guidelines II.5 issued by the MPFA [and Appendix E to the UT Code issued by the SFC]<sup>53</sup>**

- (a) In our opinion, the financial statements have been properly prepared, in all material respects, in accordance with the relevant disclosure provisions of the constitutive documents of the Fund, the MPFSO, the General Regulation, the MPF Code and Guidelines II.5 issued by the MPFA [and Appendix E to the UT Code issued by the SFC]<sup>53</sup>; and
- (b) We have obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purpose of our audit.

ABC & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

[Auditor Address]

[Date]

**Example 10 - auditor's report on an APIF's compliance with certain requirements of the Mandatory Provident Fund Schemes Ordinance, the Mandatory Provident Fund Schemes (General) Regulation and the Code on MPF Investment Funds - unqualified opinion**

**INDEPENDENT AUDITOR'S ASSURANCE REPORT**

To the [Trustee][Insurer] of XYZ Fund

We have audited the financial statements of XYZ Fund ("the Fund") for the year ended *[year end date]* in accordance with Hong Kong Standards on Auditing and with reference to Practice Note 860.1 (Revised), *The Audit of Retirement Schemes* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and have issued [an unqualified/a qualified] auditor's report thereon dated *[insert date here]*.

Pursuant to Guidelines II.5 and Code on MPF Investment Funds issued by the Mandatory Provident Fund Schemes Authority, we are required to report whether the Fund complied with certain requirements of the Mandatory Provident Fund Schemes Ordinance ("the MPFSO") and the Mandatory Provident Fund Schemes (General) Regulation ("General Regulation"), which are made applicable to the Fund through the Code on MPF Investment Funds.

*[Manager and the] [Trustee][Insurer]'s Responsibility*

The General Regulation requires the [manager and the] [trustee][insurer] to ensure that:

- a. proper accounting and other records are kept in respect of the Fund assets and all financial transactions entered into in relation to the Fund;
- b. the requirements specified in the guidelines made by the Mandatory Provident Fund Schemes Authority ("the MPFA") under section 28 of the MPFSO with respect to forbidden investment practices and the requirements of sections 37(2), 51 and 52 of, and Schedule 1 to, the General Regulation, which are made applicable to the Fund through the Code on MPF Investment Funds, are complied with; and
- c. the Fund assets are not subject to any encumbrance, otherwise than as permitted by section 65 of the General Regulation.

*Our Independence and Quality Control*

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1<sup>55</sup> and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

*Auditor's Responsibility*

Our responsibility is to report on the Fund's compliance with the above requirements based on the results of the procedures performed by us.<sup>56</sup>

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<sup>55</sup> HKSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

<sup>56</sup> Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".



We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 860.1 (Revised), *The Audit of Retirement Schemes* issued by the HKICPA. We have planned and performed our work to obtain reasonable assurance about whether the Fund has complied with the above requirements.

We have planned and performed such procedures as we considered necessary with reference to the procedures recommended in PN 860.1 (Revised), which included reviewing, on a test basis, evidence obtained from the Administrator regarding the Scheme's compliance with the above requirements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Opinion*

Based on the foregoing:

1. in our opinion:
  - a. proper accounting and other records have been kept during the year ended *[year end date]* in respect of the Fund assets and all financial transactions entered into in relation to the Fund; and
  - b. the requirements specified in the guidelines made by the MPFA under section 28 of the MPFSO with respect to forbidden investment practices and the requirements of sections 37(2), 51 and 52 of, and Schedule 1 to, the General Regulation, which are made applicable to the Fund through the Code on MPF Investment Funds, have been complied with, in all material respects, as at *[year end date]*, *[.....]* \* and *[.....]* \*.
2. as at *[year end date]*, the assets of the Fund were not subject to any encumbrance, otherwise than as permitted by section 65 of the General Regulation, which are made applicable to the Fund through the Code on MPF Investment Funds.

### *Intended Users and Purpose*

This report is intended solely for submission by the [manager and the] [trustee][insurer] to the Mandatory Provident Fund Schemes Authority and is not intended to be, and should not be, used by anyone for any other purpose.

ABC & Co.  
Certified Public Accountants (Practising) [or Certified Public Accountants]  
*[Auditor's Address]*  
Date

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\* *insert 2 other dates in the year selected by the auditor for performing the procedures on checking compliance provided that the intervening period between such dates is not shorter than 3 months.*

**Example 11 - auditor's report on an ORSO scheme's  
membership requirements in connection with the application for registration –  
unqualified opinion**

**INDEPENDENT AUDITOR'S ASSURANCE REPORT**

To the relevant employer<sup>57</sup> of XYZ Scheme

Pursuant to paragraph [1A of Part 1][2A of Part 2]<sup>58</sup> of Schedule 1 to the Occupational Retirement Schemes Ordinance ("ORSO"), we are required to report whether all members of XYZ Scheme ("the Scheme") are eligible persons as defined in section 2A of the ORSO.

