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Practice Note 810.2 (Revised)

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

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

(Effective for reporting periods ending on or after 31 December 2024)

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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 *Preface to the Hong Kong Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements*.

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810.2 (REVISED)
THE DUTIES OF THE AUDITOR OF AN INSURER AUTHORIZED UNDER
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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. In this Practice Note (“PN”) all the sections mentioned below are in respect of the Insurance Ordinance (Cap.41) (“the Ordinance”) unless otherwise stated.
2. This PN is intended to give guidance to members on the duties of the auditor of an authorized insurer appointed under section 15 of the Ordinance (see paragraph 13) or rule 5 of the Insurance (Submission of Statements, Reports and Information) Rules (Cap.41S) (“the ISRIR”) (see paragraph 17).

This PN also provides guidance to members when reporting on levies paid to the insolvency schemes for Motor and Employee Compensation, the Terrorism scheme for Employee Compensation and the annual remittance report on the levy to the Insurance Authority (“IA”). This guidance is set out in Part III of this PN below.

It is not intended to provide detailed guidance on the general audit procedures in relation to the financial statements audit to be adopted in respect of insurance companies and brokers, except for paragraph 18 of this PN.

An auditor should refer to the guidance in PN 620.2 *Communication between the Auditor and the Insurance Authority* in relation to communication between the auditor and the IA.

3. The PN has been prepared in consultation with the IA.
4. This is a guide to the provisions in the Ordinance which were effective as at 1 July 2024 (i.e. including the amendments introduced by the Insurance (Amendment) Ordinance 2023), prepared for reference only. Every care has been taken in its preparation. However, the legislation itself is the sole authority of the law and the PN should be used in conjunction with the legislation.

PART II – THE DUTIES OF THE AUDITOR UNDER THE INSURANCE ORDINANCE

Scope of the Ordinance

5. The Ordinance is applicable to all persons (companies or individuals) carrying on insurance business in Hong Kong other than those specifically exempted by section 51 (see paragraph 8) and section 53 (see paragraph 9). Insurers which are deemed to carry on insurance business in or from Hong Kong will also fall within the scope of the Ordinance. Section 2(3) provides that a person shall be deemed to carry on insurance business in or from Hong Kong if he opens or maintains an office or agency in Hong Kong for the purpose of carrying on insurance business, or he holds himself out as carrying on insurance business, in or from Hong Kong. Section 2 of the Ordinance further defines HK insurer, non-HK insurer and designated insurer. The following would therefore be included within the scope of and required to be authorized under the Ordinance:
 - a. a Hong Kong incorporated company carrying on insurance business in Hong Kong;
 - b. a Hong Kong incorporated company carrying on insurance business through an overseas branch or agency, whether or not it is operating as an insurer in Hong Kong;
 - c. an overseas incorporated company carrying on insurance business through a Hong Kong branch;
 - d. an overseas company carrying on insurance business in Hong Kong by means of an agency;
 - e. a captive insurer, as defined in section 2(7);
 - f. reinsurance companies carrying on reinsurance business in or from Hong Kong (but see paragraph 8(b)); and
 - g. any other person holding himself out as carrying on insurance business in or from Hong Kong.
6. The location of the risks is not relevant in determining whether a particular entity falls within the scope of the Ordinance. Thus, for example, an insurer or a reinsurer who is incorporated overseas and who has not established a place of business in Hong Kong, is not represented by an agent in Hong Kong, and does not hold himself out as carrying on insurance business in or from Hong Kong, can accept insurance or reinsurance premiums relating to Hong Kong risks, without having to be authorized under the Ordinance.
7. Under section 6(1), Lloyd's and an association of underwriters approved by the IA are allowed to carry on insurance business in or from Hong Kong without having to be authorized under the Ordinance.
8. Section 51 specifically exempts the following persons from the provisions of the Ordinance:
 - a. any body of persons carrying on insurance business in Hong Kong whose gross premiums do not exceed HK\$500,000 in any financial year and who are bound together for certain specified purposes but not for the purpose of gain;
 - b. persons carrying on only reinsurance business in Hong Kong (unless incorporated in Hong Kong or, if incorporated elsewhere, who have a place of business in Hong Kong or are represented in Hong Kong by an agent or any other person or partnership having a place of business in Hong Kong);

- c. registered trade unions (subject to certain limitations);
 - d. registered co-operative societies;
 - e. the Hong Kong Export Credit Insurance Corporation;
 - f. any authorized institution carrying on insurance business, limited to certain long term or general insurance business carried on solely for the purposes of their banking or deposit-taking business;
 - g. the Credit Union League of Hong Kong;
 - h. a recognized clearing house (as defined in section 51(h));
 - i. a person who is authorized under Part III of the Securities and Futures Ordinance (as defined in section 51(i)).
9. Under section 53 the Chief Executive in Council has power to exempt any insurer from any of the provisions of the Ordinance or to modify or vary any of its provisions in respect of any insurer.

Financial statements/ Information to be submitted by authorized insurers

Financial statements to be submitted to the IA

10. Requirements for submitting financial statements to the IA include:
- a. Rule 3 of the ISRIR requires the financial statements as defined by section 357(1) of the Companies Ordinance (Cap.622), together with a report of its appointed auditor on those statements as required under applicable law, to be submitted to the IA within four months of the end of the financial period to which they relate.
 - b. For a non-HK insurer, including designated insurer, the financial statements to be submitted to the IA are the financial statements that the insurer is required to prepare under the laws of its place of incorporation, establishment, formation or domiciliation; and contain information that the IA considers to be comparable to the information contained in the financial statements referred to a. above.

The requirements of the ISRIR in relation to the submission of financial statements by an authorized insurer to the IA may be varied as approved by the IA at the written request of the insurer.

Information to be submitted to the IA

11. Requirements for submitting information to the IA include:
- a. Annual returns

Pursuant to rule 4(8) of the ISRIR, amongst other things, the forms for that financial year with respect to the following to be submitted to the IA:
 - i. the insurer's financial position and capital adequacy;
 - ii. the insurer's business related information; and
 - iii. the insurer's supplementary and governance information.

For a marine insurer, captive insurer, Lloyd's or special purpose insurer, the forms for that financial year that are specified by the IA.

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Notwithstanding (i) to (iii), for an insurer that is subject to section 25A of the Ordinance, the forms specified by the IA with respect to the insurer's assets and liabilities and the amount of assets in Hong Kong are required.

Rule 4(1) of the ISRIR requires submission of annual returns to the IA within three or four months (as the case may be), as specified by the IA in the relevant form (and within three or six months (as the case may be) if a financial year ends within the submission transitional period¹).

b. Quarterly returns

Pursuant to rule 4(8) of the ISRIR, amongst other things, the forms for that quarter of a calendar year with respect to following to be submitted to the IA:

- i. the insurer's financial position and capital adequacy;
- ii. the insurer's business related information; and
- iii. the insurer's supplementary and governance information.

For a marine insurer, captive insurer, Lloyd's or special purpose insurer, the forms for that quarter that are specified by the IA.

Rule 4(2) of the ISRIR requires submission of quarterly returns to the IA within four or six weeks (as the case may be) after the end of each quarter, as specified by the Authority in the relevant form (and within four or eight weeks (as the case may be) if a quarter ends within the submission transitional period).

c. Monthly returns

Pursuant to rule 4(8) of the ISRIR, in so far as applicable, the forms for that month with respect to business related information to be submitted to the IA.

Rule 4(4) of the ISRIR requires submission of monthly returns (if any) to the IA within two weeks after each month end.

The returns mentioned in paragraphs a. and b. above are required to be signed or approved by a controller (within the meaning of section 13A) and a key person in the financial control function of the insurer. An insurer may determine to have a director, or a member of Council of Lloyd's (in the case of Lloyd's), to sign or approve the submission in place of the controller or key person in the financial control function or to have two directors to sign or approve the submission in place of the controller and key person in the financial control function. The returns mentioned in paragraph c. above are required to be signed or approved by a controller (within the meaning of section 13A), a key person in the financial control function, or a director of the insurer.

It should be noted that section 17(2) permits the IA to modify or vary any of the requirements of the ISRIR in relation to an authorized insurer, provided that the insurer requests such a modification in writing.

12. The requirements for the submission of these returns to the IA do not override the requirements of the Companies Ordinance. Insurance companies which are incorporated in Hong Kong are also required to produce financial statements to lay before the members in general meeting and these financial statements have to comply with the provisions of the Companies Ordinance.

¹ Submission transitional period means three years from the commencement date of the ISRIR.

Appointment of the auditor(s)

13. Under section 15 of the Ordinance, the authorized insurer must appoint an auditor (“the Appointed auditor”) who is:
 - a. not prohibited under section 20AAZZR of the Accounting and Financial Reporting Council Ordinance (Cap. 588) (“AFRCO”) from holding any appointment as an auditor of a company and is not disqualified under section 393 of the Companies Ordinance (Cap. 622); or
 - b. qualified as an auditor in the place of incorporation, if the authorized insurer is incorporated outside Hong Kong and who holds such qualification as the IA accepts as being of a standard comparable to that of a person referred to in (a) above.
14. The insurer must notify the IA in writing of any appointment of, its Appointed auditor within one month. The first auditor must be appointed within one month of the insurer beginning to carry on insurance business. It is recommended that before beginning the audit the auditor ensures that he/she has been formally appointed under the Ordinance and that the IA has been notified of the appointment.
15. Section 15A(1) requires that the authorized insurer immediately notifies the IA in writing if for any reason a person appointed under section 15 ceases to be the Appointed auditor or a HK insurer proposes to give notice to its shareholders of a resolution removing/replacing the Appointed auditor.
16. Section 15A(2) requires the Appointed auditor to notify the IA in writing immediately if the auditor resigns, decides not to seek reappointment, or decides to qualify any of the auditor’s reports annexed to the accounts and statements of the insurer required to be submitted under any requirement prescribed by virtue of section 17. Further guidance on this obligation may be found in PN 620.2 *Communication between the Auditor and the Insurance Authority* issued by the HKICPA.
17. Under rule 5 of the ISRIR, an insurer must submit an auditor’s report on each of the specified annual forms included within an annual return. The auditor providing the report must be a person who is a certified public accountant (practising), a CPA firm or a corporate practice as defined by section 2(1) of the AFRCO; not prohibited under section 20AAZZR of the AFRCO from holding any appointment as an auditor of a company; and is not disqualified under section 393 of the Companies Ordinance. This auditor in respect of rule 5 of the ISRIR may or may not be the Appointed auditor of the insurer referred to in paragraph 13.

Auditor’s report on financial statements

18. Where the insurer is incorporated in Hong Kong, financial statements will also have to be prepared for the members in accordance with the applicable requirements of the Companies Ordinance. Rule 3 of the ISRIR requires the financial statements, together with a report of its Appointed auditor on those statements to be submitted to the IA. Guidance on auditor’s report on financial statements is set out in HKSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* and Practice Note 600.1 (Revised), *Reports by the Auditor under the Companies Ordinance (Cap. 622)*.

Assurance report on regulatory returns

Management’s responsibilities

19. Authorized insurers are required by the IA to submit the annual, quarterly and monthly returns (collectively “returns”), which consists of a number of specified forms. Preparation and submission of the returns is the responsibility of the insurers’ management. The IA also requires an authorized insurer to submit a report, prepared by the auditor, on some of the specified forms within the annual return (“specified annual forms”). The responsibilities for correct compilation of specified annual forms submitted to the IA and adequate internal controls rest with the management of the authorized insurer.

20. On occasion, different interpretations of a particular definition or simplification applied to the requirements of the completion instructions may give rise to different results being reported in the specified annual forms. Such interpretation and simplification are important as definitions and requirements set out in the IA's completion instructions may be worded in a general fashion and management would need to determine how such definitions or requirements should be applied to specific businesses or processes of an insurer.
21. The IA expects that the insurer should have adequate systems of control to enable the submission of reliable information reported in the specified annual forms. The information reported would be complete, accurate and prepared in accordance with completion instructions issued by the IA. The typical controls expected to be in place would include the following:
- Controls over data capture for compilation of specified annual forms
 - Understanding of the return compilation process and requirements
 - Maintenance of adequate audit trail
 - Process for resolving issues
 - Review and approval

Auditor's responsibilities

22. The auditor's reporting requirements of specified annual forms are set out in the ISRIR. The work that the auditor performs for the purpose of reporting on specified annual forms under rule 5 of the ISRIR is a reasonable assurance engagement. The auditor's responsibility is to report on whether the specified annual forms included within an annual return under rule 4(1) of the ISRIR submitted to the IA are prepared, in all material respects, in accordance with the books and records of the insurers based on procedures the auditor performed. Reference should be made to HKSAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* for details of the standards and guidance on reasonable assurance engagements.
23. Under rule 5(1) of the ISRIR, the IA requires specified annual forms to be reported on by the auditor. It should also be noted that for certain returns, the IA can also require the auditor to report on a request basis. Where applicable, the auditor's responsibilities are to report on whether:
- a. the authorized insurer has maintained proper records in accordance with section 16 of the Ordinance in respect of the year for the purpose of preparing the specified annual forms.
 - b. the specified annual forms for the year have been prepared, in all material respects, in accordance with the books and records of the authorized insurer.
 - c. the specified annual forms for the year have been prepared, in all material respects, in accordance with the Insurance (Valuation and Capital) Rules ("IVCR"), Regulatory Returns Instructions, Insurance (Marine Insurers and Captive Insurers) Rules (*Applicable for marine insurers, captive insurers and any authorized company that carry on marine mutual or captive insurance business only*), Insurance (Lloyd's) Rules (*Applicable for Lloyd's*), Insurance (Maintenance of Assets in Hong Kong) Rules (*Applicable for authorized insurers that carry on general business in or from Hong Kong and Lloyd's in respect of general business it carries on in or from Hong Kong*) issued by the IA².
 - d. the authorized insurer has complied with the capital requirements of section 10 of the Ordinance as at the financial year end date.

² While the authorized insurers are required to prepare the specified annual forms in accordance with the IVCR, they are also expected to comply with the guidelines/ guidance issued by the IA in relation to the IVCR. The reporting requirements may be extended when further guidance/ rules are officially issued by the IA and this practice note will be updated accordingly in the future.

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- e. *(Applicable for HK insurer and non-HK insurer that carries on long term business)* the authorized insurer has complied with the requirements of sections 22 and 23 of the Ordinance and Part 6 of the IVCR as at the financial year end date.
- f. *(Applicable for HK insurer and non-HK insurer that carries on general business)* the authorized insurer has complied with the requirements of sections 25AAB and 25AAE of the Ordinance and Part 6 of the IVCR as at the financial year end date.
- g. *(Applicable for authorized insurer that carries on general business in or from Hong Kong, and does not apply to authorized insurer that is exempted under the Insurance (Maintenance of Assets in Hong Kong) Rules)* the assets in Hong Kong held by the authorized insurer, as shown in the [Local Asset Requirement Return]³, enable it to comply with the requirement of section 25A of the Ordinance as at the financial year end date and, based on the records of the authorized insurer, the assets in Hong Kong held by the authorized insurer as at two other dates (the two dates are separated by a period of at least 3 months) enable it to comply with the requirement of section 25A of the Ordinance at those dates.