*Relevant Employer's Responsibility*

The ORSO requires the relevant employer to ensure that all members of the Scheme are eligible persons as defined in section 2A of the ORSO.

*Our Independence and Quality Control*

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1<sup>59</sup> and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

*Auditor's Responsibility*

Our responsibility is to issue a report stating whether all members of the Scheme as at [date] are eligible persons as defined in section 2A of the Ordinance in all material respects based on the results of the procedures performed by us.<sup>60</sup>

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 860.1 (Revised), *The Audit of Retirement Schemes* issued by the HKICPA. We have planned and performed our work to obtain reasonable assurance for giving our opinion below.

We have planned and performed such procedures as we considered necessary with reference to the procedures recommended in PN 860.1 (Revised), which included obtaining an understanding of the control procedures and reviewing, on a test basis, evidence obtained from the relevant employer.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Opinion*

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<sup>57</sup> As defined in section 2(1) of the ORSO, the term "relevant employer" means, in relation to an occupational retirement scheme, the employer who provides the employment which entitles or enables the employee to be a member of the scheme.

<sup>58</sup> In case the scheme to which the application relates is a participating scheme of a pooling agreement, paragraph 2A of Part 2 applies; in case the scheme is not such a participating scheme of a pooling agreement, paragraph 1A of Part 1 applies.

<sup>59</sup> HKSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

<sup>60</sup> Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".

THE AUDIT OF RETIREMENT SCHEMES

Based on the foregoing, in our opinion, all members of the Scheme as at [date]<sup>61</sup> are eligible persons as defined in section 2A of the ORSO in all material respects.

*Intended Users and Purpose*

This report is intended solely for submission by the relevant employer to the Mandatory Provident Fund Schemes Authority pursuant to paragraph [1A of Part 1][2A of Part 2] of Schedule 1 to the ORSO, and is not intended to be, and should not be, used by anyone for any other purpose.

ABC & Co.  
Certified Public Accountants (Practising) [or Certified Public Accountants]  
[Auditor's Address]  
Date

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<sup>61</sup> According to paragraph 1A of Part 1 and paragraph 2A of Part 2 of Schedule 1 to the ORSO, this date should be within 3 months before the date of application for registration of an ORSO scheme.

**APPENDIX 2**

**FORM - A**

**Occupational Retirement Schemes Ordinance (Cap. 426)**  
**("the Ordinance")**

**The Employer's Auditor's Statement to the**  
**Administrator's Auditor under section 20(7A) of the Ordinance**

Name of the Relevant Employer: \_\_\_\_\_  
(“the relevant employer”)

Name of the Occupational  
Retirement Scheme: \_\_\_\_\_  
(“the Scheme”)

Registration No. of the Scheme: \_\_\_\_\_

Types of Scheme (indicate by a tick in the appropriate boxes):-

- Defined contribution
- Defined benefit
- Governed by trust
- Subject of or regulated by insurance arrangement
- Participating in a pooling agreement:-  
Yes   
No

If “Yes”, name of pooling agreement: \_\_\_\_\_

- Participating in a group scheme   
(see Paragraph 10 of Registrar's Guidelines):-  
Yes   
No

If “Yes”, name of representative employer: \_\_\_\_\_

Name of employer's auditor: \_\_\_\_\_

Name of administrator's auditor: \_\_\_\_\_

Address of administrator's auditor: \_\_\_\_\_

THE AUDIT OF RETIREMENT SCHEMES

\*I/We, \_\_\_\_\_, of  
(name of employer's auditor)

\_\_\_\_\_  
(address of employer's auditor)

being the employer's auditor duly appointed under section 20(7B)(a) of the Ordinance, hereby state as follows:-

1. \*I/We have completed procedures on the Statement on Details of Contributions (Form B attached) for the financial year ended \_\_\_\_\_ in so far as they relate to the Scheme, having regard to the guidelines issued by the Registrar and in accordance with the pronouncements issued by Hong Kong Institute of Certified Public Accountants.
2. Based on these procedures in \*my/our opinion:-
  - (a) proper accounts and records \*have/have not been kept in relation to contributions; and
  - (b) the Statement on Details of Contributions is in accordance with the books and records of the relevant employer (\*except as noted here-under):-

\_\_\_\_\_  
(Signed)  
(Name of employer's auditor)

\_\_\_\_\_  
(Date)

\_\_\_\_\_  
(Place)

*\* Delete whichever is not applicable.*

(This Form and the attached Form B should be returned directly to the administrator's auditor.)