The auditors should refer to the relevant gazette notice for the listing of forms which are required to be reported on by auditors ("specified annual forms").

Nature of work

24. The work to be carried out for the purpose of reporting on the specified annual forms involves agreeing amounts contained in the specified annual forms to appropriate records maintained by the authorized insurer and checking whether the amounts have been properly compiled based on the IVCR and the applicable requirements set out by the IA.

The auditor would normally examine copies of the following documents when planning the work:

- if the auditor in respect of rule 5 of the ISRIR is not the statutory auditor (a person appointed by the members of a HK insurer under the Companies Ordinance to report on whether the insurer's financial statements give a true and fair view), the latest audited financial statements of the insurer and the auditor's report thereon together with a copy of the latest management letter issued by the statutory auditor where relevant. The auditor would also seek the insurer's permission to discuss any matters relevant to the examination with the statutory auditor;
- all correspondence and all minutes or notes of meetings that the insurer has held with the regulators including the IA which are relevant to the auditor's examination of the internal control systems in relation to the specified annual forms;
- all internal audit reports for matters that may have implications on preparation of the specified annual forms;
- all board and management committee minutes; and
- the specified annual forms submitted to the IA, together with any amendments submitted thereafter.

Internal control considerations relating to compilation of specified annual forms and information from books and records

25. Part of the work of the auditor will be to obtain understanding on internal control over the compilation of specified annual forms which assists the auditor in identifying the types of misstatements and factors that affect the risks of material misstatements in the specified annual forms. The auditor is required to evaluate the relevant controls by performing procedures in addition

³ For the names of the forms, refer to note ^ in Appendix 2 of this practice note for details.

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to inquiry of the responsible party. Professional judgment is needed to determine which controls are relevant in the engagement circumstances.

26. The auditor should remain professionally skeptical and stay vigilant to matters concerning the quality of the insurer's internal control identified during the course of its work that may impact the specified annual forms submitted by to the IA. In this connection, the auditor should exercise judgement in determining the controls that are relevant for the preparation of the specified annual forms.

Testing on specified annual forms

27. The nature of testing required will vary from insurer to insurer as this will be dependent on the nature of the systems and processes used to produce the necessary information for compilation of the specified annual forms (e.g. whether processes are automated or performed manually).
28. An engagement under rule 5(2)(b) of the ISRIR requires the auditor to state whether, in the auditor's opinion, the specified annual forms have been prepared, in all material respects, in accordance with the books and records of the insurer. Accordingly, the work the auditor is expected to perform on the specified annual forms normally involves agreeing relevant amounts in the specified annual forms to the insurer's books and records and ensuring that the compilation procedures were performed in accordance with the IVCR and the applicable requirements set out by the IA.
29. The definition of books and records is not specifically set out in the Ordinance. The auditor should consider books and records to include the accounting records, i.e. general ledger (including sub ledgers) and other records, such as reports produced by systems (e.g. actuarial systems) which contain or explain in more specific detail particular items in the general ledger (e.g. Economic Balance Sheet under base and stressed scenarios) or which support particular items in the specified annual forms.
30. For the purpose of reporting under rule 5(2)(b) of the ISRIR, the auditor would primarily focus on the process of extracting data from books and records and adjustments (refer to paragraph 32) applied to the books and records for the purpose of compiling the specified annual forms. Therefore, the books and records will normally be the transactional level data and records maintained in the insurer's relevant established systems.
31. It would normally be sufficient to check the items in the return to the schedules used by the insurer to prepare the return and to check, on a sample basis, the compilation of the amounts contained in such schedules to books and records. For accounting records, the books and records would normally be the general ledger or sub ledgers whilst for other records, these would normally be reports generated from established systems that produce or maintain the relevant transaction records and data; and, where applicable, the auditor should reconcile the amounts contained in the schedules to the general ledger or sub ledgers and/or test-check the information contained in the schedules to reports generated from the established systems. Nevertheless, depending on the risks assessed and circumstances encountered by the auditors during the course of their work (e.g., when the insurer has applied certain interpretations or simplification in the completion instructions of the specified annual forms), additional testing procedures over the books and records should be considered and adopted by the auditor as appropriate.
32. Any material adjustments made to the books and records in the course of compiling the specified annual forms should be considered as part of assessing whether the specified annual forms have been correctly compiled e.g. examine documentary evidence indicating that adjustments are properly supported and approved by management and adequately reflect the underlying events and transactions. The auditor would also examine the specified annual forms to ensure they are consistent in all material respects with the IA's current completion instructions (including notes and definitions) and any further written instructions that apply specifically to the particular insurer.
33. The work that the auditor performs should also cover obtaining an understanding of the compilation process adopted in the preparation of the specified annual forms. For example, the auditor would consider whether the interpretations or simplification used in compiling the information are appropriate, whether there are any internal controls to prevent and detect errors in the compilation

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of the specified annual forms, and whether known issues are taken into account in the compilation process.

34. Where issues relating to the simplification of requirements or interpretation of definition arise, the auditor would consider the following procedures in order to determine whether appropriate interpretation and simplification have been adopted:
- Review the documentation maintained by the insurer, including any consultation sought with the IA, to obtain a detailed understanding of the facts and rationale supporting the interpretation and simplification adopted by the insurer;
 - Review relevant definitions and requirements contained in the Ordinance, relevant completion instructions and industry practices;
 - Request that the insurer discusses the issue with relevant officials of the IA and seeks written clarification thereon which would include the rationale for any conclusions drawn; and
 - Determine the need to include an appropriate description of the interpretation and simplification adopted to form the basis of the opinion within the auditor's report if in the auditor's judgement, such interpretation is of such importance that it is fundamental to the users' understanding of the information presented in the specified annual forms. Typically, this can be achieved through including an Emphasis of Matter paragraph in the auditor's report which provides a clear description of the specific interpretation adopted by the insurer. The auditor would refer to HKSAE 3000 (Revised) for further guidance in this regard.
35. The general procedures which the auditor would carry out in respect of the work on the examination of specified annual forms for the purpose of reporting under Rule 5 of the ISRIR include:
- Obtain an understanding of the purpose, applicable ordinance and the completion instructions for the specified annual forms. Evaluate the exceptions identified and implications on the auditor's opinion;
 - Review correspondence between the insurer and the IA to determine whether specific treatments for reporting items in the specified annual forms were agreed and adopted by the insurer and whether the IA has granted specific exemptions to certain requirements for the particular insurer;
 - Understand management's process of compiling the specified annual forms including any internal controls that operate to ensure complete and accurate compilation;
 - Check that the compilation of amounts in the specified annual forms is in accordance with the applicable ordinance, completion instructions and definitions;
 - Test check the calculations on the specified annual forms;
 - Test check items from the specified annual forms to the schedules used by the insurer to prepare the specified annual forms;
 - Test check balances from schedules used by the insurer to books and records and vice versa;
 - Check whether only amounts which meet the relevant criteria are included in specific line items; and
 - Reconcile totals to the books and records where appropriate.

Evaluation of the underlying information included in the specified annual forms

36. The specific procedures to be performed by the auditor in assessing the specified annual forms for the purpose of reporting under Rule 5 of the ISRIR may vary according to the nature, complexity and basis of compilation adopted by the insurer for each of the individual returns within the specified annual forms. Guidance on specific procedures, including evaluation of methodology, data, assumptions and models used and the related results, for specified annual forms to be reported are set out in Appendix 1 of this PN for reference.

Written representations by management

37. Written confirmation of oral representations reduces the possibility of misunderstandings between the auditor and the appropriate party(ies). The person(s) from whom the auditor requests written representations will ordinarily be a member of senior management or those charged with governance depending on, for example, the management and governance structure of the appropriate entity(ies), which may vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics.
38. Other written representations requested may include the following:
- Whether the appropriate party(ies) believes the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the subject matter information. A summary of such items is ordinarily included in or attached to the written representation;
 - That significant assumptions used in making any material estimates are reasonable;
 - That the appropriate party(ies) has communicated to the auditor all deficiencies in internal control relevant to the engagement that are not clearly trivial and inconsequential of which the appropriate party(ies) is aware; and
 - When the responsible party is different from the measurer or evaluator, that the responsible party acknowledges responsibility for the underlying subject matter.
39. Representations by the appropriate party(ies) cannot replace other evidence the auditor could reasonably expect to be available. Although written representations provide necessary evidence, they do not provide sufficient appropriate evidence on their own about any of the matters with which they deal. Furthermore, the fact that the auditor has received reliable written representations does not affect the nature or extent of other evidence that the auditor obtains.

Materiality – evaluation of misstatements identified

40. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions of intended users taken on the specified annual forms. The auditor's consideration of materiality is a matter of professional judgment. In evaluating whether or not an identified error is material for specified annual forms, the auditor would need to consider both the quantitative and qualitative impact of the error identified. Such an impact could vary depending on the specified annual forms or the circumstances of the authorized insurer. The assessment on whether an error is material is not only with reference to quantitative aspect of each specified annual form but also with reference to the nature of the error identified and the purpose of each specified annual form. For example, even if the absolute amount of error identified may not be material quantitatively, it can still be considered material qualitatively if it results in a breach of regulatory solvency requirements. Hence the qualitative aspects would also need to be assessed by the auditor on a case-by-case basis.

Capital requirements

41. a. Each authorized insurer (except a captive or marine insurer or Lloyd's) must ensure at all times that its capital base is not less than each of:

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- i. the prescribed capital amount of the insurer as determined in accordance with Part 5 of the Insurance (Valuation and Capital) Rules (Cap.41R) (“IVCR”);
 - ii. the minimum capital amount of the insurer, being 50% of the prescribed capital amount; and
 - iii. HK\$20 million.
 - b. Each authorized insurer to conduct business as a marine or captive insurer in or from Hong Kong must ensure at all times that its capital base is not less than each of:
 - i. The prescribed capital amount of the insurer as determined in accordance with rule 8 of the Insurance (Marine Insurers and Captive Insurers) Rules (Cap.41U);
 - ii. The minimum capital amount of the insurer, which is the same as prescribed capital amount; and
 - iii. HK\$2 million.
 - c. Lloyd’s must ensure at all times that its capital base is not less than each of:
 - i. The prescribed capital amount of Lloyd’s as determined in accordance with rule 8 of the Insurance (Lloyd’s) Rules (Cap.41V);
 - ii. The minimum capital amount of Lloyd’s, which is the same as the prescribed capital amount; and
 - iii. HK\$20 million.
42. An insurer must also determine the allocated minimum capital amount for the purposes of sections 22(3B)(b), 22(3C)(b) and 25AAB(3)(b). Allocated minimum capital amount is determined by allocating the minimum capital amount to all funds maintained by the insurer under section 21B and 25AA, where appropriate. Refer to Part 6 of the IVCR for more details on the determination of allocated minimum capital amount.

A summary of capital requirements is set out in Appendix 3 for easy reference.

43. It should be noted that under sections 10(3) and 130, the IA may vary, relax wholly or partly any of the above capital requirements for an authorized insurer, subject to conditions that the IA considers appropriate and commensurate with the risks associated with the authorized insurer.
44. For the purpose of valuing its assets and liabilities, the capital resources that make up its capital base and calculating its capital requirements in accordance with the IVCR, an insurer must consolidate its assets, liabilities and capital resources together with those of its subsidiaries, except for subsidiaries which are regulated financial entities. For a non-HK insurer and not a designated insurer by the IA, it is required to apply the IVCR only to the assets, liabilities and capital resources related to its business carried on in or from Hong Kong.

Proper records

45. The Ordinance requires the auditor to state specifically in the auditor’s report whether proper records have been maintained in accordance with section 16.
46. 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 it. 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.
47. 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.

48. The IA may, by serving a notice in writing on an authorized insurer, require the insurer to provide to the IA, within the period specified in the notice, any books of account that are required to be kept by section 16 and by the IA for performing its functions.

Maintenance of separate accounts and funds in respect of long term business

49. Section 21B sets out the requirements for an HK insurer or designated insurer carrying on long term business to maintain a separate account and a separate fund for each of the following class of business specified in Part 2 of Schedule 1 to the Ordinance:

- a. class C
- b. class G
- c. class H
- d. specified business (class A, B, D, E, F or I).

The insurer must within the fund maintained for specified business, maintain at least 1 separate account and 1 separate sub-fund for the part of the specified business that is participating business.

50. A non-HK insurer that is not a designated insurer carrying on long term business in or from Hong Kong must maintain a separate account and a separate fund for each of the following class of business specified in Part 2 of Schedule 1 to the Ordinance:

- a. class C (other than long term reinsurance business with offshore risk)
- b. class G (other than long term reinsurance business with offshore risk)
- c. class H (other than long term reinsurance business with offshore risk)
- d. specified business (other than long term reinsurance business with offshore risk)
- e. long term reinsurance business with offshore risk.

The insurer must, within the fund maintained for specified business (other than long term reinsurance business with offshore risk), maintain at least 1 separate account and 1 separate sub-fund for the part of the specified business (other than long term reinsurance business with offshore risk) that is participating business.

51. If a non-HK insurer elects under section 22B(1) to comply with section 21B(8) and (9), instead of section 21B(5) and (6), it must maintain a separate account and a separate fund for each of the following class of business specified in Part 2 of Schedule 1 to the Ordinance:

- a. class C
- b. class G
- c. class H
- d. specified business.

The insurer must, within the fund maintained for specified business, maintain at least 1 separate account and 1 separate sub-fund for the part of the specified business that is participating business.

52. If a non-HK insurer carries on long term business in or from Hong Kong, it may submit a written request to the IA for permission under section 22A to maintain accounts of long term business referred in section 21B(2) and (3) instead of section 21B(5) and (6) for the period specified in the permission.

Maintenance of funds, and assets in Hong Kong, in respect of general business

Maintenance of separate accounts and funds

53. Pursuant to section 25AA, for a HK insurer or designated insurer carrying on both long term business and general business, the insurer must maintain a separate account and a separate fund for its general business. For a non-HK insurer that is not a designated insurer, the insurer must

maintain a separate account and a separate fund for each of the following parts of its general business:

- a. general reinsurance business with offshore risk
- b. not general reinsurance business with offshore risk

54. If a non-HK insurer carries on general business in or from Hong Kong, it may submit a written request to the IA for permission under section 25AAC to maintain accounts of general business referred in section 25AA(2) instead of section 25AA(4) for the period specified in the permission.

Maintenance of assets in Hong Kong

55. General and composite insurers, other than exempted insurers (being HK insurers, designated insurers and captive insurers) under the Insurance (Maintenance of Assets in Hong Kong) Rules (Cap.41T), are required by section 25A to maintain assets in Hong Kong (assets of the type set out in Schedule 8 to the Ordinance) at all times in respect of their insurance liabilities as of the end of the last preceding financial year, arising from general business with onshore risk carried in or from Hong Kong, and to file the form specified by the IA with respect to the insurer's assets and liabilities and the amount of assets in Hong Kong required with the IA annually to ensure compliance.
56. The value of the assets an insurer must maintain in Hong Kong in respect of its insurance liabilities in its current financial year must not be less than the amount determined in accordance with rule 5(2) of the Insurance (Maintenance of Assets in Hong Kong) Rules as at the end of its last preceding financial year.
57. The value of assets and the amounts of liabilities shall be determined in accordance with the applicable valuation rules made under section 129(1)(a).
58. Pursuant to section 25A(8), if an authorized insurer is required by law to, and does, maintain assets in a place outside Hong Kong for the sole purpose of making preferential payments to policyholders in respect of claims payable relating to its general business with onshore risk where the insurer is in liquidation, then the assets to be maintained in Hong Kong by section 25A shall be reduced by the amount of these assets.

Communications between the auditor and the IA

59. 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 16) 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

60. 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 HKSAE 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.

Agreed-upon procedures report on levies paid to the First Fund Scheme and the Insolvency Fund Scheme for motor compensation insurance

61. 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 (Revised), *Engagements* ("HKSRS 4400 (Revised)"). An example report is set out in Example 2 in Appendix 4.
62. HKSRS 4400 (Revised) introduced requirements and application material to provide more clarity in the agreed-upon procedures report. The practitioner is reminded to read HKSRS 4400 (Revised) for the requirements.
63. In particular, the practitioner should refer to paragraphs 21 – 23 and A28 – A38 of HKSRS 4400 (Revised) for the engagement acceptance and continuance conditions. The practitioner shall include the terms as set out in paragraph 24 of HKSRS 4400 (Revised) in the engagement letter. Among the terms, the engagement letter shall include the purpose of the engagement and the intended users of the agreed-upon procedures report as identified by the engaging party. An illustrative engagement letter for an agreed-upon procedures engagement can be found in Appendix 1 to HKSRS 4400 (Revised).

Agreed-upon procedures report on levies paid to the insolvency scheme for employees' compensation insurance

64. 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 (Revised). An example report is set out in Example 3 in Appendix 4. The practitioner shall also refer to paragraphs 62 – 63 when conducting the agreed-upon procedures engagement.

Annual remittance report on levy to the IA

65. The Insurance (Levy) Order (“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 Insurance (Levy) Regulation (“Regulation”) sets out the manner in which the payment of levies must be made. 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.

66. 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

Suggested procedures for reporting on specified annual forms

The nature and extent of procedures to be carried out for the purposes of reporting on specified annual forms under Rule 5 of the Insurance (Submission of Statements, Reports and Information) Rules (Cap. 41S) are determined by the auditor's professional judgement in each individual case. The auditor is expected to carry out the below procedures¹, where appropriate on the key components of the specified annual forms to achieve the objectives in HKSAE 3000 (Revised) in order for the auditor to ensure sufficient appropriate evidence is obtained on which to base the assurance opinion. The auditor may leverage the work done on the insurance process (e.g. underwriting, claims, commission, reinsurance, etc.) from audit of the financial statements. The specific compilation procedures of each specified annual form would vary depending on the requirements of particular form as set out in the Insurance (Valuation and Capital) Rules, Regulatory Returns Instructions issued by the IA, and, as relevant and appropriate, the Insurance (Marine Insurers and Captive Insurers) Rules, Insurance (Lloyd's) Rules and Insurance (Maintenance of Assets in Hong Kong) Rules. The auditor would perform tests on the specified annual forms to determine whether they meet the requirements of the above mentioned rules, regulatory returns instructions or other regulatory instruments issued by the IA.

a. *Methodology*

Perform appropriate procedures on methodology used for preparing the specified annual forms ("the forms"). The procedures could include:

- Obtain understanding of the process over methodology application and governance and identify key risks in the process. Evaluate the design, determine the implementation, and test the operating effectiveness of key controls over the methodology application and governance.
 - For insurers approved by the IA to use the Own Assessment ("OA") approach in calculating the risk capital amount for natural catastrophe risk, evaluate the effectiveness of key controls over the result generation process and governance (for general business).
- Evaluate whether the methodology applied is in accordance with the Insurance Ordinance, the Insurance (Valuation and Capital) Rules ("IVCR")², guidelines and other relevant instructions in relation to valuation, capital resources and capital requirements, fund requirements as well as returns reporting. Some examples include (but are not limited to):
 - review management's comparison of the requirements in the IVCR with the methodology document and assess whether the stated methodology is in compliance with the requirements covering areas such as assets, insurance liabilities, other liabilities and prescribed capital amount ("PCA");
 - review whether the insurer has performed unbundling of insurance and reinsurance contracts and perform the contract boundary assessment according to the IVCR;
 - review the methodology for allocating items (that are not directly attributable) into various lines of business/funds;
 - for cases where different approaches are permitted, evaluate the justification from the insurers for the methodology applied;
 - evaluate the appropriateness of the asset look-through approach based on availability of data for portfolio investment;
 - understand the methodology of how insurers built the management actions in the model, and assess the reasonableness of the management actions and how they had been applied in the model in both the base and stressed scenarios (for long term business);

¹ The suggested procedures in this Appendix are applicable for both long term business and general business unless specified otherwise.

² With respect to capital requirements, Insurance (Marine and Captive Insurers) Rules or Insurance (Lloyd's) Rules, as appropriate, for marine insurers, captive insurers and Lloyd's.

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- evaluate the eligibility criteria for each matching adjustment portfolio as required in the IVCR, and criteria for the application of the Long-Term Adjustment (“LTA”), if applicable (for long term business);
- evaluate the methodology used for the calculation of the margin over current estimate (risk margin) and diversification factor (if any) for long term insurance liabilities or general insurance liabilities;
- understand and evaluate the methodology of how insurers identify and calculate the premium liabilities in which premium is yet to be recognized as a receivable asset item under the Economic Balance Sheet (“EBS”) but where insurers are already contractually bound in providing such coverage (for general business).

b. Data

Perform appropriate procedures on the completeness and accuracy of data used for preparing the forms. The procedures could include:

- Obtain an understanding of the process over the collection, generation, processing, aggregation and mapping of data between relevant systems and identify key risks in the process. Evaluate the design, determine the implementation and test the operating effectiveness of key controls (including IT general controls on relevant systems) over the collection, generation, processing, aggregation and mapping of data between relevant systems.
- Check that the data used, on a sample basis, is appropriate for the preparation of the forms and, if any, changes (including changes in the source of data) from prior periods are appropriate.
- Test data integrity by tracing data used in preparing the forms to the underlying sources.
- Review the data reconciliation prepared by management to evaluate that all relevant data are properly included in the forms. Investigate any unusual items and test material reconciling items, if any.
- Review the appropriateness of the classifications of data (including the splitting of line of business and funds established under the Insurance Ordinance) and model point grouping (if any) for the forms.
- Assess the appropriateness of management judgement and approach applied in data preparation including any material adjustments or simplification (if any) made to the data.
- Assess the reasonableness of data after look-through for matching adjustment and determination of risk capital amounts.

c. Assumptions

Perform appropriate procedures on key assumptions used for preparing the forms, including economic and non-economic assumptions on both base scenario and stress scenario (where applicable). The procedures could include:

- Obtain an understanding of the process over assumptions setting and identify key risks in the process. Evaluate the design, determine the implementation and test the operating effectiveness of key controls over producing and assessing key assumptions, together with the data inputs used.
- Challenge the key assumptions and evaluate the reasonableness of key assumptions used with reference to historical data, market data, experience studies, change analysis, assumptions adopted in other reporting bases, certifications of appointed actuaries (for long term business) or certifying actuaries (for general business), where applicable.

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- Where the key assumptions for stressed scenario are determined by the insurer and not prescribed by the IA, review the reasonableness of these assumptions with reference to those adopted in the base scenario.
- Evaluate the key assumptions are applied appropriately in the calculations of the information contained in the forms.
- Below is a list of procedures on key assumptions which may be considered by the auditor:

For risk-free discount rates:

- for currencies that are not specified in the valuation rules where the insurer selects a specified risk-free yield curve prescribed by the IA for discounting cash flows, assess the appropriateness of using the selected specified risk-free yield curve.

For matching adjustment ("MA"): (for long term business)

- evaluate the calculations of MA components and the reasonableness of movement of MA components under base and stress;
- perform reasonableness check of patterns of the liability cash flow under level lapse and mass lapse shocks;
- assess the reasonableness of asset and liabilities durations under base and stressed scenarios;
- assess the reasonableness of asset mix, credit mix and maturity mix with reference to the insurer's portfolio;
- assess whether MA simplification options adopted (if any) demonstrate prudence over the default calculations, or demonstrate no material impact to the solvency position.

For non-economic assumptions:

- review the appropriateness of non-economic assumptions used for the calculation of the information contained in the forms;
- consider the comprehensiveness of non-economic assumptions used for the calculation of the information contained in the forms with respect to contractual obligations and risks;
- assess the expense assumptions under best estimate and stressed scenario and evaluate if any adjustments are required for expected overruns/underruns;
- evaluate the reasonableness of morbidity assumptions and its relevant changes based on internal experience study and external statistics such as those from the Hospital Authority (if applicable) (for long term business);
- evaluate the reasonableness of mortality assumptions and their relevant changes based on internal experience study and external statistics such as those from professional bodies or other relevant sources (if applicable) (for long term business);
- evaluate the reasonableness of lapse assumptions and its relevant changes based on internal experience studies (if applicable) (for long term business);
- evaluate the reasonableness of loss ratios and claims development patterns and its relevant changes based on historical experience and external statistics (for general business);
- evaluate the reasonableness of margin over current estimate (risk margin) and diversification factor (if any) for long term insurance liabilities and general insurance liabilities;
- assess the consistency of loss ratio assumptions and other key assumptions adopted in calculation of outstanding claims liabilities and premium liabilities (for general business);
- compare the estimate of gross outstanding claims liabilities and reinsurance recoveries and assess the reasonableness (for general business);
- evaluate the reasonableness of reinsurance recoveries and reinstatement premium in material catastrophe risk capital amount calculation (for general business);
- compare key non-economic assumptions used in material actuarial models for RBC and other reporting basis, and assess the reasonableness of differences (if appropriate).

For stress factors:

- compare the stress factors used in material actuarial models against values provided by the IA in the IVCR.

For Economic Scenario Generator (“ESG”): (for long term business)

- assess the appropriateness of inputs of the ESG.

d. Models

Perform appropriate procedures on models used for preparing the forms. The procedures could include:

- Obtain an understanding of the process over models used for preparing the forms and identify key risks in the process. Evaluate the design, determine the implementation and test the operating effectiveness of key controls over model set-up, model changes and model validation, and IT general controls over relevant systems for preparing the information contained in the forms.
- Sample test of model validation including assessing whether the implementation of model is in accordance with the methodology, the model theoretical soundness and whether the model calculation is accurate, for example through consideration of (but not limited to):
 - modelled management actions under the base and stressed scenarios (for long term business);
 - set-up of the ESG (for long term business);
 - the set-up of contract boundary.
- Evaluate the reasonableness of results generated from the model including but not limited to:
 - future cashflows projections;
 - results under the base and stressed scenarios, both before and after the impact of modelled management actions (for long term business);
 - ESG model results through the test of martingale, leakage, implied volatility or convergence test reports (for long term business).
- Evaluate and test as appropriate the appropriateness of any material off-model adjustments or overlays to model outputs.
- Evaluate and test as appropriate the appropriateness of material model changes.
- Assess the completeness of the list of model limitations and evaluate the reasonableness of management’s assessed impacts of the model limitations on the information contained in the forms.

e. Results

Perform appropriate procedures as considered necessary to assess the overall reasonableness of the information contained in the forms. These procedures could include:

- Evaluate the design, determine the implementation, and test the operating effectiveness of key controls over the accuracy of the information contained in the forms.
- Check the reconciliation of information contained in the forms with system data extraction and books and records where applicable.
- Review the reasonableness of the results by comparing actual information contained in the forms to the expected results.

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- Analyse movement of changes between different periods regarding information contained in the forms.
- Test the mathematical accuracy in relation to the information contained in the forms.

Appendix 2

Example unmodified assurance report under Rule 5 of the Insurance (Submission of Statements, Reports and Information) Rules

INDEPENDENT AUDITOR'S ASSURANCE REPORT

To the [Board of Directors¹ of XYZ Insurance Company Limited] / [Chief Executive¹ of the Hong Kong Branch of XYZ Insurance Company Limited] (the "Authorized Insurer")

Pursuant to Rule 5 of the Insurance (Submission of Statements, Reports and Information) Rules (the "Rules"), we have been requested to issue this report on the attached specified annual forms of the Authorized Insurer for the year ended [year end date] as set on pages to (the "Specified Annual Forms") for submission by [XYZ Insurance Company Limited] / [the Hong Kong Branch of XYZ Insurance Company Limited] to the Insurance Authority (the "IA")².

[Directors'/ Chief Executive]³ Responsibilities

The directors have a responsibility for:

1. Ensuring that the Authorized Insurer maintains proper records at all times in accordance with section 16 of the Insurance Ordinance ("the Ordinance") for the purpose of preparing the Specified Annual Forms.
2. Ensuring that the Specified Annual Forms have been properly prepared from the books and records of the Authorized Insurer.
3. Ensuring that the Specified Annual Forms have been prepared in accordance with Insurance (Valuation and Capital) Rules, Regulatory Returns Instructions issued by the IA [and Insurance (Marine Insurers and Captive Insurers) Rules (*Applicable for marine insurers, captive insurers and any authorized company that carry on marine mutual or captive insurance business only*) / Insurance (Lloyd's) Rules (*Applicable for Lloyd's*) / Insurance (Maintenance of Assets in Hong Kong) Rules (*Applicable for authorized insurers that carry on general business in or from Hong Kong and Lloyd's in respect of general business it carries on in or from Hong Kong*)] [and letter(s) dated [DATE] issued by the IA to the Authorized Insurer] relating to the Specified Annual Forms.
4. Ensuring that the Authorized Insurer has complied with the capital requirements of section 10 of the Ordinance at all times.
5. (*Applicable for HK insurer and non-HK insurer that carries on long term business*) Ensuring that the Authorized Insurer maintains at all times separate accounts and funds which enable it to comply with the requirements of sections 22 and 23 of the Ordinance and Part 6 of the Insurance (Valuation and Capital) Rules.
6. (*Applicable for HK insurer and non-HK insurer that carries on general business*) Ensuring that the Authorized Insurer maintains at all times separate accounts and funds which enable it to comply with

¹ Law, regulation or the terms of the engagement may specify to whom the assurance report is to be addressed in that particular jurisdiction. Tailor the addressee of the assurance report, as appropriate, based on the circumstances of the engagement.

² The IA has indicated that the auditor should obtain from the insurer the submitted Specified Annual Forms which can be downloaded from the Insurance Regulatory Information Connect ("IRIC"). The auditor should attach a copy of this downloaded Specified Annual Form including the cover page which shows the submission identification number generated by the IRIC.

³ Identify the responsible party for the Specified Annual Forms and the captioned matters set out in this section. The assurance report shall use the term that is appropriate in the context of the legal framework in the particular jurisdiction or the terms of the engagement, which need not refer specifically to "directors" or "Chief Executive". Under rule 4(6) of the ISIRI, the annual returns (where the Specified Annual Forms are derived from) must be signed or approved on behalf of the authorized insurer concerned by a controller of that insurer (within the meaning of section 13A of the Insurance Ordinance) and a key person in the financial control function of that insurer. Alternatively, the authorized insurer may choose to have a director of the insurer, or a member of Council of Lloyd's (in the case of Lloyd's), sign or approve such returns in place of either its controller or key person in financial control function or both.

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the requirements of sections 25AAB and 25AAE of the Ordinance and Part 6 of the Insurance (Valuation and Capital) Rules.

7. *(Applicable for authorized insurer that carries on general business in or from Hong Kong, and does not apply to authorized insurer that is exempted under the Insurance (Maintenance of Assets in Hong Kong) Rules)* Ensuring that the Authorized Insurer maintains at all times assets in Hong Kong which enable it to comply with the requirement of section 25A of the Ordinance.

This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and presentation of the Specified Annual Forms and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Management

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.

Our firm applies Hong Kong Standard on Quality Management 1⁴ issued by the HKICPA, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor’s Responsibilities

Our responsibility is to express an opinion on the matters as described in the Opinion section of this report based on our procedures performed, and to report our opinion to you.

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 planned and performed such procedures as we considered necessary with reference to the procedures recommended in PN 810.2 (Revised).

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

Inherent Limitations

Internal control systems 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. Our procedures cannot guarantee protection against fraud or misrepresentation by management. The historic evaluation of effectiveness is not relevant to future periods due to the risk that internal control may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

⁴ HKSQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

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*Opinion*⁵

Based on the foregoing, in our opinion:

- (i) the Authorized Insurer has maintained proper records in accordance with section 16 of the Ordinance in respect of the year ended [*financial year end date*] for the purpose of preparing the Specified Annual Forms.
- (ii) the Specified Annual Forms for the year ended [*financial year end date*] have been prepared, in all material respects, in accordance with the books and records of the Authorized Insurer.
- (iii) the Specified Annual Forms for the year ended [*financial year end date*] have been prepared, in all material respects, in accordance with Insurance (Valuation and Capital) Rules, Regulatory Returns Instructions [and Insurance (Marine Insurers and Captive Insurers) Rules (*Applicable for marine insurers, captive insurers and any authorized company that carry on marine mutual or captive insurance business only*)] / Insurance (Lloyd's) Rules (*Applicable for Lloyd's*) / Insurance (Maintenance of Assets in Hong Kong) Rules (*Applicable for authorized insurers that carry on general business in or from Hong Kong and Lloyd's in respect of general business it carries on in or from Hong Kong*)] issued by the IA [and letter(s) dated [DATE] issued by the IA to the Authorized Insurer].
- (iv) the Authorized Insurer has complied with the capital requirements of section 10 of the Ordinance as at [*financial year end date*];
- (v) (*Applicable for HK insurer and non-HK insurer that carries on long term business*) the Authorized Insurer has complied with the requirements of sections 22 and 23 of the Ordinance and Part 6 of the Insurance (Valuation and Capital) Rules as at [*financial year end date*].
- (vi) (*Applicable for HK insurer and non-HK insurer that carries on general business*) the Authorized Insurer has complied with the requirements of sections 25AAB and 25AAE of the Ordinance and Part 6 of the Insurance (Validation and Capital) Rules as at [*financial year end date*]; and
- (vii) (*Applicable for authorized insurer that carries on general business in or from Hong Kong, and does not apply to authorized insurer that is exempted under the Insurance (Maintenance of Assets in Hong Kong) Rules*) the assets in Hong Kong held by the Authorized Insurer, as shown in the [Local Asset Requirement Return][^], enable it to comply with the requirement of section 25A of the Ordinance as at [*financial year end date*] and, based on the records of the Authorized Insurer, the assets in Hong Kong held by the Authorized Insurer as at [date 2*] and [date 3*] enable it to comply with the requirement of section 25A of the Ordinance on those dates[#].

Intended Users and Purpose

This report is intended solely for submission by the Authorized Insurer 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.

XYZ & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]
[*Auditor's Address*]
[*Date*]

⁵ 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).

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- [^] Auditors are expected to quote the names of the forms, which may be amended by the IA from time to time. As at the date of publication of this practice note, this refers to “CA.G.LAR.1 Local Assets Req” (or “CA.MM.LAR.1 Local Assets Req” in the case of marine insurers) and “CA.G.LAR.3 Local Assets Listing”.
- * The two dates selected must be not less than three months apart.
- # Where the Authorized Insurer has received a notice under section 25B of the Ordinance then the opinion “(vii)” will need to be amended accordingly as follows:
- (vii) the assets held by the Authorized Insurer, as shown in the [Local Asset Requirement Return]^{^^}, enable it to comply with the requirement stipulated in section 25B of the Ordinance as at [date^{##}].
- ^{^^} Auditors are expected to quote the names of the forms, which may be amended by the IA from time to time. As at the date of publication of this practice note, this refers to “CA.G.LAR.1.AH Local Assets Req” (or “CA.MM.LAR.1.AH Local Assets Req” in the case of marine insurers) and “CA.G.LAR.3 Local Assets Listing”.
- ^{##} The date specified in the notice issued under section 25B of the Ordinance.

Appendix 3

Capital requirements

Business	Capital requirements	Prescribed capital amount ("PCA")	Minimum capital amount ("MCA")
General Long term Composite	In accordance with the requirements in Part 2 of Insurance (Valuation and Capital) Rules (Cap. 41R), i.e. capital base is not less than each of (a) PCA (b) MCA; and (c) HK\$20,000,000	In accordance with the requirements in Part 5 of Insurance (Valuation and Capital) Rules (Cap. 41R)	50% of PCA
Marine	In accordance with the requirements in Rule 4 of Insurance (Marine Insurers and Captive Insurers) Rules (Cap. 41U), i.e. capital base is not less than each of (a) PCA; (b) MCA; and (c) HK\$2,000,000	In accordance with the requirements in Rule 8 of Insurance (Marine Insurers and Captive Insurers) Rules (Cap. 41U)	Same as PCA
Captive	In accordance with the requirements in Rule 4 of Insurance (Marine Insurers and Captive Insurers) Rules (Cap. 41U), i.e. capital base is not less than each of (a) PCA; (b) MCA; and (c) HK\$2,000,000	In accordance with the requirements in Rule 8 of Insurance (Marine Insurers and Captive Insurers) Rules (Cap. 41U)	Same as PCA
Lloyd's	In accordance with the requirements in Rule 4 of Insurance (Lloyd's) Rules (Cap. 41V), i.e. capital base is not less than each of (a) PCA (b) MCA; and (c) HK\$20,000,000	In accordance with the requirements in Rule 8 of Insurance (Lloyd's) Rules (Cap. 41V)	Same as PCA

Appendix 4

Example reports for other reporting

- Example 1 – Report by the auditor on annual return on employees' compensation gross premium
- Example 2 – Agreed-upon procedures report on levies paid to the First Fund Scheme and the Insolvency Fund Scheme for motor compensation insurance
- Example 3 – Agreed-upon procedures 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”)¹.

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 Insurance Ordinance (“the Ordinance”).

Our Independence and Quality Management

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 Management 1², which requires the firm to design, implement and operate a system of quality management including policies or 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.

¹ The IA has indicated that the auditor should obtain from the insurer the submitted Annual Return which can be downloaded from the Insurance Regulatory Information Connect (“IRIC”). The auditor should attach a copy of this downloaded Annual Return including the cover page which shows the submission identification number generated by the IRIC.

² HKSQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or 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 report³.

ABC & Co.

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

[Auditor's Address]

Date

³ 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 – Agreed-upon procedures report on levies paid to the First Fund Scheme and the Insolvency Fund Scheme for motor compensation insurance

For purposes of this illustrative agreed-upon procedures report, the following circumstances are assumed:

- The Company is the engaging party, the responsible party and the intended user. The report is also intended to be provided to the Motor Insurers' Bureau of Hong Kong.
- No exceptions were found.
- The practitioner did not engage a practitioner's expert to perform any of the agreed-upon procedures.
- There is a restriction on the use and distribution of the report.
- The practitioner is the auditor of the financial statements of the Company. The practitioner has agreed with the directors of the Company that the practitioner's compliance with the independence requirements applicable to audits of financial statements is appropriate for the purpose of the agreed-upon procedures engagement. The practitioner has agreed to include, in the terms of engagement, compliance with the independence requirements applicable to audits of financial statements for the purpose of the agreed-upon procedures engagement.
- The practitioner included a reference to the date when the agreed-upon procedures were agreed in the terms of the engagement.

AGREED-UPON PROCEDURES REPORT ON LEVIES PAID TO THE FIRST FUND SCHEME AND THE INSOLVENCY FUND SCHEME FOR MOTOR COMPENSATION INSURANCE

To: Directors of XYZ Insurance Company Limited

Purpose of this Agreed-Upon Procedures Report and Restriction on Use and Distribution

Our report is solely for the purpose of assisting XYZ Insurance Company Limited (the "Company") in connection with the requirements of the Motor Insurers' Bureau of Hong Kong as to annual reporting of the premium surcharges in respect of the First Fund Scheme and the Insolvency Fund for the Company's motor insurance business payable (the "Surcharges") according to the books and records of the Company for the year ended 31 December 20X1 and may not be suitable for another purpose. This report is intended solely for the Company, and should not be used by, or distributed to, any other parties, except that we agree that a copy of this report may be provided to the Motor Insurers' Bureau of Hong Kong.

Directors' Responsibilities

The directors of the Company have acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement.

The directors of the Company are responsible for the Surcharges and the figures as set forth in the accompanying schedules on which the agreed-upon procedures are performed.

Practitioner's Responsibilities

We have conducted the agreed-upon procedures engagement in accordance with the Hong Kong Standard on Related Services (HKSRS) 4400 (Revised), *Agreed-Upon Procedures Engagements* 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 (the "HKICPA"). An agreed-upon procedures engagement involves our performing the procedures that have been agreed with the directors of the Company, and reporting the findings, which are the factual results

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of the agreed-upon procedures performed. We make no representation regarding the appropriateness of the agreed-upon procedures. We expressly disclaim any liability or duty to any other party for the content in this report.

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

Had we performed additional procedures, other matters might have come to our attention that would have been reported.

Professional Ethics and Quality Management

We have complied with the ethical requirements of the HKICPA's *Code of Ethics for Professional Accountants* (the "Code") and the independence requirements in Part 4A, Chapter A of the Code.

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedures and Findings

We have performed the procedures described below, which were agreed upon with the directors of the Company in the terms of engagement dated [date], on the Company's submission to the Motor Insurers' Bureau of Hong Kong.

Procedures	Findings
1. We obtained and checked the summation of the 20X1 quarterly returns prepared by the Company regarding the determination of Surcharges ("the Quarterly Levy Returns").	1. We found the summation of the Surcharges for the year ended 31 December 20X1 to be correct.
2. We compared the Surcharges as stated in the Quarterly Levy Returns to the books and records of the Company.	2. We found the Surcharges as stated in the Quarterly Levy Returns to be in agreement with the books and records of the Company.

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

Example 3 – Agreed-upon procedures report on levies paid to insolvency scheme for employees’ compensation insurance

For purposes of this illustrative agreed-upon procedures report, the following circumstances are assumed:

- The Company is the engaging party, the responsible party and the intended user. The report is also intended to be provided to the Employees Compensation Insurer Insolvency Bureau.
- No exceptions were found.
- The practitioner did not engage an auditor’s expert to perform any of the agreed-upon procedures.
- There is a restriction on the use and distribution of the report.
- The practitioner is the auditor of the financial statements of the Company. The practitioner has agreed with the directors of the Company that the practitioner’s compliance with the independence requirements applicable to audits of financial statements is appropriate for the purpose of the agreed-upon procedures engagement. The practitioner has agreed to include, in the terms of engagement, compliance with the independence requirements applicable to audits of financial statements for the purpose of the agreed-upon procedures engagement.
- The practitioner included a reference to the date when the agreed-upon procedures were agreed in the terms of the engagement.

AGREED-UPON PROCEDURES REPORT ON LEVIES PAID TO THE INSOLVENCY SCHEME FOR EMPLOYEES’ COMPENSATION INSURANCE

To: Directors of XYZ Insurance Company Limited

Purpose of this Agreed-Upon Procedures Report and Restriction on Use and Distribution

Our report is solely for the purpose of assisting XYZ Insurance Company Limited (the “Company”) in connection with the requirements of the Employees Compensation Insurer Insolvency Bureau as to annual reporting of the Gross Premium Income as defined under Clause 1.01 of the Insolvency Fund Agreement (the “Gross Premium Income”) and the amount of contributions in respect of the Insolvency Fund Scheme payable for employees’ compensation business of the Company (the “Contributions”) according to the books and records of the Company for the year ended 31 December 20X1 and may not be suitable for another purpose. This report is intended solely for the Company, and should not be used by, or distributed to, any other parties, except that we agree that a copy of this report may be provided to the Employees Compensation Insurer Insolvency Bureau.

Directors’ Responsibilities

The directors of the Company have acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement.

The directors of the Company are responsible for the Gross Premium Income, the Contributions and the figures as set forth in the accompanying schedules on which the agreed-upon procedures are performed.

Practitioner’s Responsibilities

We have conducted the agreed-upon procedures engagement in accordance with Hong Kong Standard on Related Services (HKSRS) 4400 (Revised), *Agreed-Upon Procedures Engagements* 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 (the “HKICPA”). An agreed-upon procedures engagement involves our performing the procedures that have

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

been agreed with the directors of the Company, and reporting the findings, which are the factual results of the agreed-upon procedures performed. We make no representation regarding the appropriateness of the agreed-upon procedures. We expressly disclaim any liability or duty to any other party for the content in this report.

This agreed-upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

Had we performed additional procedures, other matters might have come to our attention that would have been reported.

Professional Ethics and Quality Management

We have complied with the ethical requirements of the HKICPA's *Code of Ethics for Professional Accountants* (the "Code") and the independence requirements in Part 4A, Chapter A of the Code.

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedures and Findings

We have performed the procedures described below, which were agreed upon with the directors of the Company in the terms of engagement dated [date], on the Company's submission to the Employees Compensation Issuer Insolvency Bureau.

Procedures	Findings
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 the Contributions ("the Quarterly Levy Returns").	1. We found the summation of the Gross Premium Income and the amount of the Contributions for the year ended 31 December 20X1 to be correct.
2. We compared the Gross Premium Income and the Contributions as stated in the Quarterly Levy Returns to the books and records of the Company.	2. We found the amounts of the Gross Premium Income and the Contributions as stated in the Quarterly Levy Returns to be in agreement with the books and records of the Company.

ABC & Co.

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

[Date of auditor's report]

[Auditor's address]

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 Insurance Ordinance (“the Ordinance”).

Our Independence and Quality Management

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 Management 1⁴, which requires the firm to design, implement and operate a system of quality management including policies or 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.

⁴ HKSQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or 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